

THE PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY

REPORT OF AUDIT

FOR THE FISCAL YEARS ENDED

NOVEMBER 30, 2014 AND 2013



THE PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
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PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
Officials in Office

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

MEMBERS

Robert McDade
Marc Chastain
Bernard Sennstrom, II
Scott Hourigan
Mary Lou Chollis
William Masten
Vacant

POSITION

Chairman
First Vice-Chairman
Second Vice-Chairman
Secretary
Treasurer
Alternate Member #1
Alternate Member #2

OTHER OFFICIALS

Walter J. Ray
Sickels & Assoc. (David Palgutta)
Pennsville National Bank

Solicitor
Engineer
Trustee & Paying Agent

THE PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY

PART I

FINANCIAL SECTION

FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2014 AND 2013

INDEPENDENT AUDITOR'S REPORT

The Chairman and Members of
The Pennsville Township Sewerage Authority
90 North Broadway
Pennsville, New Jersey 08070

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Pennsville Township Sewerage Authority, in the County of Salem, State of New Jersey, a component unit of the Township of Pennsville (Authority), as of and for the fiscal years ending November 30, 2014 and 2013 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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 Pennsville Township Sewerage Authority, in the County of Salem, State of New Jersey as of November 30, 2014 and 2013, and the changes in its financial position and its cash flows thereof for the fiscal years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

The accompanying supplementary schedules as listed in the table of contents and 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 April 8, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

Respectfully submitted,

Bowman & Company LLP

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
April 8, 2015

**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 Pennsville Township Sewerage Authority
90 North Broadway
Pennsville, New Jersey 08070

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 Pennsville Township Sewerage Authority, in the County of Salem, State of New Jersey, a component unit of the Township of Pennsville (Authority), as of and for the fiscal year ended November 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 8, 2015.

Internal Control Over Financial Reporting

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free 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.

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 the audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
April 8, 2015

Management's Discussion and Analysis (MD&A)

FINANCIAL HIGHLIGHTS

The management of the Pennsville Township Sewerage Authority (the "Authority") believes their financial position is good. According to its bond covenants, the Authority is required to make a 110% cover on debt service. For the current year the Authority generated a 148% cover. Some financial highlights for the Authority's fiscal year 2014 were:

- Actual revenues received by the Authority exceeded anticipated revenues by \$54,277 while budgeted expenditures exceeded actual by \$217,198.
- Actual operating expenses of \$1.611 million were up from fiscal year 2013 operating expenses of \$1.573 million.
- Connection fee revenues were \$2,500, down from 2013 revenues of \$5,000.
- At year-end, total assets were \$9.211 million, which exceeded liabilities and deferred inflows of resources of \$2.044 million. The resultant net position at year-end was \$7.167 million.

OVERALL ANALYSIS

The Authority's financial position is good. During the current year, the Authority's operating net position decreased by \$350.

The Authority's rate structure is such that residential customers pay a flat rate and commercial users pay based on water consumption. There were approximately 2 fewer residential and no new commercial accounts added to the Authority's wastewater treatment system in the fiscal year 2014.

The Authority has completed and has had approved its updated wastewater management plan. The purpose for this update is to include the remaining developable areas of Pennsville Township in the Authority's wastewater management area. The expansion of the Authority's wastewater management area would be in conformity with Pennsville Township's master plan and the State of New Jersey Smart Growth Plan.

The Authority has a collection program for delinquent accounts. If a customer is delinquent for more than two quarters on their sewer bill, the Authority will terminate water service to the customer until the outstanding balance is paid. This has had a positive effect on the collection rate for the Authority of 94.55% as an average of the immediately preceding three years.

The future is positive for the Authority, considering that the residential sector is the most stable when considering the volatility of a billing base, and it comprises approximately 85% of the Authority's customers. There is no particular emphasis or imbalance in the type of business enterprises within the commercial sector. Industrial users exist, but do not comprise a major portion of the Authority's billing base.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

During the current year, the Authority disbursed \$192,377 for capital assets. The resultant disbursements are as follows:

<u>Asset</u>	<u>Amount Disbursed</u>
Pump Station	77,083
Pole Barn	7,672
Submersive Pump	19,475
Backhoe	75,571
Equipment	12,576

The Authority is proactive in its maintenance philosophy for its capital facilities. The Authority has been aggressively budgeting funds for its Renewal and Replacement Fund to try and eliminate the need for future borrowing for any capital projects or expenditures. In fiscal year 2014 the Authority appropriated \$300,000 for its Renewal and Replacement Fund to meet the needs of continual improvements to the wastewater treatment system. The Authority budgeted an additional \$300,000 for fiscal year 2015. Furthermore, they completed the building of a new clarifier at the wastewater treatment facility to allow for planned development in the community. The Authority has no immediate plans of any additional borrowing for capital assets or expenditures in the next two years as a result of fiscal planning for additional wastewater treatment expectations.

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, they are required to receive approval by Pennsville Township Committee resolution, and then, the Local Finance Board, prior to issuing any new debt.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide Pennsville Township residents and our customers, clients, investors, and creditors, with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the public funds it receives. If you have any questions about this report or need additional financial information, contact the Pennsville Township Sewerage Authority, 90 North Broadway, Pennsville, NJ 08070.

Comparative Statements of Revenues, Expenses and Changes in Net Position
For The Fiscal Years Ended November 30, 2014, 2013 and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating Revenues:			
Utility Service Charges	\$ 2,501,270.78	\$ 2,496,840.20	\$ 2,503,473.27
Other Operating Revenues	21,388.56	18,413.33	22,430.93
	<u>2,522,659.34</u>	<u>2,515,253.53</u>	<u>2,525,904.20</u>
Operating Expenses:			
Salaries and Wages	609,080.11	586,702.69	565,029.07
Employee Benefits	356,190.76	355,592.20	364,173.25
Other Expenses	687,372.47	670,442.75	710,252.54
Depreciation	290,427.00	284,833.00	268,850.00
	<u>1,943,070.34</u>	<u>1,897,570.64</u>	<u>1,908,304.86</u>
Operating Income	579,589.00	617,682.89	617,599.34
Non-operating Revenue (Expenses)	<u>(1,171,289.72)</u>	<u>(366,942.96)</u>	<u>(307,122.43)</u>
Increase/(Decrease) in Net Position	<u>(591,700.72)</u>	<u>250,739.93</u>	<u>310,476.91</u>
Net Position December 1	<u>7,758,562.42</u>	<u>7,507,822.49</u>	<u>7,197,345.58</u>
Net Position November 30	<u>\$ 7,166,861.70</u>	<u>\$ 7,758,562.42</u>	<u>\$ 7,507,822.49</u>

Comparative Statement of Net Position
As of November 30, 2014, 2013 and 2012

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Assets:			
Unrestricted Assets	\$ 2,660,504.98	\$ 2,505,951.30	\$ 2,321,488.49
Restricted Assets	2,562,398.82	2,680,474.69	2,862,192.37
Capital Assets	3,987,743.01	4,631,394.98	4,472,944.95
Total Assets	<u>9,210,646.81</u>	<u>9,817,820.97</u>	<u>9,656,625.81</u>
Liabilities:			
Current Liabilities	869,240.97	754,712.40	679,548.85
Long-term Liabilities	1,161,374.14	1,302,046.15	1,464,254.47
Total Liabilities	<u>2,030,615.11</u>	<u>2,056,758.55</u>	<u>2,143,803.32</u>
Deferred Inflows of Resources:			
Deferred Revenue - Connection Fees	13,170.00	2,500.00	5,000.00
Total Deferred Inflows	<u>13,170.00</u>	<u>2,500.00</u>	<u>5,000.00</u>
Net Position:			
Net Investment in Capital Assets	3,150,791.56	3,596,241.53	3,226,498.45
Restricted	1,661,316.03	1,807,216.55	1,965,569.00
Unrestricted	2,354,754.11	2,355,104.34	2,315,755.04
Total Net Position	<u>\$ 7,166,861.70</u>	<u>\$ 7,758,562.42</u>	<u>\$ 7,507,822.49</u>

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
 Comparative Statements of Net Position
 As of November 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
ASSETS		
Current Assets:		
Unrestricted Assets:		
Revenue and Operating Fund:		
Cash and Cash Equivalents	\$ 2,542,770.70	\$ 2,354,034.73
Consumer Accounts Receivable, Net of Allowance for Doubtful Accounts of \$5,731.85 and \$1,522.06 in 2014 and 2013	117,734.28	151,791.87
Prepaid Expenses		124.70
Total Unrestricted Assets	2,660,504.98	2,505,951.30
Restricted Assets:		
Cash and Cash Equivalents	2,562,398.82	2,680,474.69
Total Restricted Assets	2,562,398.82	2,680,474.69
Total Current Assets	5,222,903.80	5,186,425.99
Noncurrent Assets:		
Capital Assets:		
Completed (Net of Accumulated Depreciation)	3,987,743.01	4,631,394.98
Total Assets	\$ 9,210,646.81	\$ 9,817,820.97

(Continued)

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
 Comparative Statements of Net Position
 As of November 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
LIABILITIES		
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable	\$ 75,093.07	\$ 68,880.39
Accrued Liabilities	29,518.50	25,075.09
Reserve for Self Insurance - Medical Claims	477,124.97	382,422.68
Sewer Rent Overpayments	<u>3,359.30</u>	<u>4,330.40</u>
Total Current Liabilities Payable from Unrestricted Assets	<u>585,095.84</u>	<u>480,708.56</u>
Current Liabilities Payable from Restricted Assets:		
Developers Escrow Deposits	7,078.97	8,066.75
Renewal and Replacement Fund:		
Accounts Payable	78,864.16	54,644.04
Bond Service Fund:		
Revenue Bonds Payable - Current Portion	<u>198,202.00</u>	<u>211,293.05</u>
Total Current Liabilities Payable from Restricted Assets	<u>284,145.13</u>	<u>274,003.84</u>
Total Current Liabilities	<u>869,240.97</u>	<u>754,712.40</u>
Noncurrent Liabilities:		
Net OPEB Obligation	297,459.00	239,643.00
Compensated Absences	26,963.69	27,249.70
Revenue Bonds Payable	<u>836,951.45</u>	<u>1,035,153.45</u>
Total Noncurrent Liabilities	<u>1,161,374.14</u>	<u>1,302,046.15</u>
Total Liabilities	<u>2,030,615.11</u>	<u>2,056,758.55</u>
DEFERRED INFLOWS OF RESOURCES		
Construction Fund:		
Deferred Revenue - Connection Fees	<u>13,170.00</u>	<u>2,500.00</u>
Total Deferred Inflows	<u>13,170.00</u>	<u>2,500.00</u>
NET POSITION		
Net Investment in Capital Assets	3,150,791.56	3,596,241.53
Restricted for:		
Debt Service	612,100.00	612,100.00
Other Purposes	1,049,216.03	1,195,116.55
Unrestricted	<u>2,354,754.11</u>	<u>2,355,104.34</u>
Total Net Position	<u>\$ 7,166,861.70</u>	<u>\$ 7,758,562.42</u>

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

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
 Comparative Statements of Revenues, Expenses and Changes in Net Position
 For the Fiscal Years Ended November 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Utility Service Charges	\$ 2,501,270.78	\$ 2,496,840.20
Other Operating Revenues	21,388.56	18,413.33
	<u>2,522,659.34</u>	<u>2,515,253.53</u>
Operating Expenses:		
Administration:		
Salaries and Wages	307,498.54	306,074.54
Fringe Benefits	165,275.90	177,455.87
Other Expenses	138,633.66	121,542.64
Cost of Providing Services:		
Salaries and Wages	301,581.57	280,628.15
Fringe Benefits	190,914.86	178,136.33
Other Expenses	548,738.81	548,900.11
Depreciation	290,427.00	284,833.00
	<u>1,943,070.34</u>	<u>1,897,570.64</u>
Operating Income	579,589.00	617,682.89
Non-operating Revenue (Expenses):		
Investment Income Net of Fees	9,300.75	11,832.57
Miscellaneous	(544,347.91)	2,591.63
Interest Expense	(353,706.95)	(341,819.35)
Connection Fees	2,500.00	5,000.00
Renewal and Replacement Expenditures	(285,035.61)	(44,547.81)
	<u>(591,700.72)</u>	<u>250,739.93</u>
Change in Net Position	(591,700.72)	250,739.93
Net Position December 1	<u>7,758,562.42</u>	<u>7,507,822.49</u>
Net Position November 30	<u>\$ 7,166,861.70</u>	<u>\$ 7,758,562.42</u>

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

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
 Comparative Statements of Cash Flows
 For the Fiscal Years Ended November 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Receipts from Customers and Users	\$ 2,534,357.27	\$ 2,501,648.53
Payments for Goods and Services	(955,189.73)	(903,599.06)
Payments for Employee Services	(604,922.71)	(585,925.97)
Other Receipts	21,388.56	18,413.33
	995,633.39	1,030,536.83
Net Cash Provided by Operating Activities		
Cash Flows from Capital and Related Financing Activities:		
Receipts for Connection Fees	13,170.00	2,500.00
Principal Paid on Capital Debt	(211,293.05)	(223,180.65)
Payments for Renewal and Replacement Costs	(285,035.61)	(11,478.68)
Acquisition of Capital Assets	(192,377.14)	(490,449.32)
Interest Paid on Capital Debt	(353,706.95)	(341,819.35)
Payments and Deposits for Developers Escrow (Net)	(987.78)	(423.17)
Other Receipts	95,956.49	24,971.44
	(934,274.04)	(1,039,879.73)
Net Cash used in Capital and Related Financing Activities		
Cash Flows from Investing Activities:		
Investment Income Received	9,300.75	11,832.57
	9,300.75	11,832.57
Net Cash Provided by Investing Activities		
Net Increase/(Decrease) in Cash and Cash Equivalents	70,660.10	2,489.67
Cash and Cash Equivalents, December 1 (Including \$2,680,474.69 and \$2,862,192.37 Reported as Restricted)	5,034,509.42	5,032,019.75
Cash and Cash Equivalents, November 30 (Including \$2,562,398.82 and \$2,680,474.69 Reported as Restricted)	\$ 5,105,169.52	\$ 5,034,509.42
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 579,589.00	\$ 617,682.89
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense	290,427.00	284,833.00
Changes in Assets and Liabilities:		
(Increase) Decrease in Consumer Accounts Receivable	34,057.59	(255.46)
(Increase) Decrease in Allowance for Doubtful Accounts	-	4,641.52
(Increase) Decrease in Prepaid Expenses	124.70	-
Increase (Decrease) in Accounts Payable	30,432.80	13,356.74
Increase (Decrease) in Accrued Liabilities	4,443.41	2,654.99
Increase (Decrease) in Self Insurance - Medical Claims		58,116.15
Increase (Decrease) in Sewer Rent Overpayments	(971.10)	422.27
Increase (Decrease) in Compensated Absences Payable	(286.01)	(1,878.27)
Increase (Decrease) in OPEB Obligation	57,816.00	50,963.00
	416,044.39	412,853.94
Total Adjustments		
Net Cash Provided by Operating Activities	\$ 995,633.39	\$ 1,030,536.83

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

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
Notes to Financial Statements
For the Fiscal Years Ended November 31, 2014 and 2013

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Pennsville 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 Pennsville Township Sewerage Authority (the "Authority") is a public body corporate and politic of the State of New Jersey and was created by an ordinance adopted on October 7, 1954 by the governing body of the Township of Pennsville (the "Township") in the County of Salem, New Jersey pursuant to the Sewerage Authority Law, R.S. 4:14B-1 et seq., of the State of New Jersey. It is public body corporate and politic, constituting a political subdivision of the State of New Jersey, established as an instrumentality exercising public and essential governmental function to provide for the public health and welfare. The comparative financial statements include the operations for which the Authority exercises oversight responsibility.

The Authority was created for the purpose of constructing, maintaining and operating sewerage collection and treatment facilities to substantially all the area constituting the Township. The Authority commenced operations in 1959 and the Authority bills and collects its revenues from users of the system.

The Authority consists of five board members and two alternates, who are appointed by resolution of the Township Committee for five-year terms. The Superintendent 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*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. Blended component units, although legally separate entities, are in-substance part of the government's operations. Each discretely presented component unit would be or is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

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

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

Based upon the application of these criteria, the Authority has no component units and is a component unit of the Township of Pennsville.

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 year. The budget is adopted on the accrual basis of accounting with provisions for cash payments for bond principal. Depreciation expense, bond issue costs, bond discounts, deferred loss on defeasance and the annual required contribution for the Authority's Other Postemployment Benefit (OPEB) Plan are not included in the budget appropriations.

The legal level of budgetary control is established at the detail shown on the Statement of Revenues, Expenses and Changes in Net Position. All budget transfers and amendments to those accounts must be approved by resolution of the Authority as required by the Local Finance Board. Management may transfer among supplementary line items as long as the legal level line items are not affected. There are no statutory requirements that budgetary line items not be over-expended. The Authority adopted an amending budget resolution during the 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 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 governments units are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or in the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of investments which may be purchased by New Jersey municipal units. In addition, other State statutes permit investments in obligations issued by local authorities and other state agencies.

Additionally, the Authority has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act. The Act was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey. In lieu of designating a depository, the cash management plan may provide that the local unit make deposits with the State of New Jersey Cash Management Fund.

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

Inventories

Inventory consists principally of chemicals for the treatment of water, 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 year end date.

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. The Authority has no infrastructure capital assets.

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

Expenditures are capitalized when they meet the following requirements:

- 1) Cost of \$1,000.00 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	50-60
Vehicles	5
Buildings and Improvements	40
Pump Stations	40
Other Equipment	15 or 20

Bond Discounts and Bond Premiums

Bond discounts and 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 and bond premiums are presented as an adjustment of the face amount on the bonds.

Deferred Loss on Refunding

Deferred loss on refunding arising from the issuance of the revenue refunding bonds is recorded as a deferred outflow of resources. It is amortized in a systematic and rational manner over the duration of the related debt as a component of interest expense.

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.

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

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

Net Position

In accordance with the provisions of GASB Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", the Authority has classified its net position into three components – invested in capital assets, net of related debt; 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 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 do not meet the definition of "restricted" or "net investment in capital assets." This component includes net position that may be allocated for specific purposes by the Board.

Income Taxes

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

Operating and Non-Operating Revenues and Expenses

Operating revenues include all revenues derived from (i.e., sewer services charges and delinquent penalties) and other revenue sources. Non-operating revenues principally consist of interest income earned on various interest-bearing accounts and on investments.

Operating expenses include expenses associated with the operation and maintenance and of providing sewerage collection services to the residents of the Township along with general administrative expenses. Non-operating expenses principally include expenses attributable to the Authority's interest on funded debt and renewal and replacement expenditures.

Use of Estimates

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Impact of Recently Issued Accounting Principles.****Recently Issued and Adopted Accounting Pronouncements**

During the fiscal year ended November 30, 2014, the Authority adopted the following new accounting standards issued by the Governmental Accounting Standards Board (GASB)

In March 2012, the GASB issued Statement 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*. GASBS 66 is to improve accounting and financial reporting by state and local governmental entities by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Since the release of these Statements, questions have arisen concerning differences between the provisions in Statement 54 and Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, regarding the reporting of risk financing activities.

Questions also have arisen about differences between Statement 62 and Statements No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, regarding the reporting of certain operating lease transactions, and No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, concerning the reporting of the acquisition of a loan or a group of loans and the recognition of servicing fees related to mortgage loans that are sold. This Statement is effective for periods beginning after December 15, 2012. The adoption of GASBS 66, however, does not have a material impact on the Authority's financial statements.

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

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

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

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

Recently Issued Accounting Pronouncements

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

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

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

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

Utility System Revenue Bonds

The Authority is subject to the provisions and the terms of the Utility System Revenue Bond Resolution, dated July 21, 1992, as amended. 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 bondholders. The purpose of the trust accounts are summarized as follows:

Revenue Fund - All available revenues shall be collected by the Authority and deposited with the Trustee or the name of the Trustee. The Trustee, as of the first day of each month in any fiscal year and within ten days thereafter, shall withdraw all moneys in the Revenue Fund as of such date and make payments out of such moneys into the following several funds, but as to each such fund only within the limitation herein below indicated with respect thereto and only after maximum payment within such limitation into every such fund previously mentioned in the following tabulation:

First: Into the Operating Fund, to the extent (if any) needed to increase the amount in the Operating Fund so that it equals 25% of the amount appropriated for Operating Expenses in the Annual Budget of the Authority for such Fiscal Year.

Second: Into the Bond Service Fund, to the extent (if any) needed to increase the amount in the Bond Service Fund so that it equals the Bond Service Requirement.

Third: Into the Bond Reserve Fund, to the extent (if any) needed to increase the amount in any account of the Bond Reserve Fund so that it equals the applicable Bond Reserve Requirement.

Fourth: Into the Renewal and Replacement Fund, to the extent (if any) needed to increase the amount in the Renewal and Replacement Fund so that it equals the System Reserve Requirement.

Fifth: Into the General Fund, to any extent.

Operating Fund - The Authority shall apply the moneys deposited in the Operating Fund and any investment earnings thereon to the payment of Operating Expenses for which appropriations were made in the Annual Budget. Any such moneys deposited in the Operating Fund and any investment earnings thereon unexpended upon termination of the fiscal year in which they were deposited and any moneys and investment earnings thereon deposited into the Operating Fund may be expended by the Authority for the payment of any Operating Expense for any purpose for which moneys could be withdrawn from the Renewal and Replacement Fund.

Bond Service Fund - The Trustee shall withdraw from the Bond Service Fund immediately prior to each interest payment date of the Bonds and amount equal to the unpaid interest due on the Bonds on or before such interest payment date and shall cause the same to be applied to the payment of said interest when due and may transmit the same to Paying Agents who shall apply the same to such payment.

Bond Reserve Fund - If on any date (a) the amount in the Bond Service Fund equals or exceeds the Bond Service Requirement (b) all withdraws or payments from the Bond Reserve Fund required by any other provision of the Resolution with respect to the same and every prior date shall have sooner been made, the Trustee within ten days thereafter shall withdraw from the respective accounts in the Bond Reserve Fund the amount of any excess therein over the applicable Bond Reserve Requirement as of such date and shall pay any moneys so withdrawn into the Revenue Fund.

Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONT'D)

Renewal and Replacement Fund - If on any date, after making the withdrawals required under the provisions of Paragraph (1) of Section 512 with respect to the same and every prior date, the amount in any account of the Bond Reserve Fund shall be less than the applicable Bond Reserve Requirement as of such date, the Trustee shall withdraw from the Renewal and Replacement Fund and pay into such account of the Bond Reserve Fund the amount needed to increase the amount in such account of the Bond Reserve Fund so that it equals the applicable Bond Reserve Requirement. The Trustee shall withdraw from the Renewal and Replacement Fund amounts requisitioned by the Authority for, and apply the same to, the reasonable and necessary expenses of the Authority with respect to the System for improvements, constructions, reconstructions, major repairs, renewals, replacements or maintenance items of a type not recurring annually or at shorter intervals and for costs of equipment.

Construction Fund - Within the Construction Fund, the Trustee shall establish a separate account for each project. The Trustee shall credit to such separate account for any project any moneys paid into the Construction Fund constituting (1) proceeds of sale of bonds of any series authorized for the purpose of raising funds to pay costs of construction with respect to said project, (2) any proceeds of insurance (other than use and occupancy insurance) received by the Authority with respect to said project or (3) any amount accompanied upon its payment into the Construction Fund by an Officer's Certificate directing its credit to the said separate account for said project.

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

Debt Service Coverage

The computation of sufficiency of revenues for the fiscal years ended November 30, 2014 and 2013 as defined by the Utility System Revenue Bond Resolution is as follows:

	<u>2014</u>	<u>2013</u>
Operating Revenues:		
Utility Service Charges	\$ 2,501,270.78	\$ 2,496,840.20
Investment and Miscellaneous Income	<u>28,007.28</u>	<u>31,026.14</u>
Total Revenues	<u>2,529,278.06</u>	<u>2,527,866.34</u>
Operating Expenses:		
Administrative	613,408.10	605,073.05
Cost of Providing Services	<u>997,995.24</u>	<u>1,007,664.59</u>
Total Expenses	<u>1,611,403.34</u>	<u>1,612,737.64</u>
Excess of Revenue	917,874.72	915,128.70
110% of Current Fiscal Year's Annual Debt Service Requirement	<u>621,500.00</u>	<u>621,500.00</u>
Sufficiency of Revenues	<u>\$ 296,374.72</u>	<u>\$ 293,628.70</u>

In addition to the above rate covenant, the Authority has complied with all other significant financial covenants under the Utility System Revenue Bond Resolution.

Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONT'D)

In conjunction with the aforementioned Utility System Revenue Bond Resolution, the Authority has entered into a service agreement with the Township. The Township has agreed to advance to the Authority sufficient monies to eliminate any deficiency in the Authority's revenues required for its operation and administrative expenses, including certain debt service requirements, and to meet certain provisions of its coverage requirements. Any monies advanced in accordance with this agreement would be refunded at such time as the Authority deems appropriate.

Note 3: DETAIL NOTES - ASSETS

Cash and Cash Equivalents

Custodial Credit Risk Related to Deposits - Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. Although the Authority does not have a formal policy regarding custodial credit risk, N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). Under the Act, the first \$250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the Authority in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings or funds that may pass to the Authority relative to the happening of a future condition. If the Authority had any such funds, they would be shown as Uninsured and Uncollateralized in the schedule below.

As of November 30, 2014 and 2013, the Authority's bank balances were exposed to custodial credit risk as follows:

	<u>2014</u>	<u>2013</u>
Insured by FDIC	\$ 250,000.00	\$ 250,000.00
Uninsured and Uncollateralized	59,456.74	55,433.17
Collateralized under GUDPA	<u>4,847,252.18</u>	<u>4,780,910.71</u>
	<u>█\$ 5,156,708.92</u>	<u>█\$ 5,086,343.88</u>

Service Fees

The following is a three-year comparison of sewer user fees and collections:

<u>Fiscal Year</u> <u>Ended</u> <u>November 30,</u>	<u>Beginning</u> <u>Balance</u>	<u>Billings</u>	<u>Total</u> <u>Collections</u>	<u>Percentage of</u> <u>Collections</u>
2014	\$ 153,313.83	\$ 2,501,270.78	\$ 2,531,118.58	95.35%
2013	157,699.99	2,496,840.20	2,501,226.26	94.22%
2012	154,545.77	2,503,473.27	2,500,319.05	94.07%

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

During the fiscal year ended November 30, 2014 and 2013, the following changes in Capital Assets occurred:

	Balance Nov. 30, 2013	Additions	Deletions	Completed Projects	Balance Nov. 30, 2014
Land and Easements	\$ 57,890.00				\$ 57,890.00
Construction in Progress	485,997.64	\$ 77,083.14	\$ 156,700.00	\$ (320,018.14)	86,362.64
Utility Plant, Equipment And Other Costs	<u>11,497,056.34</u>	<u>115,294.00</u>	<u>444,769.11</u>	<u>320,018.14</u>	<u>11,487,599.37</u>
Total Utility Plant, Property and Equipment	12,040,943.98	192,377.14	601,469.11	-	11,631,852.01
Less: Accumulated Depreciation	<u>7,409,549.00</u>	<u>290,427.00</u>	<u>55,867.00</u>		<u>7,644,109.00</u>
Net Utility Plant, Property and Equipment	<u>\$ 4,631,394.98</u>	<u>\$ (98,049.86)</u>	<u>\$ 545,602.11</u>	<u>\$ -</u>	<u>\$ 3,987,743.01</u>
	Balance Nov. 30, 2012	Additions	Deletions	Completed Projects	Balance Nov. 30, 2013
Land and Easements	\$ 57,890.00				\$ 57,890.00
Construction in Progress	349,604.69	\$ 424,586.02	\$ 3,001.99	\$ (285,191.08)	485,997.64
Utility Plant, Equipment And Other Costs	<u>11,191,463.26</u>	<u>21,767.00</u>	<u>1,365.00</u>	<u>285,191.08</u>	<u>11,497,056.34</u>
Total Utility Plant, Property and Equipment	11,598,957.95	446,353.02	4,366.99	-	12,040,943.98
Less: Accumulated Depreciation	<u>7,126,013.00</u>	<u>284,833.00</u>	<u>1,297.00</u>		<u>7,409,549.00</u>
Net Utility Plant, Property and Equipment	<u>\$ 4,472,944.95</u>	<u>\$ 161,520.02</u>	<u>\$ 3,069.99</u>	<u>\$ -</u>	<u>\$ 4,631,394.98</u>

Note 4: DETAIL NOTES - LIABILITIES**Compensated Absences**

Authority employees may accumulate unused sick days with no restrictions. 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 \$15,000. Vacation days not used during the year may be carried forward for one year. Upon separation from the Authority, the employee will be paid for all accrued vacation time at their then current hourly rate. The accrued liability for accumulated sick leave and vacation time at November 30, 2014 and 2013 is estimated at \$26,963.69 and \$27,249.70, respectively.

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

Retirement Systems

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

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

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

The contribution requirements of plan members are determined by State statute. In accordance with Chapter 62, P.L. 1994, plan members enrolled in the Public Employees' Retirement System were required to contribute 5% of their annual covered salary. Effective July 1, 2008, however, in accordance with Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, plan members are required to contribute 5.5% of their annual covered salary. For employees enrolled in the retirement system prior to July 1, 2008, the increase is effective with the payroll period that begins immediately after July 1, 2008. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased to 6.5% plus an additional 1.0% phased-in over seven years. The phase-in of the additional incremental member contribution amount began July 1, 2012 and increases each subsequent July 1. The State Treasurer has the right under the current law to make temporary reductions in member rates based on the existence of surplus pension assets in the retirement system; however, the statute also requires the return to the normal rate when such surplus pension assets no longer exist.

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

<u>Year</u>	<u>Normal Contribution</u>	<u>Accrued Liability</u>	<u>Total Liability</u>	<u>Paid by Authority</u>
2014	\$ 17,707.00	\$ 45,400.00	\$ 63,107.00	\$ 63,107.00
2013	19,215.00	38,228.00	57,443.00	57,443.00
2012	20,702.00	34,760.00	55,462.00	55,462.00

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

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

Defined Contribution Retirement Program - The Defined Contribution Retirement Program (DCRP) is a single-employer defined contribution pension fund which was 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.) and expanded under the provisions of Chapter 89, P.L. 2008 and Chapter 1, P.L. 2010. The Defined Contribution Retirement Program Board oversees the DCRP, which is administered for the Division of Pensions and Benefits by Prudential Financial. The DCRP provides eligible members, and their beneficiaries, with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting and benefit provisions are established by N.J.S.A. 43:15C-1 et. seq.

The contribution requirements of plan members are determined by State statute. 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's contribution amounts for each pay period are transmitted to Prudential Financial not later than the fifth business day after the date on which the employee is paid for that pay period.

The Authority's contributions, equal to the required contribution for the 2014, 2013 and 2012 fiscal year, were \$107.84, \$98.42 and \$50.66, respectively.

Post-Employment Benefits

Plan Description - The Authority's defined benefit postemployment healthcare plan is affiliated with the Township of Pennsville's Postemployment Benefits Plan (the "TPPB Plan"). The plan provides fully paid Health and Life Insurance benefits to employees retired or those who were hired after March 1, 2000 with at least fifteen (15) years of service and who have reached the age of sixty-two (62). They are entitled to term life insurance, health insurance, and a dental plan under the TPPB Plan's group policies maintained for other Authority employees, with the same or similar limits in coverage provided the retiree continues the same co-pay per month at the time of retirement. Retired employees, or those who were hired after January 1, 2004 with at least twenty-five (25) years of service and who have reached the age of sixty-two (62), shall be entitled to term life insurance, health insurance, and dental plan under the TPPB Plan's group policies maintained for other Authority employees, with the same or similar limits in coverage provided the retiree continues the same co-pay per month at the time of retirement. Upon retirement all employees shall be entitled to all benefits under this contract. In the event an employee is eligible for such benefits through PERS, then those benefits shall be considered primary. When a 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's Plan is affiliated with the Township of Pennsville's Benefit Plan (TPPB Plan), an agent multiple-employer postemployment benefits plan administered by the Township of Pennsville. The benefit provisions of the plans that participate in TPPB Plan may be established or amended by the respective employer entities; for the TPPB Plan that authority rests with the Board of the Authority. The TPPB Plan does not issue a separate financial report.

Funding Policy - The contribution requirement of the Authority is established by the policy of the Authority and certain employment contracts and may be amended as deemed necessary. The required contribution is based on projected pay-as-you-go financing requirements. For the years 2014, 2013 and 2012, the Authority contributed \$3,784, \$10,637 and \$10,178, respectively to the TPPB Plan for current premiums. Plan members are not required to make any contributions to the plan.

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

Annual OPEB Cost and Net OPEB Obligation - The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that is paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the TPPB Plan, and changes in the Authority's net OPEB obligation to the TPPB Plan for the current and previous two years:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Normal Cost	\$ 30,300	\$ 30,300	\$ 23,800
Unfunded Actuarial Liability	29,800	29,800	35,200
Interest	1,500	1,500	1,500
Annual Required Contribution (Expense)	61,600	61,600	60,500
Contributions Made	(3,784)	(10,637)	(10,178)
Change in Net OPEB Obligation	57,816	50,963	50,322
Net OPEB Obligation - Beginning of year	239,643	188,680	138,358
Net OPEB Obligation - End of year	<u>\$ 297,459</u>	<u>\$ 239,643</u>	<u>\$ 188,680</u>
Percentage of Annual OPEB Cost Contributed	6.1%	17.3%	16.8%

Funded Status and Funding Progress - As of December 31, 2013, the most recent actuarial valuation date, the TPB Plan was 0% funded. The actuarial accrued liability for benefits was \$894,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$894,000. The covered payroll (annual payroll of active employees covered by the plan) was \$265,000, and the ratio of the UAAL to the covered payroll was 337.4%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, compares the assets used for funding purposes to the comparable liabilities to determine how well the TPPB Plan is funded and how this status has changed over the past several years. The actuarial liability is compared to the actuarial value of assets to determine the funding ratio. The Actuarial Accrued Liability under GASB is determined assuming that the TPPB Plan is ongoing and participants continue to terminate employment, retire, etc., in accordance with the actuarial assumptions.

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

In the December 31, 2013, actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.0% investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 8.9% initially, reducing by decrements to an ultimate rate of 4.25% over fifteen years. Both rates include a 2.5% salary inflation assumption. The TPPB Plan's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2013, was thirty years.

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

The following is a summary of long-term debt at November 30, 2014:

<u>Issue</u>	<u>Date of Issue</u>	<u>Date of Final Maturity</u>	<u>Interest Rate</u>	<u>Original Issue Amount</u>	<u>Principal Balance Outstanding</u>
Sewer Refunding Bonds, Series 1996	11/01/96	11/01/20	4.55% to 5.65%	\$ 6,789,566.00	\$ 1,035,153.45
Less: Current maturities included in current liabilities					<u>(198,202.00)</u>
Balance at November 30, 2014					<u>\$ 836,951.45</u>

Annual Requirements to Retire Debt Obligations***Sewer Refunding Bonds, Series 1996***

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 198,202.00	\$ 366,798.00	\$ 565,000.00
2016	187,551.75	377,448.25	565,000.00
2017	177,472.15	387,527.85	565,000.00
2018	166,149.55	398,850.45	565,000.00
2019	157,149.10	407,850.90	565,000.00
2020	148,628.90	416,371.10	565,000.00
	<u>\$ 1,035,153.45</u>	<u>\$ 2,354,846.55</u>	<u>\$ 3,390,000.00</u>

Changes in Outstanding Debt

	<u>Balance Nov. 30, 2013</u>	<u>Paid</u>	<u>Balance Nov. 30, 2014</u>
Sewer Refunding Bonds, Series 1996	<u>\$ 1,246,446.50</u>	<u>\$ 211,293.05</u>	<u>\$ 1,035,153.45</u>
Total	<u>\$ 1,246,446.50</u>	<u>\$ 211,293.05</u>	<u>\$ 1,035,153.45</u>

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

It is Authority policy to record connection fees received as revenue when the user is connected to the system and that account is billed a service fee. Connection fees received that do not fall within the above description are recorded as deferred revenue. For the fiscal years ended November 30, 2014 and 2013, \$2,500.00 and \$5,000.00 respectively was recognized each of those years as revenue for users connected to the system while \$13,170.00 and \$2,500.00 were recorded as deferred revenue, respectively.

Note 7: COMMITMENTS AND CONTINGENCIES**Service Agreements**

In conjunction with the Authority's issuance of bonds, a service agreement between the Authority and Township of Pennsville was executed in 1959. Section 403 of the 1959 service contract between the Sewerage Authority and the Township provides that an amount is to be charged to the Township when:

Operating expenses, interest on Bonds, principal or redemption premium on bonds, and deficits of the Authority resulting from failure to receive sums payable to the Authority by the Township, to maintain such reserves or sinking funds to provide for expenses of operation and maintenance of the System or for any interest on or principal on redemption premium of bonds or for any such deficits as may be required by the terms of any contracts of the Authority or agreement with or for the benefit of holders of bonds or be deemed necessary or desirable by the Authority, exceed

- (1) The sum of such parts (if any) of the several amounts of service charges collected, the proceeds of bonds received by or for account of the Authority, the proceeds of insurance received, interest received on investments of funds held for benefit on security of the Authority, contributions received by or for the account of the Authority and not repayable by the Authority, reserves on hand and available therefore at the beginning of such fiscal year.

For the fiscal year 2014, the computation was as follows:

Cash Revenues	\$ 2,556,386.78
Operating Expenses	<u>1,498,650.81</u>
Excess/(Deficit)	<u>\$ 1,057,735.97</u>

Commitments

The Authority has several outstanding or planned construction projects as of November 30, 2014. These projects are evidenced by contractual commitments with a contractor and include:

<u>Project</u>	<u>Awarded</u>	<u>Commitment Remaining</u>
E Pittsfield Pumping Station Improvement - Construction	\$ 251,200.00	\$ 251,200.00
E Pittsfield Pumping Station Improvement - Engineering	<u>95,110.00</u>	<u>29,738.74</u>
Total Contracts Payable	<u>\$ 346,310.00</u>	<u>\$ 280,938.74</u>

Litigation

The Authority is not a defendant in any legal proceeding or exposed to any litigation or potential losses that would be material to the financial statements.

Note 8: DEFERRED COMPENSATION SALARY ACCOUNT

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 the New Jersey Utilities Authority Joint Insurance Fund ("NJUA") and the Municipal Excess Liability Joint Fund (the "MEL").

The following coverage is provided by the NJUA and the MEL:

- Public Officials Bonds in excess of amounts statutorily required
- Public Employees Dishonesty Bonds
- Automobile Liability
- Workers' Compensation
- Employers' Liability
- Commercial Property
- General Liability
- Public Officials Liability
- Employment Practices Liability
- Environmental Liability

Contributions to the Fund, including a reserve for contingencies are payable in an annual premium and is based on actuarial assumptions determined by the Fund's actuary. The Commissioner of Insurance may order additional assessments to supplement the Fund's claim, loss retention or administrative accounts to assure the payment of the Fund's obligations. The Authority's agreement with the pool provides that the pool will be self-sustaining through member premiums and will reinsure through commercial insurance for claims in excess of \$500,000 for each insured event.

The Fund publishes its own financial report for the year ended December 31, 2014, which can be obtained from:

New Jersey Utilities Authority Joint Insurance Fund
Park 80 West, Plaza One
Saddle Brook, New Jersey 07663

Municipal Excess Liability Joint Insurance Fund
Park 80 West, Plaza One
Saddle Brook, New Jersey 07663

REQUIRED SUPPLEMENTARY INFORMATION

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
 Required Supplementary Information
 Schedule of Funding Progress for the OPEB Plan

Actuarial Valuation Date <u>Date</u>	Actuarial Value of Assets <u>(a)</u>	Actuarial Accrued Liability - (AAL) Entry Age <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>
12/31/2013	\$ 0	\$ 894,000	\$ 894,000	0%	\$ 265,000	337.4%
12/31/2010	\$ 0	\$ 980,000	\$ 980,000	0%	\$ 250,000	392.0%
12/31/2008	\$ 0	\$ 906,100	\$ 906,100	0%	\$ 210,607	430.2%

SCHEDULE RSI-2

Required Supplementary Information
 Schedule of Employer Contributions

<u>Fiscal Year Ended December 31,</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
2014	\$ 61,600.00	6.1%
2013	61,600.00	17.3%
2012	60,500.00	16.8%
2011	60,500.00	16.6%
2010	60,500.00	48.3%
2009	58,800.00	51.4%
2008	58,800.00	52.4%

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY

Note to Required Supplementary Information
 For the Year Ended November 30, 2014

Other Postemployment Benefits

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

Valuation Date	December 31, 2013
Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent Open
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	4.0%
Rate of Salary Increases	4.0% (plus merit scale)
Ultimate Rate of Medical Inflation	4.25%
Years to Ultimate Rate	15 years

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

SUPPLEMENTARY SCHEDULES

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
Combining Schedule of Revenue, Expenses and Changes in Net Position
For the Fiscal Year Ended November 30, 2014

	Restricted Funds							Total
	Revenue and Operating	Renewal and Replacement	Bond Reserve	Bond Service	Construction Fund	Unemployment Compensation	Utility Plant, Property and Equipment	
Operating Revenues:								
Sewer Fees and Penalties	\$ 2,501,270.78							\$ 2,501,270.78
Other Revenue	21,388.56							21,388.56
	2,522,659.34	-	-	-	-	-	-	2,522,659.34
Operating Expenses:								
Administration	639,935.29							639,935.29
Cost of Providing Services	1,012,708.05							1,012,708.05
Depreciation							\$ 290,427.00	290,427.00
	1,652,643.34	-	-	-	-	-	290,427.00	1,943,070.34
Operating Income (Loss)	870,016.00	-	-	-	-	-	(290,427.00)	579,589.00
Non-operating Revenue (Expenses):								
Investment Income	6,618.72	\$ 1,515.23			\$ 1,089.65	\$ 77.15		9,300.75
Interest Expense	(353,706.95)							(353,706.95)
Employee Contributions						934.20		934.20
Connection Fees					2,500.00			2,500.00
Renewal and Replacement Fund Expenditures	(12,576.00)	(464,836.75)					192,377.14	(285,035.61)
Miscellaneous					320.00		(545,602.11)	(545,282.11)
Net Income (Loss) Before Transfers	510,351.77	(463,321.52)	-	-	3,909.65	1,011.35	(643,651.97)	(591,700.72)
Transfers and Adjustments:								
Budget Contribution	(304,000.00)	300,000.00				4,000.00		
Between Funds - Net	(198,202.00)						198,202.00	
Increase (Decrease) in Net Position	8,149.77	(163,321.52)	-	-	3,909.65	5,011.35	(445,449.97)	(591,700.72)
Net Position (Deficit) December 1, 2013	2,812,304.34	447,726.31	\$ 565,000.00	\$ 47,100.00	244,364.53	45,825.71	3,596,241.53	7,758,562.42
Net Position (Deficit) November 30, 2014								
Net Investment in Capital Assets							\$ 3,150,791.56	\$ 3,150,791.56
Restricted	\$ 465,700.00	\$ 284,404.79	\$ 565,000.00	\$ 47,100.00	\$ 248,274.18	\$ 50,837.06		1,661,316.03
Unrestricted	2,354,754.11							2,354,754.11

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
 Schedule of Cash Receipts and Disbursements
 For the Fiscal Year Ended November 30, 2014

	Revenue and <u>Operating</u>	Restricted					Unemployment <u>Compensation</u>	Developers <u>Escrow</u>	Total
		<u>Renewal and Replacement</u>	<u>Bond Reserve</u>	<u>Bond Service</u>	<u>Construction Fund</u>				
Cash And Cash Equivalents:									
Balance December 1, 2013	\$ 2,354,034.73	\$ 802,516.54	\$ 606,989.16	\$ 606,383.61	\$ 609,152.21	\$ 47,366.42	\$ 8,066.75	\$ 5,034,509.42	
Receipts:									
Investment Income	4,196.41	1,515.23	1,211.77	1,210.54	1,089.65	77.15	12.22	9,312.97	
Investment Income on Benefit Claims	654.33							654.33	
Sewer Fees and Penalties	2,526,788.18							2,526,788.18	
Sewer Rent Overpayments	3,359.30							3,359.30	
Other Operating Revenue	21,388.56							21,388.56	
Connection Fees					13,170.00			13,170.00	
Escrow Deposits							1,000.00	1,000.00	
Budget Reimbursements	40,473.84							40,473.84	
Miscellaneous					320.00	934.20		1,254.20	
Transfers		300,000.00				4,000.00		304,000.00	
Total Cash and Cash Equivalents Available	4,950,895.35	1,104,031.77	608,200.93	607,594.15	623,731.86	52,377.77	9,078.97	7,955,910.80	
Disbursements:									
Operating Expenses	1,457,668.26							1,457,668.26	
Accounts Payable	68,880.39	54,644.04						123,524.43	
Bond Principal	211,293.05							211,293.05	
Interest on Debt - Sewer Revenue Bonds	353,706.95							353,706.95	
Renewal and Replacement Expenses	12,576.00	385,972.59						398,548.59	
Escrow Disbursements							2,000.00	2,000.00	
Transfers	304,000.00							304,000.00	
Total Disbursements	2,408,124.65	440,616.63	-	-	-	-	2,000.00	2,850,741.28	
Cash And Cash Equivalents:									
Balance November 30, 2014	\$ 2,542,770.70	\$ 663,415.14	\$ 608,200.93	\$ 607,594.15	\$ 623,731.86	\$ 52,377.77	\$ 7,078.97	\$ 5,105,169.52	

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
 Schedule of Revenues, Operating Appropriations, Principal Payments and
 Non-Operating Appropriations Compared to Budget--Budgetary Basis
 For the Fiscal Year Ended November 30, 2014

	Adopted Budget	Amendments/ Transfers	Amended Budget	2013-2014 Actual	Variance Favorable (Unfavorable)
Operating Revenues:					
Service Charges	\$ 2,455,001.00		\$ 2,455,001.00	\$ 2,501,270.78	\$ 46,269.78
Other Revenues	10,000.00		10,000.00	21,388.56	11,388.56
Interest Income	10,000.00		10,000.00	6,618.72	(3,381.28)
	<u>2,475,001.00</u>	-	<u>2,475,001.00</u>	<u>2,529,278.06</u>	<u>54,277.06</u>
Operating Appropriations:					
Administrative:					
Salaries and Wages:					
Board Members' Salaries	14,173.00		14,173.00	13,759.20	413.80
Office Salaries	300,318.00		300,318.00	293,739.34	6,578.66
Fringe Benefits:					
Social Security	24,059.00		24,059.00	22,304.47	1,754.53
Health Insurance	150,000.00		150,000.00	106,954.09	43,045.91
Dental Insurance	9,520.00		9,520.00	5,307.52	4,212.48
Group Life Insurance	2,300.00		2,300.00	1,273.92	1,026.08
Unemployment Insurance	2,000.00		2,000.00	2,000.00	-
PERS - Pension	31,375.00	\$ 1,670.00	33,045.00	26,786.43	6,258.57
Miscellaneous	3,000.00		3,000.00	2,649.47	350.53
Other Expenses:					
Legal Fees	35,300.00		35,300.00	28,403.54	6,896.46
Audit Fees / Financial Services	28,600.00		28,600.00	26,891.30	1,708.70
Engineer Fees	20,000.00		20,000.00	-	20,000.00
Billing Expenses	7,000.00		7,000.00	-	7,000.00
Computer Software Service	11,800.00		11,800.00	7,400.95	4,399.05
Computer Repairs	6,000.00		6,000.00	-	6,000.00
Office Supplies	14,000.00		14,000.00	4,793.82	9,206.18
Postage	7,000.00		7,000.00	5,800.05	1,199.95
Petty Cash	1,200.00		1,200.00	717.44	482.56
Seminars and Conferences	2,500.00		2,500.00	1,111.52	1,388.48
Trustee Fees	15,000.00		15,000.00	11,564.90	3,435.10
Authority Insurance - Casualty	55,000.00		55,000.00	46,771.39	8,228.61
Interlocal Agreement - Finance Services	8,000.00		8,000.00	-	8,000.00
Miscellaneous	7,000.00	(1,670.00)	5,330.00	5,178.75	151.25
Total Administrative	<u>755,145.00</u>	-	<u>755,145.00</u>	<u>613,408.10</u>	<u>141,736.90</u>
Cost of Service:					
Salaries and Wages	283,400.00		283,400.00	301,581.57	(18,181.57)
Fringe Benefits:					
Social Security	21,680.00		21,680.00	22,669.28	(989.28)
Health Insurance	91,000.00		91,000.00	79,054.58	11,945.42
Unemployment Insurance	2,000.00		2,000.00	2,000.00	-
PERS - Pension	31,375.00		31,375.00	31,375.00	-
Other Expenses:					
Sodium Hypochlorite	17,000.00		17,000.00	14,982.43	2,017.57
Duke's Root	10,000.00		10,000.00	6,937.17	3,062.83
Odor Control	6,000.00		6,000.00	1,658.65	4,341.35
Grease & Grit Removal	10,000.00		10,000.00	5,631.80	4,368.20
Gasoline	14,000.00		14,000.00	10,509.49	3,490.51
Diesel Fuel	2,000.00		2,000.00	2,699.11	(699.11)
Natural Gas	8,500.00		8,500.00	10,235.65	(1,735.65)
Engineering Fees	15,000.00		15,000.00	7,730.22	7,269.78
Electric	175,000.00	(2,160.00)	172,840.00	141,417.25	31,422.75
Commercial Lab/Sludge	38,000.00		38,000.00	33,932.86	4,067.14
Communications	16,000.00		16,000.00	10,756.62	5,243.38
VFD Contract	21,000.00		21,000.00	4,822.98	16,177.02
Mechanical Equipment Contract	50,000.00		50,000.00	16,937.50	33,062.50
Transportation Maintenance	4,000.00		4,000.00	9,259.70	(5,259.70)
Plant Equipment Maintenance	7,500.00		7,500.00	1,613.62	5,886.38

(Continued)

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
Schedule of Revenues, Operating Appropriations, Principal Payments and
Non-Operating Appropriations Compared to Budget--Budgetary Basis
For the Fiscal Year Ended November 30, 2014

	Adopted Budget	Amendments/ Transfers	Amended Budget	2013-2014 Actual	Variance Favorable (Unfavorable)
Cost of Service (Cont'd):					
Pump Maintenance	\$ 6,000.00		\$ 6,000.00	\$ 7,803.60	\$ (1,803.60)
Maintenance (Paint, Tools, Etc.)	2,000.00		2,000.00	2,775.92	(775.92)
Collection System Supplies	14,000.00		14,000.00	19,600.30	(5,600.30)
Pumping Station Supplies	5,000.00		5,000.00	17,140.39	(12,140.39)
Plant Supplies	20,000.00		20,000.00	36,229.90	(16,229.90)
Plant Operating Permit	20,500.00		20,500.00	21,987.69	(1,487.69)
Plant Miscellaneous	2,000.00		2,000.00	1,747.46	252.54
Water	1,500.00		1,500.00	1,625.52	(125.52)
Sludge Disposal Liquid	160,000.00		160,000.00	142,257.26	17,742.74
Generator Maintenance	4,000.00		4,000.00	8,180.60	(4,180.60)
Safety Equipment	6,000.00		6,000.00	12,380.06	(6,380.06)
Plant Other	4,000.00		4,000.00	1,487.55	2,512.45
Miscellaneous		\$ 1,000.00	1,000.00	818.51	181.49
Lawn Maintenance	5,000.00	1,160.00	6,160.00	8,155.00	(1,995.00)
Total Cost of Service	1,073,455.00	-	1,073,455.00	997,995.24	75,459.76
Total Operating Appropriations	1,828,600.00	-	1,828,600.00	1,611,403.34	217,196.66
Principal Payments on Debt Service in Lieu of Depreciation	211,294.00	-	211,294.00	211,293.05	0.95
Non-Operating Appropriations:					
Interest on Debt	353,707.00		353,707.00	353,706.95	0.05
Renewal & Replacement Reserves	300,000.00		300,000.00	300,000.00	-
Total Non-Operating Appropriations	653,707.00	-	653,707.00	653,706.95	0.05
Total Operating, Principal Payments and and Non-Operating Appropriations	2,693,601.00	-	2,693,601.00	2,476,403.34	217,197.66
Excess of Revenues Over Expenditures	\$ (218,600.00)	\$ -	\$ (218,600.00)	\$ 52,874.72	\$ 271,474.72
Reconciliation to Operating Income					
Excess Anticipated Revenues Over Expenses and Other Costs				\$ 52,874.72	
Add:					
Unemployment Insurance			\$ 4,000.00		
Capitalized Budget Expenses			12,576.00		
Renewal & Replacement Reserve			300,000.00		
Bond Principal			211,293.05		
Interest on Debt			353,706.95		
				<u>881,576.00</u>	
				934,450.72	
Less:					
Interest Income			6,618.72		
Change in OPEB Liability			57,816.00		
Depreciation			290,427.00		
				<u>354,861.72</u>	
Operating Income (Exhibit B)				<u><u>\$ 579,589.00</u></u>	

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
 Schedule of Consumer Accounts Receivable
 For the Fiscal Year Ended November 30, 2014

Balance December 1, 2013		\$ 153,313.93
Add:		
Sewer Rental Charges Net of Adjustments		2,501,270.78
		2,654,584.71
Less:		
Collections	\$ 2,526,788.18	
Overpayments Applied	4,330.40	
		2,531,118.58
Balance November 30, 2014		\$ 123,466.13
<u>Summary</u>		
Balance November 30, 2014		\$ 123,466.13
Less Allowance for Doubtful Accounts		5,731.85
Net Accounts Receivable (Exhibit A)		\$ 117,734.28

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
 Analysis of Capital Assets
 For the Fiscal Year Ended November 30, 2014

	Balance <u>Dec. 1, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Completed Projects</u>	Balance <u>Nov. 30, 2014</u>
Land	\$ 57,890.00				\$ 57,890.00
Construction in Progress	485,997.64	\$ 77,083.14	\$ 156,700.00	\$ (320,018.14)	86,362.64
Utility Plant and Other Infrastructure	11,497,056.34	115,294.00	444,769.11	320,018.14	11,487,599.37
	<u>12,040,943.98</u>	<u>192,377.14</u>	<u>601,469.11</u>	<u>-</u>	<u>11,631,852.01</u>
Less: Accumulated Depreciation	<u>7,409,549.00</u>	<u>290,427.00</u>	<u>55,867.00</u>	<u>-</u>	<u>7,644,109.00</u>
	<u>\$ 4,631,394.98</u>	<u>\$ (98,049.86)</u>	<u>\$ 545,602.11</u>	<u>\$ -</u>	<u>\$ 3,987,743.01</u>

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
Schedule of Sewer Rent Overpayments
For the Fiscal Year Ended November 30, 2014

Balance December 1, 2013	\$ 4,330.40
Add:	
Receipts	<u>3,359.30</u>
	7,689.70
Less:	
Realized as Revenue	<u>4,330.40</u>
Balance November 30, 2014	<u><u>\$ 3,359.30</u></u>

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
 Schedule of Revenue Bonds Payable
 For the Fiscal Year Ended November 30, 2014

<u>Purpose</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Maturities of Bonds Outstanding November 30, 2014</u>		<u>Interest Rate</u>	<u>Balance Dec. 1, 2013</u>	<u>Paid</u>	<u>Balance Nov. 30, 2014</u>
			<u>Date</u>	<u>Amount</u>				
Refunding Sewer Revenue Bonds, Series 1996	11-1-96	\$ 6,789,566.00	11/01/15	\$ 198,202.00	5.60%	\$ 1,246,446.50	\$ 211,293.05	\$ 1,035,153.45
			11/01/16	187,551.75	5.60%			
			11/01/17	177,472.15	5.60%			
			11/01/18	166,149.55	5.65%			
			11/01/19	157,149.10	5.65%			
			11/01/20	148,628.90	5.65%			
						<u>\$ 1,246,446.50</u>	<u>\$ 211,293.05</u>	<u>\$ 1,035,153.45</u>
						<u>\$ 1,246,446.50</u>	<u>\$ 211,293.05</u>	<u>\$ 1,035,153.45</u>

THE PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
PART II
FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2014

**PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
Schedule of Findings and Recommendations
For the Fiscal Year Ended November 30, 2014**

Schedule of Financial Statement Findings

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

None

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
Summary Schedule of Prior Year Audit Findings
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.

None

APPRECIATION

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

Respectfully submitted,

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

A handwritten signature in black ink, appearing to read "Henry J. Ludwigsen". The signature is fluid and cursive, with a prominent initial "H" and a long, sweeping underline.

Henry J. Ludwigsen
Certified Public Accountant
Registered Municipal Accountant

