

THE PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
REPORT OF AUDIT
FOR THE FISCAL YEARS ENDED
NOVEMBER 30, 2015 AND 2014

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 & Associates (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, 2015 AND 2014

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 (Authority), in the County of Salem, State of New Jersey, a component unit of the Township of Pennsville, as of and for the fiscal years ended November 30, 2015 and 2014 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Pennsville Township Sewerage Authority, in the County of Salem, State of New Jersey as of November 30, 2015 and 2014, and the changes in its financial position and its cash flows thereof for the fiscal years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Adoption of New Accounting Principles

As discussed in note 1 to the financial statements, during the fiscal year ended November 30, 2015, the Authority adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Prior Period Restatement

Because of the implementation of GASB Statements No. 68 and No. 71 and change in the Authority's other postemployment benefit (OPEB) plan, the net position on the comparative statements of revenues, expenses and changes in net position has been restated for the fiscal year ended November 30, 2013, as discussed in note 11 to the financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 14, 2016 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

Respectfully submitted,



BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants

Woodbury, New Jersey
July 14, 2016

**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 (Authority), in the County of Salem, State of New Jersey, a component unit of the Township of Pennsville, as of and for the fiscal year ended November 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 14, 2016. Our report on the financial statements included an emphasis of matter paragraph describing the restatement of the prior period financial statements resulting from the adoption of new accounting principles and a change in the Authority's other postemployment benefit (OPEB) plan.

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
July 14, 2016

Management's Discussion and Analysis (Unaudited)

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 136% cover. Some financial highlights for the Authority's fiscal year 2015 were:

- Actual revenues of the Authority exceeded anticipated budgeted revenues by \$83,958 while budgeted expenditures exceeded actual by \$127,723.
- Actual operating expenses of \$1.715 million were up from fiscal year 2014 operating expenses of \$1.611 million.
- Connection fee revenues were \$23,506, up from 2014 revenues of \$2,500.
- At year-end, total assets and deferred outflows were \$9.497 million, which exceeded liabilities and deferred inflows of resources of \$3.641 million. The resultant net position at year-end was \$5.856 million.

OVERALL ANALYSIS

The Authority's financial position is good. During the current year, the Authority's unrestricted net position decreased by \$131,226.

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 5 fewer billable connections to the Authority's wastewater treatment system in the fiscal year 2015. The makeup of those connections is 4 residential and one commercial connection. The reason for the decrease is vacant properties being removed from the system and one commercial business closed due to a fire.

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 95.69% 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.

Management's Discussion and Analysis (Unaudited)

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

During the current year, the Authority disbursed \$374,670 for capital assets. The resultant disbursements are as follows:

<u>Asset</u>	<u>Amount Disbursed</u>
Pump Station	281,440
Outflow Pipe Reconstruction	15,000
Pump Replacement	40,685
Equipment	37,545

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 2015, 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 2016. Furthermore, in 2015 the Authority completed a much needed upgrade to the East Pittsfield Street pumping station. 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.

Management's Discussion and Analysis (Unaudited)

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.

**Management's Discussion and Analysis
(Unaudited)**

Comparative Statements of Revenues, Expenses and Changes in Net Position
For The Fiscal Years Ended November 30, 2015, 2014 and 2013

	<u>2015</u>	<u>2014</u> <u>(Restated)</u>	<u>2013</u> <u>(Restated)</u>
Operating Revenues:			
Utility Service Charges	\$ 2,521,341.63	\$ 2,501,270.78	\$ 2,496,840.20
Other Operating Revenues	31,198.39	21,388.56	18,413.33
	<u>2,552,540.02</u>	<u>2,522,659.34</u>	<u>2,515,253.53</u>
Operating Expenses:			
Salaries and Wages	657,685.44	609,080.11	586,702.69
Employee Benefits	398,057.66	372,470.76	355,592.20
Other Expenses	694,131.19	687,372.47	670,442.75
Pension Expense - GASB 68	34,816.00	22,208.00	
Depreciation	297,616.00	290,427.00	284,833.00
	<u>2,082,306.29</u>	<u>1,981,558.34</u>	<u>1,897,570.64</u>
Operating Income	470,233.73	541,101.00	617,682.89
Non-operating Expenses	<u>(358,284.33)</u>	<u>(1,171,289.72)</u>	<u>(366,942.96)</u>
Change in Net Position	<u>111,949.40</u>	<u>(630,188.72)</u>	<u>250,739.93</u>
Net Position Beginning of Fiscal Year	<u>5,744,308.70</u>	<u>6,374,497.42</u>	<u>7,507,822.49</u>
Restatement	<u>-</u>	<u>-</u>	<u>(1,384,065.00)</u>
Net Position End of Fiscal Year	<u>\$ 5,856,258.10</u>	<u>\$ 5,744,308.70</u>	<u>\$ 6,374,497.42</u>

Comparative Statement of Net Position
As of November 30, 2015, 2014 and 2013

	<u>2015</u>	<u>2014</u> <u>(Restated)</u>	<u>2013</u> <u>(Restated)</u>
Assets:			
Unrestricted	\$ 2,716,852.05	\$ 2,660,504.98	\$ 2,505,951.30
Restricted	2,464,223.52	2,562,398.82	2,680,474.69
Capital	4,053,731.37	3,987,743.01	4,631,394.98
Total Assets	<u>9,234,806.94</u>	<u>9,210,646.81</u>	<u>9,817,820.97</u>
Deferred Outflows of Resources:			
Related to Pensions	262,238.00	98,065.00	26,406.00
Total Deferred Outflows	<u>262,238.00</u>	<u>98,065.00</u>	<u>26,406.00</u>
Liabilities:			
Current Liabilities	925,781.59	932,613.97	811,386.40
Long-term Liabilities	2,618,302.25	2,532,846.14	2,655,843.15
Total Liabilities	<u>3,544,083.84</u>	<u>3,465,460.11</u>	<u>3,467,229.55</u>
Deferred Inflows of Resources:			
Unearned Revenue - Connection Fees	5,000.00	13,170.00	2,500.00
Related to Pensions	91,703.00	85,773.00	
Total Deferred Inflows	<u>96,703.00</u>	<u>98,943.00</u>	<u>2,500.00</u>
Net Position:			
Net Investment in Capital Assets	3,404,331.67	3,150,791.56	3,596,241.53
Restricted	1,650,951.51	1,661,316.03	1,807,216.55
Unrestricted	800,974.92	932,201.11	971,039.34
Total Net Position	<u>\$ 5,856,258.10</u>	<u>\$ 5,744,308.70</u>	<u>\$ 6,374,497.42</u>

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
 Comparative Statements of Net Position
 As of November 30, 2015 and 2014

	<u>2015</u>	<u>2014</u> (Restated)
<u>ASSETS</u>		
Current Assets:		
Unrestricted Assets:		
Revenue and Operating Fund:		
Cash and Cash Equivalents	\$ 2,613,584.41	\$ 2,542,770.70
Consumer Accounts Receivable, Net of Allowance for Doubtful Accounts of \$10,770.67 and \$5,731.85 in 2015 and 2014	103,267.64	117,734.28
Total Unrestricted Assets	2,716,852.05	2,660,504.98
Restricted Assets:		
Cash and Cash Equivalents	2,464,223.52	2,562,398.82
Total Restricted Assets	2,464,223.52	2,562,398.82
Total Current Assets	5,181,075.57	5,222,903.80
Noncurrent Assets:		
Capital Assets, net of Accumulated Depreciation	4,053,731.37	3,987,743.01
Total Assets	9,234,806.94	9,210,646.81
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Related to Pensions	262,238.00	98,065.00
Total Deferred Outflows of Resources	262,238.00	98,065.00

(Continued)

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
Comparative Statements of Net Position
As of November 30, 2015 and 2014

	<u>2015</u>	<u>2014</u> (Restated)
<u>LIABILITIES</u>		
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable - Operating Expenses	\$ 58,525.70	\$ 75,093.07
Accounts Payable - Related to Pensions	62,548.00	63,373.00
Accrued Liabilities	30,337.02	29,518.50
Reserve for Self Insurance - Medical Claims	568,058.28	477,124.97
Sewer Rent Overpayments	5,305.70	3,359.30
	<u>724,774.70</u>	<u>648,468.84</u>
Total Current Liabilities Payable from Unrestricted Assets		
Current Liabilities Payable from Restricted Assets:		
Developers Escrow Deposits	6,631.27	7,078.97
Renewal and Replacement Fund:		
Accounts Payable	6,823.87	78,864.16
Bond Service Fund:		
Revenue Bonds Payable - Current Portion	187,551.75	198,202.00
	<u>201,006.89</u>	<u>284,145.13</u>
Total Current Liabilities Payable from Restricted Assets		
	<u>925,781.59</u>	<u>932,613.97</u>
Total Current Liabilities		
Noncurrent Liabilities:		
Net OPEB Obligation	280,144.00	203,596.00
Compensated Absences	29,539.55	26,963.69
Net Pension Liability	1,633,157.00	1,439,273.00
Accrued Liabilities - Related to Pensions	26,062.00	26,062.00
Revenue Bonds Payable	649,399.70	836,951.45
	<u>2,618,302.25</u>	<u>2,532,846.14</u>
Total Noncurrent Liabilities		
	<u>3,544,083.84</u>	<u>3,465,460.11</u>
Total Liabilities		
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred Revenue - Connection Fees	5,000.00	13,170.00
Related to Pensions	91,703.00	85,773.00
	<u>96,703.00</u>	<u>98,943.00</u>
Total Deferred Inflows of Resources		
<u>NET POSITION</u>		
Net Investment in Capital Assets	3,404,331.67	3,150,791.56
Restricted for:		
Debt Service	612,100.00	612,100.00
Other Purposes	1,038,851.51	1,049,216.03
Unrestricted	800,974.92	932,201.11
	<u>5,856,258.10</u>	<u>5,744,308.70</u>
Total Net Position		

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, 2015 and 2014

	<u>2015</u>	<u>2014</u> (Restated)
Operating Revenues:		
Utility Service Charges	\$ 2,521,341.63	\$ 2,501,270.78
Other Operating Revenues	31,198.39	21,388.56
	<u>2,552,540.02</u>	<u>2,522,659.34</u>
Operating Expenses:		
Administration:		
Salaries and Wages	322,972.06	307,498.54
Fringe Benefits	210,114.25	201,835.86
Other Expenses	151,822.52	138,633.66
Cost of Providing Services:		
Salaries and Wages	334,713.38	301,581.57
Fringe Benefits	187,943.41	170,634.90
Other Expenses	542,308.67	548,738.81
Pension Liability Expense - GASB 68	34,816.00	22,208.00
Depreciation	297,616.00	290,427.00
	<u>2,082,306.29</u>	<u>1,981,558.34</u>
Operating Income	470,233.73	541,101.00
Non-operating Revenue (Expenses):		
Investment Income Net of Fees	8,804.96	9,300.75
Miscellaneous	(12,999.43)	(544,347.91)
Interest Expense	(366,798.00)	(353,706.95)
Connection Fees	23,506.00	2,500.00
Renewal and Replacement Expenditures	(10,797.86)	(285,035.61)
	<u>111,949.40</u>	<u>(630,188.72)</u>
Change in Net Position	111,949.40	(630,188.72)
Net Position Beginning of Fiscal Year, as Originally Stated	<u>5,744,308.70</u>	<u>7,758,562.42</u>
Restatement (See Note 11)	<u>-</u>	<u>(1,384,065.00)</u>
Net Position Beginning of Fiscal Year, As Restated	<u>5,744,308.70</u>	<u>6,374,497.42</u>
Net Position End of Fiscal Year	<u>\$ 5,856,258.10</u>	<u>\$ 5,744,308.70</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, 2015 and 2014

	<u>2015</u>	<u>2014</u> <u>(Restated)</u>
Cash Flows from Operating Activities:		
Receipts from Customers and Users	\$ 2,537,754.67	\$ 2,534,357.27
Payments for Goods and Services	(1,104,248.51)	(955,189.73)
Payments for Employee Services	(654,291.06)	(604,922.71)
Other Receipts	31,198.39	21,388.56
	<u>810,413.49</u>	<u>995,633.39</u>
Net Cash Provided by Operating Activities		
Cash Flows from Capital and Related Financing Activities:		
Receipts for Connection Fees	15,336.00	13,170.00
Principal Paid on Capital Debt	(198,202.00)	(211,293.05)
Payments for Renewal and Replacement Costs	(10,797.86)	(285,035.61)
Acquisition of Capital Assets	(374,670.36)	(192,377.14)
Interest Paid on Capital Debt	(366,798.00)	(353,706.95)
Payments and Deposits for Developers Escrow (Net)	(447.70)	(987.78)
Other Receipts	88,999.88	95,956.49
	<u>(846,580.04)</u>	<u>(934,274.04)</u>
Net Cash Used in Capital and Related Financing Activities		
Cash Flows from Investing Activities:		
Investment Income Received	8,804.96	9,300.75
	<u>8,804.96</u>	<u>9,300.75</u>
Net Cash Provided by Investing Activities		
Net Increase/(Decrease) in Cash and Cash Equivalents	(27,361.59)	70,660.10
Cash and Cash Equivalents, Beginning of Fiscal Year (Including \$2,562,398.82 and \$2,680,474.69 Reported as Restricted)	<u>5,105,169.52</u>	<u>5,034,509.42</u>
Cash and Cash Equivalents, End of Fiscal Year (Including \$2,464,223.52 and \$2,562,398.82 Reported as Restricted)	<u>\$ 5,077,807.93</u>	<u>\$ 5,105,169.52</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 470,233.73	\$ 541,101.00
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense	297,616.00	290,427.00
Pension Liability Expense - GASB 68	34,816.00	22,208.00
Changes in Assets and Liabilities:		
(Increase) Decrease in Consumer Accounts Receivable	14,466.64	34,057.59
(Increase) Decrease in Prepaid Expenses	-	124.70
Increase (Decrease) in Accounts Payable	(88,607.66)	30,432.80
Increase (Decrease) in Accrued Liabilities	818.52	4,443.41
Increase (Decrease) in Sewer Rent Overpayments	1,946.40	(971.10)
Increase (Decrease) in Compensated Absences Payable	2,575.86	(286.01)
Increase (Decrease) in OPEB Obligation	76,548.00	74,096.00
	<u>340,179.76</u>	<u>454,532.39</u>
Total Adjustments		
Net Cash Provided by Operating Activities	<u>\$ 810,413.49</u>	<u>\$ 995,633.39</u>

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 30, 2015 and 2014

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") 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, net pension liability, 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 Comparative Statements 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.

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

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

Inventories

The costs of inventories of supplies are recorded as expenditures at the time the individual items are purchased. 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 Authorities fiscal year end.

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

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

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

Expenditures are capitalized when they meet the following requirements:

- 1) Cost of \$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

A full month of depreciation is taken in the month of acquisition.

Deferred Outflows and Deferred Inflows of Resources

The comparative statements of net position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources, reported after total assets, represents a reduction of net position that applies to a future period(s) and will be recognized as an outflow of resources (expense) at that time. Deferred inflows of resources, reported after total liabilities, represents an acquisition of net position that applies to a future period(s) and will be recognized as an inflow of resources (revenue) at that time.

Transactions are classified as deferred outflows of resources and deferred inflows of resources only when specifically prescribed by the GASB standards. The Authority is required to report the following as deferred outflows of resources and deferred inflows of resources:

Defined Benefit Pension Plans – The difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension plan investments, changes in the Authority's proportion of expenses and liabilities to the pension as a whole, differences between the Authority's pension contribution and its proportionate share of contributions, and the Authority's pension contributions subsequent to the pension valuation measurement date.

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

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

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

Unearned Revenue

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

Pensions

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

Net Position

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

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

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

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

Income Taxes

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)**Operating and Non-Operating Revenues and Expenses**

Operating revenues include all revenues derived from sewer services charges, 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 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.

Accounting Estimates

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

Recently Issued and Adopted Accounting Pronouncements

For the fiscal year ended November 30, 2015, the Authority adopted GASB 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. As a result of adopting such Statements, the Authority was required to measure and recognize liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to their defined benefit pensions. The cumulative effect of adopting GASB Statements No. 68 and No. 71 totaled \$1,384,065.00, and was recognized as a restatement of the Authority's November 30, 2013 net position on the statements of net position (see note 11).

Recently Issued Accounting Pronouncements

Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Statement is effective for periods beginning after June 15, 2015. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. Components of this Statement are effective for periods beginning after June 15, 2015 and 2016. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The Statement is effective for periods beginning after June 15, 2016. Management does not expect this Statement will have an impact on the financial statements.

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

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The Statement is effective for periods beginning after June 15, 2017. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The Statement is effective for periods beginning after June 15, 2015. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose certain information about the agreements. The Statement is effective for periods beginning after December 15, 2015. Management does not expect this Statement will have an impact on the notes to the financial statements.

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The Statement is effective for periods beginning after December 15, 2015. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Management does not expect this Statement will have an impact on the notes to the financial statements.

Statement No. 80, *Blending Requirements for Certain Component Units, an amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The Statement is effective for periods beginning after June 15, 2016. Management does not expect this Statement will have an impact on the financial statements.

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

Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The Statement is effective for periods beginning after December 15, 2016. Management does not expect this Statement will have an impact on the financial statements.

Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68 and No. 73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Management has not yet determined the impact of this Statement on the financial statements.

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

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

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:

Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONT'D)**Utility System Revenue Bonds (Cont'd)****Revenue Fund (Cont'd)**

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 an 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.

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.

Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONT'D)**Utility System Revenue Bonds (Cont'd)**

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, 2015 and 2014 as defined by the Utility System Revenue Bond Resolution is as follows:

	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Utility Service Charges	\$ 2,521,341.63	\$ 2,501,270.78
Investment and Miscellaneous Income	<u>37,617.22</u>	<u>28,007.28</u>
Total Revenues	<u>2,558,958.85</u>	<u>2,529,278.06</u>
Operating Expenses:		
Administrative	626,712.80	613,408.10
Cost of Providing Services	<u>1,088,158.49</u>	<u>997,995.24</u>
Total Expenses	<u>1,714,871.29</u>	<u>1,611,403.34</u>
Excess of Revenue	844,087.56	917,874.72
110% of Current Fiscal Year's Annual Debt Service Requirement	<u>621,500.00</u>	<u>621,500.00</u>
Sufficiency of Revenues	<u>\$ 222,587.56</u>	<u>\$ 296,374.72</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.

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, 2015 and 2014, the Authority's bank balances were exposed to custodial credit risk as follows:

	<u>2015</u>	<u>2014</u>
Insured by FDIC	\$ 250,000.00	\$ 250,000.00
Insured by GUDPA	4,887,681.18	4,906,708.92
	<u>\$ 5,137,681.18</u>	<u>\$ 5,156,708.92</u>

Service Fees

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

Fiscal Year Ended <u>November 30,</u>	Beginning <u>Balance</u>	<u>Billings</u>	Total <u>Collections</u>	Percentage <u>of Collections</u>
2015	\$ 123,466.13	\$ 2,521,341.63	\$ 2,530,769.45	95.69%
2014	153,313.93	2,501,270.78	2,531,118.58	95.35%
2013	157,699.99	2,496,840.20	2,501,226.26	94.22%

The Authority's policy for allowance for doubtful accounts is to review aging history periodically and deem accounts as doubtful as necessary.

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

During the fiscal year ended November 30, 2015, the following changes in Capital Assets occurred:

	Balance Nov. 30, 2014	Additions	Deletions	Completed Projects	Balance Nov. 30, 2015
Land and Easements	\$ 57,890.00				\$ 57,890.00
Construction in Progress	86,362.64	\$ 281,440.36	\$ 3,186.00	\$ (364,617.00)	-
Utility Plant and Equipment	11,487,599.37	93,230.00	78,800.00	364,617.00	11,866,646.37
Total Utility Plant, Property and Equipment	11,631,852.01	374,670.36	81,986.00	-	11,924,536.37
Less: Accumulated Depreciation	7,644,109.00	297,616.00	70,920.00	-	7,870,805.00
Net Capital Assets	<u>\$3,987,743.01</u>	<u>\$ 77,054.36</u>	<u>\$ 11,066.00</u>	<u>\$ -</u>	<u>\$4,053,731.37</u>

During the fiscal year ended November 30, 2014, 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 and Equipment	11,497,056.34	115,294.00	444,769.11	320,018.14	11,487,599.37
Total Utility Plant, Property and Equipment	12,040,943.98	192,377.14	601,469.11	-	11,631,852.01
Less: Accumulated Depreciation	7,409,549.00	290,427.00	55,867.00	-	7,644,109.00
Net Capital Assets	<u>\$4,631,394.98</u>	<u>\$ (98,049.86)</u>	<u>\$ 545,602.11</u>	<u>\$ -</u>	<u>\$3,987,743.01</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 \$15,000.00. 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, 2015 and 2014 is estimated at \$29,539.55 and \$26,963.69, respectively.

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

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

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

General Information about the Pension Plans**Plan Descriptions**

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

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

Note 4: DETAIL NOTES – LIABILITIES (Cont'd)**Retirement Systems (Cont'd)****General Information about the Pension Plans (Cont'd)****Vesting and Benefit Provisions**

Public Employees' Retirement System - The vesting and benefit provisions are set by N.J.S.A. 43:15A and 43:3B. The PERS provides retirement, death and disability benefits. All benefits vest after 8 to 10 years of service, except for medical benefits, which vest after 25 fiscal years of service or under the disability provisions of the PERS.

The following represents the membership tiers for PERS:

Tier Definition

- | | |
|---|--|
| 1 | Members who were enrolled prior to July 1, 2007 |
| 2 | Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008 |
| 3 | Members who were eligible to enroll on or after November 2, 2008 and prior to May 21, 2010 |
| 4 | Members who were eligible to enroll after May 21, 2010 and prior to June 28, 2011 |
| 5 | Members who were eligible to enroll on or after June 28, 2011 |

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

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

Note 4: DETAIL NOTES – LIABILITIES (Cont'd)**Retirement Systems (Cont'd)****General Information about the Pension Plans (Cont'd)****Contributions**

Public Employees' Retirement System - The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Members contribute at a uniform rate. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in July 2012. The member contribution rate was 6.78% in State fiscal year 2014. The phase-in of the additional incremental member contribution rate takes place in July of each subsequent State fiscal year. The rate for members who are eligible for the Prosecutors Part of PERS (Chapter 366, P.L. 2001) increased from 8.5% of base salary to 10%. Employers' contribution amounts are based on an actuarially determined rate. The Authority's contribution amounts are based on an actuarially determined rate which included the normal cost and unfunded accrued liability.

The Authority's contractually required contribution rate for the fiscal years ended November 30, 2015 and 2014 was 10.83% and 11.95% of the Authority's covered-employee payroll. This amount was actuarially determined as the amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the fiscal year, including an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$62,548.00 and \$63,373.00 for the fiscal years ended November 30, 2015 and 2014. Employee contributions were \$40,706.78 and \$36,566.63 for the fiscal years ended November 30, 2015 and 2014, respectively.

Defined Contribution Retirement Program – The contribution policy is set by N.J.S.A. 43:15C-3 and requires contributions by active members and contributing employers. In accordance with Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, plan members are required to contribute 5.5% of their annual covered salary. In addition to the employee contributions, the Authority's contribution amounts for each pay period, 3% of the employees' base salary, 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.

For the fiscal years ended November 30, 2015 and 2014, employee contributions totaled \$26.85 and \$58.82. The Authority's contributions were \$49.22 and \$107.84 for the fiscal years ended November 30, 2015 and 2014, respectively. There were no forfeitures during the fiscal year.

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

Public Employees' Retirement System – At November 30, 2015, the Authority reported a liability of \$1,633,157.00 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The total pension liability was calculated through the use of updated procedures to roll forward from the actuarial valuation date to the measurement date of June 30, 2015. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the Authority's proportion was 0.0072752921%, which was a decrease of 0.0004120088% from its proportion measured as of June 30, 2014.

For the fiscal years ended November 30, 2015 and 2014, the Authority recognized pension expense of \$98,185.00 and \$80,224.00, respectively.

Deferred Outflows of Resources and Deferred Inflows of Resources - At November 30, 2015 and 2014, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>November 30, 2015</u>		<u>November 30, 2014</u>	
	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between Expected and Actual Experience	\$ 38,961.00			
Changes of Assumptions	175,388.00		\$ 45,258.00	
Net Difference between Projected and Actual Earnings on Pension Plan Investments		\$ 26,258.00		\$ 85,773.00
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions	21,827.00	65,445.00	26,745.00	
Authority Contributions Subsequent to the Measurement Date	26,062.00		26,062.00	
	<u>\$ 262,238.00</u>	<u>\$ 91,703.00</u>	<u>\$ 98,065.00</u>	<u>\$ 85,773.00</u>

The deferred outflows of resources related to pensions totaling \$26,062.00 and \$26,062.00 will be included as a reduction of the net pension liability in the fiscal years ended November 30, 2016 and 2015.

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

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

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

Note 4: DETAIL NOTES – LIABILITIES (Cont'd)

Retirement Systems (Cont'd)

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

Deferred Outflows of Resources and Deferred Inflows of Resources (Cont'd) - Other amounts included as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in future periods as follows:

<u>November 30, 2015</u>		<u>November 30, 2014</u>	
<u>Year Ending November 30,</u>		<u>Year Ending November 30,</u>	
2016	\$ 25,453.00	2015	\$ (8,207.00)
2017	25,453.00	2016	(8,207.00)
2018	25,452.00	2017	(8,207.00)
2019	46,896.00	2018	(8,208.00)
2020	<u>21,219.00</u>	2019	13,236.00
		Thereafter	<u>5,823.00</u>
	<u>\$ 144,473.00</u>		<u>\$ (13,770.00)</u>

Actuarial Assumptions

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

	<u>PERS</u>
Inflation	3.04%
Salary Increases:	
2012-2021	2.15% - 4.40% Based on Age
Thereafter	3.15% - 5.40% Based on Age
Investment Rate of Return	7.90%
Mortality Rate Table	RP-2000
Period of Actuarial Experience	
Study upon which Actuarial	
Assumptions were Based	July 1, 2008 - June 30, 2011

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirement and beneficiaries of former members with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA. The RP-2000 Disabled Mortality Tables (setback 3 years for males and setback 1 year for females) are used to value disabled retirees.

Note 4: DETAIL NOTES – LIABILITIES (Cont'd)**Retirement Systems (Cont'd)****Actuarial Assumptions (Cont'd)**

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pension and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of returns for each major asset class included in PERS's target asset allocation as of June 30, 2015 is summarized in following table.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	1.04%
U.S. Treasuries	1.75%	1.64%
Investment Grade Credit	10.00%	1.79%
Mortgages	2.10%	1.62%
High Yield Bonds	2.00%	4.03%
Inflation-Indexed Bonds	1.50%	3.25%
Broad U.S. Equities	27.25%	8.52%
Developed Foreign Equities	12.00%	6.88%
Emerging Market Equities	6.40%	10.00%
Private Equity	9.25%	12.41%
Hedge Funds / Absolute Return	12.00%	4.72%
Real Estate (Property)	2.00%	6.83%
Commodities	1.00%	5.32%
Global Debt ex U.S.	3.50%	-0.40%
REIT	4.25%	5.12%
	<u>100.00%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 4.90% as of June 30, 2015 and 5.39% as of June 30, 2014. These single blended discount rates were based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 3.80% as of June 30, 2015 and long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 4.29% as of June 30, 2014, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/ Aa or higher. The projection of cash flows used to determine the discount rates assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five fiscal years. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Note 4: DETAIL NOTES – LIABILITIES (Cont'd)**Retirement Systems (Cont'd)****Sensitivity of Authority's Proportionate Share of Net Pension Liability to Changes in the Discount Rate**

Public Employees' Retirement System (PERS) - The following presents the Authority's proportionate share of the net pension liability at June 30, 2015, the plans measurement date, calculated using a discount rate of 4.90%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rates used:

	1% Decrease (3.90%)	Current Discount Rate (4.90%)	1% Increase (5.90%)
Authority's Proportionate Share of the Net Pension Liability	<u>\$ 2,029,815.00</u>	<u>\$ 1,633,157.00</u>	<u>\$ 1,300,603.00</u>

The following presents the Authority's proportionate share of the net pension liability at June 30, 2014 calculated using a discount rate of 5.39%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rates used:

	1% Decrease (4.39%)	Current Discount Rate (5.39%)	1% Increase (6.39%)
Authority's Proportionate Share of the Net Pension Liability	<u>\$ 1,810,654.00</u>	<u>\$ 1,439,273.00</u>	<u>\$ 1,127,407.00</u>

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued New Jersey Division of Pension and Benefits financial report. Information on where to obtain the report is indicated at the beginning of this note.

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.

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

Funding Policy - The contribution requirement of the Authority is established by the policy of the Authority and certain employment contracts and may be amended as deemed necessary. The required contribution is based on projected pay-as-you-go financing requirements. For the fiscal years 2015, 2014 and 2013, the Authority contributed \$6,396, \$3,784 and \$10,637, respectively to the TPPB Plan for current premiums. Plan members are not required to make any contributions to the plan.

Annual OPEB Cost and Net OPEB Obligation - The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that 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>2015</u>	<u>2014</u>	<u>2013</u>
Annual Required Contribution (ARC)	\$ 81,200	\$ 77,000	\$ 60,500
Interest on the Net OPEB Obligation	8,144	5,180	9,595
Adjustment to the ARC	(6,400)	(4,300)	(6,880)
	<hr/>	<hr/>	<hr/>
Annual OPEB Cost	82,944	77,880	63,215
Pay-as-You Go Cost (Existing Retirees)	(6,396)	(3,784)	(10,637)
	<hr/>	<hr/>	<hr/>
Increase in the Net OPEB Obligation	76,548	74,096	52,578
Net OPEB Obligation - Beginning of year	203,596	129,500	76,922
	<hr/>	<hr/>	<hr/>
Net OPEB Obligation - End of year	\$ 280,144	\$ 203,596	\$ 129,500
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Percentage of Annual OPEB Cost Contributed	7.7%	4.9%	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.

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

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

	<u>2013</u>	<u>2010</u>	<u>2008</u>
Actuarial Accrued Liability (AAL)	\$ 894,000	\$ 980,000	\$ 906,100
Actuarial Value of Plan Assets	-	-	
Unfunded Actuarial Accrued Liability (UAAL)	<u>\$ 894,000</u>	<u>\$ 980,000</u>	<u>\$ 906,100</u>
Funded Ratio (Actuarial Value of Plan Assets / AAL)	0.0%	0.0%	0.0%
Covered Payroll (Active Plan Members)	\$ 265,000	\$ 250,000	\$ 210,600
UAAL as a Percentage of Covered Payroll	337.4%	392.0%	430.2%

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, 2015:

<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	\$ 836,951.45
Less: Current maturities included in current liabilities					<u>(187,551.75)</u>
Balance at November 30, 2015					<u>\$ 649,399.70</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>
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>\$ 836,951.45</u>	<u>\$ 1,988,048.55</u>	<u>\$ 2,825,000.00</u>

Changes in Outstanding Debt

	<u>Balance Nov. 30, 2014</u>	<u>Paid</u>	<u>Balance Nov. 30, 2015</u>
Sewer Refunding Bonds, Series 1996	\$ 1,035,153.45	\$ 198,202.00	\$ 836,951.45
Total	<u>\$ 1,035,153.45</u>	<u>\$ 198,202.00</u>	<u>\$ 836,951.45</u>

Note 5: DETAIL NOTES – DEFERRED INFLOWS OF RESOURCES**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, 2015 and 2014, \$23,506.00 and \$2,500.00 respectively was recognized as revenue from users connected to the system while \$5,000.00 and \$13,170.00 were recorded as deferred revenue, respectively.

Note 6: DETAIL NOTES – NET POSITION**Net Position Appropriated**

As of November 30, 2015, the Authority had a balance in unrestricted net position of \$800,974.92 of which \$290,662.00 has been appropriated and included as support in the operating budget for the fiscal year ending November 30, 2016.

As of November 30, 2014, the Authority had a balance in unrestricted net position, as restated, of \$932,201.11 of which \$232,593.00 has been appropriated and included as support in the operating budget for the fiscal year ending November 30, 2015.

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 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 2015, the computation was as follows:

Cash Revenues	\$ 2,568,641.43
Operating Expenses	<u>1,628,827.72</u>
Excess/(Deficit)	<u>\$ 939,813.71</u>

Commitments

The Authority has no outstanding or planned construction projects as of November 30, 2015.

Litigation

The Authority is not a defendant in any legal proceeding or is 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, 2015, 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

Note 9: RISK MANAGEMENT**New Jersey Unemployment Compensation Insurance**

The Authority has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method." Under this plan, the Authority is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The Authority is billed quarterly for amounts due to the State.

<u>Fiscal Year Ended Nov 30,</u>	<u>Investment Income</u>	<u>Authority Contributions</u>	<u>Employee Contributions</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
2015	\$ 74.54	\$ 4,000.00	\$ 1,038.06	\$ 6,321.49	\$ 49,628.17
2014	77.15	4,000.00	934.20	-	50,837.06
2013	159.04	4,000.00	870.10	-	45,825.71

Self-Insurance Health Benefits Plan

The Authority is in a self-insured plan for the reimbursement to employees for approved medical and prescription claims. The claims are on the incurred method basis. The program is administered by a private third-party agency. Terms of the plan require the Authority to pay an accumulated amount not to exceed \$40,000.00 of claims for each employee in any given year. Amounts in excess of \$40,000.00 are covered by a commercial insurance policy.

Note 10: INTERFUNDS RECEIVABLE AND PAYABLE

Covenants of the Bond Resolution require certain accounts upon cascading of the funds to contain specific amounts. Therefore, the Interfunds on November 30, 2015 as presented below should be reviewed by the trustee and are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Revenue Fund:		
Due From Construction Fund	\$ 427,071.68	
Due From Renewal and Replacement Fund	235,362.19	
Due From Bond Service Fund	374,165.39	
Due From Bond Reserve Fund	44,425.15	
Renewal and Replacement Fund:		
Due To Revenue Fund		\$ 235,362.19
Due To Construction Fund		64,784.00
Bond Reserve Fund:		
Due To Revenue Fund		44,425.15
Bond Service Fund:		
Due To Revenue Fund		374,165.39
Construction Fund:		
Due From Renewal and Replacement Fund	64,784.00	
Due To Revenue Fund		427,071.68
Total	<u>\$ 1,145,808.41</u>	<u>\$ 1,145,808.41</u>

Note 11: RESTATEMENT OF NET POSITION

As indicated in note 1 to the financial statements, the Authority adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, for the fiscal year ended November 30, 2013. As a result of implementing these two Statements, a restatement of unrestricted net position on the comparative statements of revenues, expenses and changes in net position was required to record the Authority's proportionate share of its net pension liability. In addition, there was a change in the Authority's other postemployment benefit (OPEB) plan which also resulted in a restatement of net position for the fiscal year ended November 30, 2013.

The cumulative effect on the financial statements as reported for November 30, 2013 is as follows:

	<u>GASBS 68 and 71 Implementation</u>					<u>As Restated November 30, 2013</u>
	<u>As Previously Reported November 30, 2013</u>	<u>Deferred Outflows (1)</u>	<u>Accounts Payable and Accrued Expense (2)</u>	<u>Net Pension Liability (3)</u>	<u>Change in OPEB Plan</u>	
Net Position:						
Net Investment						
in Capital Assets	\$ 3,596,241.53					\$ 3,596,241.53
Restricted	1,807,216.55					1,807,216.55
Unrestricted (Deficit)	<u>2,355,104.34</u>	<u>\$ 26,405.42</u>	<u>\$ (83,079.42)</u>	<u>\$(1,437,534.00)</u>	<u>\$ 110,143.00</u>	<u>971,039.34</u>
Total Net Position	<u>\$ 7,758,562.42</u>	<u>\$ 26,405.42</u>	<u>\$ (83,079.42)</u>	<u>\$(1,437,534.00)</u>	<u>\$ 110,143.00</u>	<u>\$ 6,374,497.42</u>

(1) Represents the Authority's Proportionate Share of the PERS Plan Total Deferred Outflows of Resources at June 30, 2013 plus an Accrual for the Authority's June 30, 2014 PERS Plan Required Contribution (April 1, 2015 PERS Pension Invoice), Contribution Subsequent to the Measurement Date.

(2) Represents the Authority's Accounts Payable for the June 30, 2013 PERS Plan Required Contribution (April 1, 2014 PERS Pension Invoices), plus an Accrual for the Authority's June 30, 2014 PERS Plan Required Contribution (April 1, 2015 PERS Pension Invoice).

(3) Represents the Authority's Proportionate Share of the PERS, June 30, 2013 Net Pension Liability.

Note 11: RESTATEMENT OF NET POSITION (CONT'D)

GASB Statement 68 and GASB Statement No. 71 implementation and OPEB plan change required prior fiscal year restatement when comparative statements are presented. The following represents the cumulative effects of the restatement on the respective financial statement balances of the Authority for the fiscal year ended November 30, 2014:

Statement of Net Position - November 30, 2014

	<u>Previously Reported</u>	<u>Cumulative Effect - Increase / (Decrease)</u>	<u>Restated Balance</u>
DEFERRED OUTFLOWS OF RESOURCES			
Related to Pensions	\$ -	\$ 98,065.00	\$ 98,065.00
LIABILITIES			
Current Liabilities Payable from Unrestricted Assets:			
Accounts Payable - Related to Pension	-	63,373.00	63,373.00
Total Current Liabilities Payable from Unrestricted Assets	585,095.84	63,373.00	648,468.84
Total Current Liabilities	869,240.97	63,373.00	932,613.97
Long-term Liabilities:			
Net OPEB Obligation	297,459.00	(93,863.00)	203,596.00
Net Pension Liability	-	1,439,273.00	1,439,273.00
Accrued Liabilities - Related to Pension	-	26,062.00	26,062.00
Total Long-term Liabilities	1,161,374.14	1,371,472.00	2,532,846.14
Total Liabilities	2,030,615.11	1,434,845.00	3,465,460.11
DEFERRED INFLOWS OF RESOURCES			
Related to Pensions	-	85,773.00	85,773.00
Total Deferred Inflows of Resources	13,170.00	85,773.00	98,943.00
NET POSITION			
Unrestricted	2,354,754.11	(1,422,553.00)	932,201.11
Total Net Position	7,166,861.70	(1,422,553.00)	5,744,308.70

Note 11: RESTATEMENT OF NET POSITION (CONT'D)

GASB Statement 68 and GASB Statement No. 71 implementation and OPEB plan change required prior fiscal year restatement when comparative statements are presented. The following represents the cumulative effects of the restatement on the respective financial statement balances of the Authority for the fiscal year ended November 30, 2014 (Cont'd):

Statement of Revenues, Expenses and Changes in Net Position - November 30, 2014

	<u>Previously Reported</u>	<u>Cumulative Effect - Increase / (Decrease)</u>	<u>Restated Balance</u>
Operating Expenses:			
Administration:			
Fringe Benefits	\$ 165,275.90	\$ 36,559.96	\$ 201,835.86
Cost of Providing Service:			
Fringe Benefits	190,914.86	(20,279.96)	170,634.90
Pension Liability Expense - GASB 68	-	22,208.00	22,208.00
Total Operating Expenses	1,943,070.34	38,488.00	1,981,558.34
Operating Income	579,589.00	(38,488.00)	541,101.00
Change in Net Position	(591,700.72)	(38,488.00)	(630,188.72)
Net Position - Beginning	7,758,562.42	(1,384,065.00)	6,374,497.42
Net Position - Ending	7,166,861.70	(1,422,553.00)	5,744,308.70

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%	\$ 210,600	430.2%

SCHEDULE RSI-2

Required Supplementary Information
 Schedule of Employer Contributions

<u>Fiscal Year Ended November 30,</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>
2015	\$ 81,200.00	7.7%
2014	77,000.00	4.9%
2013	60,500.00	16.8%

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
 Required Supplementary Information
 Schedule of the Authority's Proportionate Share of the Net Pension Liability
 Public Employees' Retirement System (PERS)
 Last Three Years

	<u>Measurement Date Ending June 30,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Authority's Proportion of the Net Pension Liability	0.0072752921%	0.0076873009%	0.0075216372%
Authority's Proportionate Share of the Net Pension Liability	\$ 1,633,157.00	\$ 1,439,273.00	\$ 1,437,534.00
Authority's Covered-Employee Payroll	\$ 540,436.00	\$ 532,544.00	\$ 518,856.00
Authority's Proportionate Share of the Net Pension Liability as a Percentage of it's Covered-Employee Payroll	302.19%	270.26%	277.06%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	47.93%	52.08%	48.72%

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

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
 Required Supplementary Information
 Schedule of the Authority's Contributions
 Public Employees' Retirement System (PERS)
 Last Three Years

	<u>Fiscal Year Ended November 30,</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$ 62,548.00	\$ 63,373.00	\$ 56,674.00
Contributions in Relation to the Contractually Required Contribution	<u>(62,548.00)</u>	<u>(63,373.00)</u>	<u>(56,674.00)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's Covered-Employee Payroll	\$ 577,552.00	\$ 530,323.00	\$ 527,976.00
Contributions as a Percentage of Authority's Covered-Employee Payroll	10.83%	11.95%	10.73%

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

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY

Notes to Required Supplementary Information
For the Fiscal Year Ended November 30, 2015

Note 1: OTHER POSTEMPLOYMENT BENEFITS

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

Valuation Date	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.

Note 2: POSTEMPLOYMENT BENEFITS - PENSION

Public Employees' Retirement System (PERS)

Changes in Benefit Terms - None

Changes in Assumptions - The discount rate changed from 5.39% as of June 30, 2014, to 4.90% as of June 30, 2015, in accordance with Paragraph 44 of GASB Statement No. 67.

SUPPLEMENTARY SCHEDULES

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
Combining Schedule of Revenue, Expenses and Changes in Net Position
For the Fiscal Year Ended November 30, 2015

	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	\$ 2,521,341.63							\$ 2,521,341.63
Other Revenue	31,198.39							31,198.39
	2,552,540.02	-	-	-	-	-	-	2,552,540.02
Operating Expenses:								
Administration	684,908.83							684,908.83
Cost of Providing Services	1,064,965.46							1,064,965.46
Pension Liability Expense - GASB 68	34,816.00							34,816.00
Depreciation							\$ 297,616.00	297,616.00
	1,784,690.29	-	-	-	-	-	297,616.00	2,082,306.29
Operating Income (Loss)	767,849.73	-	-	-	-	-	(297,616.00)	470,233.73
Non-operating Revenue (Expenses):								
Investment Income	6,418.83	\$ 1,203.35			\$ 1,108.24	\$ 74.54		8,804.96
Interest Expense	(366,798.00)							(366,798.00)
Employee Contributions						1,038.06		1,038.06
Connection Fees					23,506.00			23,506.00
Renewal and Replacement Fund Expenditures	(37,545.00)	(347,923.22)					374,670.36	(10,797.86)
Miscellaneous		3,000.00			350.00	(6,321.49)	(11,066.00)	(14,037.49)
Net Income (Loss) Before Transfers	369,925.56	(343,719.87)	-	-	24,964.24	(5,208.89)	65,988.36	111,949.40
Transfers and Adjustments:								
Budget Contribution	(304,000.00)	300,000.00				4,000.00		
Between Funds - Net	(187,551.75)						187,551.75	
Increase (Decrease) in Net Position	(121,626.19)	(43,719.87)	-	-	24,964.24	(1,208.89)	253,540.11	111,949.40
Net Position December 1, 2014, (Restated)	1,397,901.11	284,404.79	\$ 565,000.00	\$ 47,100.00	248,274.18	50,837.06	3,150,791.56	5,744,308.70
Net Position November 30, 2015								
Net Investment in Capital Assets							\$ 3,404,331.67	\$ 3,404,331.67
Restricted	\$ 475,300.00	\$ 240,684.92	\$ 565,000.00	\$ 47,100.00	\$ 273,238.42	\$ 49,628.17		1,650,951.51
Unrestricted	800,974.92							800,974.92

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
 Schedule of Cash Receipts and Disbursements
 For the Fiscal Year Ended November 30, 2015

	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, 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	
Receipts:									
Investment Income	3,971.62	1,203.35	1,224.22	1,222.99	1,108.24	74.54	9.80	8,814.76	
Investment Income on Benefit Claims	755.57							755.57	
Sewer Fees and Penalties	2,527,410.15							2,527,410.15	
Sewer Rent Overpayments	5,305.70							5,305.70	
Other Operating Revenue	31,198.39							31,198.39	
Connection Fees					15,336.00			15,336.00	
Budget Reimbursements	46,502.08							46,502.08	
Miscellaneous		3,000.00			350.00	1,038.06		4,388.06	
Transfers		300,000.00				4,000.00		304,000.00	
Total Cash and Cash Equivalents Available	5,157,914.21	967,618.49	609,425.15	608,817.14	640,526.10	57,490.37	7,088.77	8,048,880.23	
Disbursements:									
Operating Expenses	1,562,691.73							1,562,691.73	
Accounts Payable	75,093.07	78,864.16						153,957.23	
Bond Principal	198,202.00							198,202.00	
Interest on Debt - Sewer Revenue Bonds	366,798.00							366,798.00	
Renewal and Replacement Expenses	37,545.00	341,099.35						378,644.35	
Escrow Disbursements							457.50	457.50	
Unemployment Disbursements						6,321.49		6,321.49	
Transfers	304,000.00							304,000.00	
Total Disbursements	2,544,329.80	419,963.51	-	-	-	6,321.49	457.50	2,971,072.30	
Cash and Cash Equivalents:									
Balance November 30, 2015	\$ 2,613,584.41	\$ 547,654.98	\$ 609,425.15	\$ 608,817.14	\$ 640,526.10	\$ 51,168.88	\$ 6,631.27	\$ 5,077,807.93	

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, 2015

	Adopted Budget	Amendments/ Transfers	Amended Budget	2014-2015 Actual	Variance Favorable (Unfavorable)
Operating Revenues:					
Service Charges	\$ 2,460,001.00		\$ 2,460,001.00	\$ 2,521,341.63	\$ 61,340.63
Other Revenues	10,000.00		10,000.00	31,198.39	21,198.39
Interest Income	5,000.00		5,000.00	6,418.83	1,418.83
	<u>2,475,001.00</u>	-	<u>2,475,001.00</u>	<u>2,558,958.85</u>	<u>83,957.85</u>
Operating Appropriations:					
Administrative:					
Salaries and Wages:					
Board Members' Salaries	14,173.00		14,173.00	13,759.20	413.80
Office Salaries	304,920.00		304,920.00	309,212.86	(4,292.86)
Fringe Benefits:					
Social Security	24,411.00		24,411.00	24,757.04	(346.04)
Health Insurance	150,000.00		150,000.00	108,014.63	41,985.37
Dental Insurance	9,520.00		9,520.00	5,967.85	3,552.15
Group Life Insurance	2,300.00		2,300.00	1,565.20	734.80
Unemployment Insurance	2,000.00		2,000.00	2,000.00	-
PERS - Pension	35,000.00		35,000.00	31,686.50	3,313.50
Miscellaneous	3,000.00		3,000.00	1,364.74	1,635.26
Other Expenses:					
Legal Fees	35,300.00		35,300.00	26,293.54	9,006.46
Audit Fees / Financial Services	28,600.00		28,600.00	29,243.70	(643.70)
Engineer Fees	20,000.00		20,000.00	-	20,000.00
Billing Expenses	7,000.00		7,000.00	1,137.00	5,863.00
Computer Software Service	11,800.00		11,800.00	7,005.25	4,794.75
Computer Repairs	6,000.00		6,000.00	748.50	5,251.50
Office Supplies	14,000.00		14,000.00	4,131.61	9,868.39
Postage	8,000.00		8,000.00	4,170.38	3,829.62
Petty Cash	1,200.00		1,200.00	447.28	752.72
Seminars and Conferences	2,500.00		2,500.00	1,683.00	817.00
Trustee Fees	15,000.00		15,000.00	11,581.90	3,418.10
Authority Insurance - Casualty	55,000.00		55,000.00	48,392.92	6,607.08
Interlocal Agreement - Finance Services	8,000.00		8,000.00	8,000.00	-
Miscellaneous	7,000.00		7,000.00	8,987.44	(1,987.44)
Total Administrative	<u>764,724.00</u>	-	<u>764,724.00</u>	<u>650,150.54</u>	<u>114,573.46</u>
Cost of Service:					
Salaries and Wages	312,930.00		312,930.00	334,713.38	(21,783.38)
Fringe Benefits:					
Social Security	23,940.00		23,940.00	23,058.41	881.59
Health Insurance	95,500.00		95,500.00	93,408.79	2,091.21
Unemployment Insurance	2,000.00		2,000.00	2,000.00	-
PERS - Pension	35,000.00		35,000.00	31,686.50	3,313.50
Other Expenses:					
Sodium Hypochlorite	17,000.00		17,000.00	11,473.63	5,526.37
Odor Control	5,000.00		5,000.00	173.73	4,826.27
Grease & Grit Removal	7,000.00		7,000.00	6,239.58	760.42
Gasoline	14,000.00		14,000.00	7,291.83	6,708.17
Diesel Fuel	2,000.00		2,000.00	925.78	1,074.22
Natural Gas	8,000.00		8,000.00	8,669.09	(669.09)
Engineering Fees	15,000.00		15,000.00	5,706.78	9,293.22
Electric	175,000.00	\$ (1,160.00)	173,840.00	162,926.57	10,913.43
Commercial Lab/Sludge	35,000.00		35,000.00	38,964.97	(3,964.97)
Communications	4,000.00		4,000.00	11,518.07	(7,518.07)
VFD Contract	21,000.00		21,000.00	15,783.40	5,216.60
Mechanical Equipment Contract	50,000.00		50,000.00	31,429.27	18,570.73
Transportation Maintenance	4,000.00		4,000.00	8,157.61	(4,157.61)
Plant Equipment Maintenance	5,000.00		5,000.00	6,269.90	(1,269.90)

(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, 2015

	Adopted Budget	Amendments/ Transfers	Amended Budget	2014-2015 Actual	Variance Favorable (Unfavorable)
Cost of Service (Cont'd):					
Pump Maintenance	\$ 5,000.00		\$ 5,000.00	\$ 489.30	\$ 4,510.70
Maintenance (Paint, Tools, Etc.)	2,000.00		2,000.00	1,725.27	274.73
Collection System Supplies	14,000.00		14,000.00	27,822.68	(13,822.68)
Pumping Station Supplies	5,000.00		5,000.00	12,804.51	(7,804.51)
Plant Supplies	15,000.00		15,000.00	14,764.49	235.51
Plant Operating Permit	23,000.00		23,000.00	25,231.90	(2,231.90)
Plant Miscellaneous	1,500.00		1,500.00	4,522.94	(3,022.94)
Water	1,000.00		1,000.00	2,313.76	(1,313.76)
Sludge Disposal Liquid	160,000.00		160,000.00	148,646.70	11,353.30
Generator Maintenance	4,000.00		4,000.00	5,162.00	(1,162.00)
Safety Equipment	6,000.00		6,000.00	12,899.14	(6,899.14)
Plant Other	4,000.00		4,000.00	1,640.58	2,359.42
Miscellaneous	1,000.00		1,000.00	879.39	120.61
Lawn Maintenance	5,000.00	\$ 1,160.00	6,160.00	5,420.80	739.20
Total Cost of Service	1,077,870.00	-	1,077,870.00	1,064,720.75	13,149.25
Total Operating Appropriations	1,842,594.00	-	1,842,594.00	1,714,871.29	127,722.71
Principal Payments on Debt Service in Lieu of Depreciation	198,202.00	-	198,202.00	198,202.00	-
Non-Operating Appropriations:					
Interest on Debt	366,798.00		366,798.00	366,798.00	-
Renewal & Replacement Reserves	300,000.00		300,000.00	300,000.00	-
Total Non-Operating Appropriations	666,798.00	-	666,798.00	666,798.00	-
Total Operating, Principal Payments and and Non-Operating Appropriations	2,707,594.00	-	2,707,594.00	2,579,871.29	127,722.71
Unrestricted Net Position Utilized	232,593.00		232,593.00		232,593.00
Total Appropriations and Unrestricted Net Position	2,475,001.00	-	2,475,001.00	2,579,871.29	(104,870.29)
Deficit of Revenues Over Expenditures	\$ -	\$ -	\$ -	\$ (20,912.44)	\$ (20,912.44)
<u>Reconciliation to Operating Income</u>					
Deficit of Revenues Over Expenditures					\$ (20,912.44)
Add:					
Unemployment Insurance Contribution				\$ 4,000.00	
Capitalized Budget Expenses				37,545.00	
Renewal & Replacement Reserve				300,000.00	
Bond Principal				198,202.00	
Interest on Debt				366,798.00	
					906,545.00
					885,632.56
Less:					
Interest Income				6,418.83	
Change in OPEB Liability				76,548.00	
Pension Liability Expense - GASB 68				34,816.00	
Depreciation				297,616.00	
					415,398.83
Operating Income (Exhibit B)					\$ 470,233.73

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
 Schedule of Consumer Accounts Receivable
 For the Fiscal Year Ended November 30, 2015

Balance December 1, 2014		\$ 123,466.13
Add:		
Sewer Rental Charges Net of Adjustments		2,521,341.63
		2,644,807.76
Less:		
Collections	\$ 2,527,410.15	
Overpayments Applied	3,359.30	
		2,530,769.45
Balance November 30, 2015		\$ 114,038.31
<u>Summary</u>		
Balance November 30, 2015		\$ 114,038.31
Less Allowance for Doubtful Accounts		10,770.67
Net Accounts Receivable (Exhibit A)		\$ 103,267.64

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
 Analysis of Capital Assets
 For the Fiscal Year Ended November 30, 2015

	Balance Dec. 1, 2014	Additions	Deletions	Completed Projects	Balance Nov. 30, 2015
Land	\$ 57,890.00				\$ 57,890.00
Construction in Progress	86,362.64	\$ 281,440.36	\$ 3,186.00	\$ (364,617.00)	-
Utility Plant and Other Infrastructure	11,487,599.37	93,230.00	78,800.00	364,617.00	11,866,646.37
	11,631,852.01	374,670.36	81,986.00	-	11,924,536.37
Less: Accumulated Depreciation	7,644,109.00	297,616.00	70,920.00	-	7,870,805.00
	<u>\$ 3,987,743.01</u>	<u>\$ 77,054.36</u>	<u>\$ 11,066.00</u>	<u>\$ -</u>	<u>\$ 4,053,731.37</u>

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
Schedule of Sewer Rent Overpayments
For the Fiscal Year Ended November 30, 2015

Balance December 1, 2014	\$ 3,359.30
Add:	
Receipts	<u>5,305.70</u>
	8,665.00
Less:	
Realized as Revenue	<u>3,359.30</u>
Balance November 30, 2015	<u><u>\$ 5,305.70</u></u>

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
 Schedule of Revenue Bonds Payable
 For the Fiscal Year Ended November 30, 2015

<u>Purpose</u>	<u>Date of Issue</u>	<u>Original Issue</u>	<u>Maturities of Bonds Outstanding November 30, 2015</u>		<u>Interest Rate</u>	<u>Balance Dec. 1, 2014</u>	<u>Paid</u>	<u>Balance Nov. 30, 2015</u>
			<u>Date</u>	<u>Amount</u>				
Refunding Sewer Revenue Bonds, Series 1996	11-1-96	\$ 6,789,566.00	11/01/16	\$ 187,551.75	5.60%	\$ 1,035,153.45	\$ 198,202.00	\$ 836,951.45
			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>\$ 836,951.45</u>				

THE PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
PART II
FINDINGS AND RECOMMENDATIONS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2015

**PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
Schedule of Findings and Recommendations
For the Fiscal Year Ended November 30, 2015**

Schedule of Financial Statement Findings

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

None

PENNSVILLE TOWNSHIP SEWERAGE AUTHORITY
Summary Schedule of Prior Year Findings and Recommendations
as Prepared by Management

This section identifies the status of prior year findings related to the financial statements that are required to be reported in accordance with Government Auditing Standards and with the audit requirements as prescribed by the Bureau of Authority Regulations, Division of Local Governmental Services, Department of Community Affairs, State of New Jersey.

None

APPRECIATION

We express our appreciation for the courtesies extended and assistance rendered to us during the course of this audit.

Respectfully submitted,

Bowman & Company LLP

BOWMAN & COMPANY LLP
Certified Public Accountants
& Consultants