

SOUTH TOMS RIVER SEWERAGE AUTHORITY
(A Component Unit of the Borough of South Toms River,
County of Ocean, State of New Jersey)

Financial Statements and Supplementary Schedules

For the year ended December 31, 2016

(With Independent Auditor's Report thereon)

SOUTH TOMS RIVER SEWERAGE AUTHORITY
(A Component Unit of the Borough of South Toms River,
County of Ocean, State of New Jersey)
Financial Statements and Supplementary Schedules
December 31, 2016

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners of
South Toms River Sewerage Authority

Report on the Financial Statements

We have audited the accompanying financial statements of business-type activities of the South Toms River Sewerage Authority, a component unit of the Borough of South Toms River, County of Ocean, State of New Jersey, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with 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 standards prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the South Toms River Sewerage Authority, a component unit of the Borough of South Toms River, County of Ocean as of December 31, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Toms River Sewerage Authority's basic financial statements. The other supplemental information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The supplemental information, referred to in the preceding paragraph, is the responsibility of management and was 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2017, on our consideration of the South Toms River Sewerage Authority's internal control over financial reporting and 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 the 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 South Toms River Sewerage Authority's internal control over financial reporting and compliance.

HOLMAN FRENIA ALLISON

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

April 12, 2017
Toms River, New Jersey



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**INDEPENDENT AUDITOR'S 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**

The Board of Commissioners of
South Toms River Sewerage Authority

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 audit requirements as prescribed by Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the business-type activities of the Authority as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated April 12, 2017. Our report on the financial statements was modified to indicate that the financial statements were not prepared and presented in accordance with accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 Authority's financial statements are free of 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 one instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and audit requirements as prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs State of New Jersey as finding number 2016-001.

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 Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Audit Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HOLMAN FRENIA ALLISON

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

April 12, 2017
Toms River, New Jersey

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the South Toms River Sewerage Authority's (the Authority) financial activities for the fiscal year ended December 31, 2016 and as compared to the prior year. It should be read in conjunction with the accompanying financial statements.

Financial Statements

The financial statements included on this report are the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows as of and for the years ended December 31, 2016 and 2015.

The Statements of Net Position show the financial position of the Authority at December 31st of each year. Assets and Deferred Outflow of Resources are compared with liabilities and Deferred Inflow of Resources and Net Position is the result.

The Statements of Revenues, Expenses and Changes in Net Position measure performance for each year and how this performance impacts the net assets of the Authority.

Finally, the Statements of Cash Flows demonstrates why cash balances increased or decreased during the two years shown on this report.

Financial Analysis

The Authority at December 31, 2016 has total assets and deferred outflow of resources of \$3,967,769 compared to \$3,996,129 at December 31, 2015. The increase can be primarily attributed to the prior period adjustment due to GASB 68.

The Authority at December 31, 2016 has total liabilities and deferred inflow of resources of \$282,697 compared to \$215,881 at December 31, 2015. This decrease can be primarily attributed to the prior period adjustment due to GASB 68.

The Authority at December 31, 2016 has total net position of \$3,685,072 compared to \$3,780,248 at December 31, 2015. This decrease is primarily related to the operating loss for the year ended December 31, 2016. See paragraph below for more information.

As described in Note 9 to the financial statements, "Prior Period Adjustment/Restatement of Net Position", the Authority has adopted the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, for the year ended December 31, 2016. The adoption of this principle resulted in a restatement of the Authority's opening net position as of January 1, 2016 in the amount of \$38,410 as indicated in Note 9 to the financial statements. Prior year balances reflected in MD&A have been updated, for comparison purposes, to reflect the change where indicated. The pension data recorded for the year ended December 31, 2016 had a measurement date as of June 30, 2015.

Condensed Financial Information

Key Authority financial information for the years ended December 31, 2016 and 2015 include the following balances:

Financial Position:

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets	\$ 792,486	\$ 769,089
Property, plant and equipment, net	<u>3,059,993</u>	<u>3,155,408</u>
Total assets	<u>3,852,479</u>	<u>3,924,497</u>
DEFERRED OUTFLOW OF RESOURCES		
Deferred outflow of resources	<u>115,290</u>	<u>71,632</u>
Total assets and deferred outflow of resources	<u>\$ 3,967,769</u>	<u>\$ 3,996,129</u>
LIABILITIES		
Current liabilities	\$ 20,548	\$ 32,584
Noncurrent liabilities	<u>262,149</u>	<u>180,397</u>
Total liabilities	<u>282,697</u>	<u>212,981</u>
DEFERRED INFLOW OF RESOURCES		
Deferred inflow of resources	<u>-</u>	<u>2,900</u>
Total deferred inflow of resources	<u>-</u>	<u>2,900</u>
NET POSITION		
Net position	<u>3,685,072</u>	<u>3,780,248</u>
Total liabilities and deferred inflow of resources	<u>\$ 3,967,769</u>	<u>\$ 3,996,129</u>
<u>Other Financial Information:</u>		
	<u>2016</u>	<u>2015</u>
Revenues	\$ 564,580	\$ 555,073
Expenses	<u>(659,756)</u>	<u>(617,956)</u>
Changes in net position	<u>\$ (95,176)</u>	<u>\$ (62,883)</u>

Authority revenues showed a favorable variance of \$55,880 for 2016 when compared to budget. However Authority expenses showed an unfavorable variance of \$2,865 for 2016 when compared to budget. Savings can be attributed to higher than expected user charges collected, unbudgeted connection fees collected in current year and lower than expected expenses across the board.

Note from the Authority's Management

The Authority's financial report is designed to provide users of the financial statements with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. The financial statements of the Authority are a matter of public record and may be examined at 19 Double Trouble Rd., South Toms River, New Jersey during the Authority's business hours.

Respectfully Submitted,



William Gleason
Chairman

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Statement of Net Position
December 31, 2016

	2016
ASSETS	
Current assets:	
Cash	\$ 665,352
Accounts receivable	88,779
Prepaid expenses	38,355
Total current assets	792,486
Capital assets	5,826,526
Less: accumulated depreciation	(2,766,533)
Net capital assets	3,059,993
Total assets	3,852,479
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	115,290
Total deferred outflow of resources	115,290
Total assets and deferred outflow of resources	\$ 3,967,769
LIABILITIES	
Current unrestricted liabilities:	
Accounts payable	\$ 9,107
Accrued expenses	7,250
Payroll taxes payable	2,674
Unearned sewerage charges	1,517
Pensions payable	-
Total current liabilities	20,548
Non-current unrestricted liabilities:	
Compensated absences	5,312
Net pension liability	256,837
Total non-current unrestricted liabilities	262,149
Total liabilities	282,697
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	-
Total deferred inflow of resources	-
NET POSITION	
Net position:	
Net investment in capital assets	3,059,993
Unrestricted net position	625,079
Total net position	3,685,072
Total liabilities, deferred inflows of resources and net position	\$ 3,967,769

The accompanying notes are an integral part of these financial statements.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Statement of Revenues, Expenses, and Changes in Net Position
For the year ended December 31, 2016

	2016
Operating revenues:	
User charges	\$ 551,807
Delinquent charges	7,967
Connection fees	3,896
Total operating revenues	563,670
Operating expenses:	
Maintenance and treatment	330,454
Administration	210,992
Depreciation	92,975
Appropriation to municipality	25,335
Total operating expenses	659,756
Operating loss	(96,086)
Non-operating revenues:	
Interest revenue	910
Total non-operating revenues	910
Change in net position	(95,176)
Net position, January 1	3,741,838
Prior period restatement (see Note 9)	38,410
Net position, January 1, as restated (See Note 9)	3,780,248
Net position, December 31	\$ 3,685,072

The accompanying notes are an integral part of these financial statements.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Statement of Cash Flows
For the year ended December 31, 2016

		2016
Cash flows from operating activities:		
Cash received from service users	\$	558,762
Cash paid to suppliers and employees		(543,382)
Net cash flows from operating activities		15,380
Cash flows from investing activities:		
Purchase of capital assets		2,439
Interest received		910
Net cash flows from investing activities		3,349
Net change in cash		18,729
Cash at beginning of year		646,623
Cash at end of year	\$	665,352
 Reconciliation of operating loss to cash flows from operating activities:		
Operating loss	\$	(96,086)
Items which did not use cash:		
Depreciation		92,975
GASB Statement No. 68 unfunded pension expense		29,881
Working capital changes which provided/(used) cash:		
Accounts receivable		(4,086)
Prepaid expenses		(580)
Accounts payable		(8,625)
Accrued expenses		2,188
Payroll taxes payable		535
Unearned sewerage charges		(822)
Net cash flows from operating activities	\$	15,380

The accompanying notes are an integral part of these financial statements.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements
For the year ended December 31, 2016

NOTE 1: ORGANIZATION

South Toms River Sewerage Authority is a public body, politic and corporate, constituting a political subdivision of the State of New Jersey created under Chapter 138 of the Sewerage Authorities Law of New Jersey of 1946 by a municipal ordinance adopted on December 18, 1974. The Authority was created pursuant to the act for the purpose of constructing and operating a sewerage system consisting of a wastewater collection system. Its service area is co-terminus with the territorial limits of the Authority of South Toms River.

As a public body, under existing statutes, the Authority is exempt from both Federal and State taxation.

Service Contract with Authority of South Toms River

The Authority and the Authority of South Toms River entered into an agreement dated May 31, 1974, whereby the Authority undertakes to pay annual charges to the Authority for the disposal of sewerage and other wastes originating in the Authority. The following summary is a brief outline of certain provisions contained in the service contract. In the opinion of bond counsel to the Authority, the service contract is a valid and legally binding instrument in accordance with its terms, obligating the Authority to make payment to the Authority of annual charges as and when due under its terms.

The service contract provides that the Authority may not permit any property located outside the Authority to be connected to the system unless consented to in writing by the Authority. The Authority in turn will not construct any competitive sewerage facilities unless consented to in writing by the Authority. The service contract does not, however, restrict the right and power of the Authority to participate in any county or regional sewerage system.

Under the service contract, the Authority will impose service charges for use of and on every connection with the system, rates sufficient to provide in each year for operating and maintenance expenses, principal and interest on all bonds as they become due, such reserves or sinking funds as may be required or deemed desirable, and compliance in all respects with the terms and provisions of the bond resolution.

In addition, the Authority will charge the Authority, and the Authority will pay to the Authority, annual charges sufficient to cover, in each fiscal year, any shortfall in meeting the expenses of the Authority (including operation and maintenance, debt service, deficits resulting from failure to receive sums due to the Authority from others, and such reserves or sinking funds as may be required or deemed desirable) out of the funds and revenues of the Authority (including service charges, bond proceeds, insurance proceeds, investments proceeds, and contributions and reserves on hand).

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Authority is considered to be a "Component Unit" of the Authority of South Toms River under GAAP however, the Authority of South Toms River does not follow GAAP for accounting and financial reporting purposes rather it follows a regulatory basis of accounting, utilizing accounting principles which differ, in some cases significantly, from GAAP. Of particular note is the exclusion from the Township's financial statements of potential component units, based on the separate legal

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity(continued)

status of these units. Accordingly, the financial statements of the Township do not include the Authority as a component unit.

B. Basis of Accounting and Presentation

The financial statements of the Authority have been prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles ("GAAP") applicable to enterprise funds of state and local governments.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, liabilities and deferred inflow or outflow of resources associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt and unrestricted components.

For the year ended December 31, 2015, the Authority implemented the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. GASB Statement Nos. 68 and 71 establish standards for measuring and recognizing net pension liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures related to pension benefits provided through defined benefit pension plans. In addition, Statement No. 68 requires disclosure of information related to pension benefits.

C. Inventory

Treatment of sewerage and sludge is provided by the Ocean County Utilities Authority. As a result, there is no inventory of chemicals or other materials required.

D. Cash and Cash Equivalentents

New Jersey Authorities 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 of America or State of New Jersey or the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of securities which may be purchased by New Jersey

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash and Cash Equivalents

Authorities. The Authority is required to deposit funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey. N.J.S.A. 17:9-42 requires governmental units to deposit public funds only in public depositories located in New Jersey, when the funds are secured in accordance with the Act.

E. Capital Assets

Capital Assets are stated at cost, which includes direct construction costs and other expenditures related to construction. Depreciation is determined on a straight-line basis for all capital assets. Depreciation was provided over the following estimated useful lives:

	<u>Years</u>
Sewer mains	75
Office building	40
Building renovations	15
Equipment	5-15

F. Accounts Receivable

Accounts receivable at December 31, 2016 totaled \$88,779 and consisted of billings for sewer user charges.

G. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amount.

H. Compensated Absences

Compensated absences represent amounts to which employees are entitled to based on accumulated leave earned in accordance with the Authority's Personnel Policy. Employees may be compensated for accumulated vacation leave in the event of retirement or termination from service at the current salary. For the year ended December 31, 2016, the Authority accrued compensated absences in the amount of \$5,312.

I. Operating Revenues and Expenses

The Authority defines its operating revenues as income derived from charges to residents and others for services provided as well as government subsidies and grants used for operating purposes.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Operating Revenues and Expenses (continued)

Operating expenses are costs incurred in the operation of its program activities to provide services to residents and others. The Authority classifies all other revenues as non-operating.

M. Equity Classifications

Equity is classified as net position and can be displayed in three components as follows:

Net Investment in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.

Restricted net position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

N. Budgets and Budgetary Accounting

Each year the Authority adopts a budget which is approved by the State of New Jersey, Department of Community Affairs, Division of Local Government Services. The budget may be amended by resolution of the Board of Commissioners of the Authority. The budgetary basis of accounting is utilized to determine the Authority has sufficient cash to operate and pay debt service. As such, certain items such as bond payments are included in budgetary expenses while depreciation is not included.

O. Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

P. Pensions Section

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 pension plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose,

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

P. Pensions Section (continued)

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.

Q. Impact of Recently Issued Accounting Principles

Adopted Accounting Pronouncements

For the year ended December 31, 2016, the Authority implemented GASB Statement No. 72, *Fair Value Measurement and Application*. As a result of implementing this statement, the Authority is required to measure certain investments at fair value for financial reporting purposes. In addition, the Authority is required to measure donated capital assets at acquisition value (an entry price); these assets were previously required to be measured at fair value. Statement No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. Implementation of this Statement did not impact the Authority's financial statements.

The Authority implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Implementation of this Statement did not impact the Authority's financial statements.

The Authority implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Implementation of this Statement did not impact the Authority's financial statements.

Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose information about those agreements. Implementation of this Statement did not impact the Authority's financial statements.

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. Implementation of this Statement did not impact the Authority's financial statements.

Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Implementation of this Statement did not impact the Authority's financial statements.

Recently Issued Accounting Pronouncements

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

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. Impact of Recently Issued Accounting Principles (continued)

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. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ended December 31, 2017. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions*. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agency Employers and Agent Multi-Employer Plans*, for OPEB Statement No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB Plans. This Statement will be effective for the year ended December 31, 2018. Management has not yet determined the potential impact on the Authority's financial statements.

Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. This Statement will be effective for the year ended December 31, 2017. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement will be effective for the year ended December 31, 2017. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. This Statement will be effective for the year ended December 31, 2017. Management has not yet determined the potential impact on the Authority's financial statements.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Q. Impact of Recently Issued Accounting Principles (continued)

Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting requirements for certain asset retirement obligations and establishes the timing and pattern of recognition of a liability and corresponding deferred outflow of resources. This Statement will be effective for the year ended December 31, 2019. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement will be effective for the year ended December 31, 2019. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This Statement will be effective for the year ended December 31, 2018. Management has not yet determined the potential impact on the Authority's financial statements.

R. Subsequent Events

South Toms River Sewerage Authority has evaluated subsequent events occurring after December 31, 2016 through April 12, 2017, which is the date the financial statements were available to be issued.

NOTE 3: CASH AND CASH EQUIVALENTS

This Authority is governed by the deposit and investment limitations of New Jersey state law. The deposits held at December 31, 2016, and reported at fair value, are as follows:

	2016
Deposits:	
Demand deposits	\$ 665,352
Total deposits	<u>\$ 665,352</u>
 Reconciliation to Statement of Net Position:	
Current assets:	
Cash	<u>\$ 665,352</u>

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 3: CASH AND CASH EQUIVALENTS (continued)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority does not have a deposit policy for custodial credit risk. As of December 31, 2016, the Authority's bank balance of \$663,192, were insured or collateralized as follows:

	2016
Insured	\$ 250,000
Collateralized in the Authority's name under GUDPA	187,921
Collateralized not in the Authority's name (New Jersey Cash Management Fund)	225,271
Total	\$ 663,192

NOTE 4: CAPITAL ASSETS

Property, plant and equipment at December 31, 2016 consisted of the following:

	2016
Collection system	\$ 5,464,617
Administration buildings	147,971
Equipment	213,938
Total property plant and equipment	5,826,526
Less: accumulated depreciation	(2,766,533)
Net property, plant and equipment	\$ 3,059,993

NOTE 5: ACCRUED EXPENSES

As of December 31, 2016, accrued expenses of \$12,562, consisted of accounting fees and compensated absences.

NOTE 6: UNEARNED SEWERAGE CHARGES

The Authority's customers are billed in December for the previous quarter beginning October 1st. Appropriately, customer payments received in December for the following quarter are included in the Authority's liabilities as unearned income and not recognized as revenue until the following year. As of December 31, 2016, the balance totaled \$1,517.

NOTE 7: RATE STRUCTURE

The Authority adopted an annual rate for each service unit in the amount of \$400 effective January 1, 2008. On December 9, 1988, the Authority adopted the following uniform annual rate structure for users of the system:

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 7: RATE STRUCTURE (continued)

A. Residential User Charges

1. A residential private dwelling, single family house having four bedrooms or less shall be charged at the rate of one unit.
2. Multiple residential dwellings; each apartment shall be charged at the rate of one unit.
3. Condominiums, high-rise apartment buildings; duplex apartment buildings shall be charged at the rate of one unit for each apartment. Any such building having a common laundry type room(s) shall be charged for an additional two units for each common laundry type room.

B. Commercial User Charges

1. Gas stations shall be charged on the basis of employees. Stations having one to three employees shall be charged two units. Four to six employees shall be charged three units and one additional unit for every three or less employees thereafter.
2. Restaurants or bars shall be charged on the basis of capacity, an establishment having a capacity of ten or less shall be charged two units, and, thereafter, each ten or less additional capacity shall be charged an additional unit.
3. Offices and other business establishments having one to eight employees shall be charged at the rate of one unit. For 9-16 employees, the charge is two units, thereafter, each additional eight or less employees the charge shall be one additional unit.
4. Churches and houses of worship shall be charged at the rate of one unit.
5. Schools shall be charged at the following schedule:
 - a) The main public school facility shall be charged at the rate of 47 units.
 - b) Auxiliary public school facilities (recreation building) shall be charged at the rate of two units.
6. Other public buildings and playgrounds with facilities shall be charged at the rate of one unit.
7. Self-service laundries having three washers or less shall be charged at the rate of one unit; four to six washers, two units; seven to nine washers shall be charged three units; 10-12 washers shall be charged four units; and each three washers or less shall be charged one additional unit thereafter.
8. Beauty parlors having two or less employees shall be charged two units, and each additional three employees shall be charged one additional unit thereafter.
8. Marinas shall be charged on the following schedule:

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 7: RATE STRUCTURE (continued)

B. Commercial User Charges (continued)

- a) Marinas shall be charged at the rate of two units.
 - b) Marinas with private club facilities shall be charged seven units.
10. Other establishments not covered above shall be charged at the rate as determined by the South Toms River Sewerage Authority.
11. Employees shall be persons working for establishments regardless of whether working part-time or full-time.

NOTE 8: PENSION OBLIGATIONS

A. Public Employees' Retirement System (PERS)

Plan Description - The State of New Jersey, Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about PERS, please refer to Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions/annrprts.shtml.

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

The following represents the membership tiers for PERS:

<u>Tier</u>	<u>Definition</u>
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 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 year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 with 25 or more years of service credit before age 62 and tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 8: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

Basis of Presentation - The schedules of employer allocations and the schedules of pension amounts by employer (collectively, the Schedules) present amounts that are considered elements of the financial statements of PERS or its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of PERS or the participating employers. The accompanying Schedules were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of PERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

Contributions - The contribution policy for PERS is set by *N.J.S.A. 43:15A* and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount, which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid. For the fiscal year 2016, the State's pension contribution was less than the actuarial determined amount. The local employers' contribution amounts are based on an actuarially determined rate, which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

Components of Net Pension Liability - At December 31, 2016, the Authority reported a liability of \$256,837 for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. The Authority's proportion of the net pension liability was based on the Authority's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2016. The Authority's proportion measured as of June 30, 2016, was .00087%, which was an increase of .00006% from its proportion measured as of June 30, 2015.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 8: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

Collective Balances at December 31, 2016 and December 31, 2015

	<u>12/31/2016</u>	<u>12/31/2015</u>
Actuarial valuation date (including roll forward)	June 30, 2016	June 30, 2015
Deferred Outflows of Resources	\$ 115,290	\$ 71,632
Deferred Inflows of Resources	\$ -	\$ 2,900
Net Pension Liability	\$ 256,837	\$ 180,397
 Authority's portion of the Plan's total net pension Liability	 0.00087%	 0.00080%

Pension Expense and Deferred Outflows/Inflows of Resources - For the year ended December 31, 2016, the Authority recognized pension expense of \$37,586. At December 31, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
	<u>PERS</u>	<u>PERS</u>
Differences between Expected and Actual Experience	\$ 4,776	\$ -
Changes of Assumptions	53,203	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	9,793	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions	47,518	-
	<u>\$ 115,290</u>	<u>\$ -</u>

The \$115,290 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date (i.e. for the fiscal year ending December 31, 2016, the plan measurement date is June 30, 2016) will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 8: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

<u>Year Ending</u> <u>Dec 31,</u>	<u>PERS</u>		
2017	\$ 27,991		
2018	27,991		
2019	30,228		
2020	21,584		
2021	7,496		
	\$ 115,290		
		PERS	
		<u>Deferred</u>	<u>Deferred</u>
		<u>Outflow of</u>	<u>Inflow of</u>
		<u>Resources</u>	<u>Resources</u>
Differences between Expected and Actual Experience			
Year of Pension Plan Deferral:			
June 30, 2014		-	-
June 30, 2015		5.72	-
June 30, 2016		5.57	-
Changes of Assumptions			
Year of Pension Plan Deferral:			
June 30, 2014		6.44	-
June 30, 2015		5.72	-
June 30, 2016		5.57	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments			
Year of Pension Plan Deferral:			
June 30, 2014		-	5.00
June 30, 2015		-	5.00
June 30, 2016		5.00	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions			
Year of Pension Plan Deferral:			
June 30, 2014		6.44	6.44
June 30, 2015		5.72	5.72
June 30, 2016		5.57	5.57

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 8: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

Actuarial Assumptions - The total pension asset/(liability) as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

	<u>PERS</u>
Inflation	3.08%
Salary Increases:	
Through 2026	1.65% - 4.15% Based on Age
Thereafter	2.65% - 5.15% Based on Age
Investment Rate of Return	7.65%
Mortality Rate Table	RP-2000
Period of Actuarial Experience Study upon which Actuarial Assumptions were Based	July 1, 2011 - June 30, 2014

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rate were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on the mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scales. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Long-Term Expected Rate of Return - In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 8: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment grade credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad U.S. Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global debt ex U.S.	5.00%	-0.25%
REIT	5.25%	5.63%
	<u>100.00%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 3.98% as of June 30, 2016. The single blended discount rate was based on long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016 based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipals bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate 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 contribution rate in the most recent fiscal year. The State employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 8: PENSION OBLIGATIONS (continued)

A. Public Employees' Retirement System (PERS) (continued)

benefit payments through 2034 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Authority's proportionate share of the Net Pension Liability to Changes in the Discount Rate - The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate as disclosed above, 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-percentage-point lower (2.98%) or 1-percentage-point higher (4.98%) than the current rate:

	PERS		
	1% Decrease (2.98%)	Current Discount Rate (3.98%)	1% Increase (4.98%)
Authority's Proportionate Share of the Net Pension Liability	\$ 314,724	\$ 256,837	\$ 209,047

NOTE 9: PRIOR PERIOD ADJUSTMENT/RESTATEMENT OF NET POSITION

Net position as of January 1, 2016, has been restated as follows for the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date.

	<u>Governmental Activities</u>
Net Position as previously reported at December 31, 2015	\$ 3,741,838
Prior period adjustment - Implementation of GASB 68:	
Net Pension Liability (Adj to measurement date as of June 30, 2015)	(30,322)
Deferred Outflows	7,076
PERS Pension Payable (2015 Authority PERS Pension Contribution)	(7,076)
Deferred Outflows (Adj to measurement date as of June 30, 2015)	71,632
Deferred Inflows (Adj to measurement date as of June 30, 2015)	(2,900)
Total prior period adjustment	38,410
Net Position as restated, January 1, 2016	\$ 3,780,248

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the year ended December 31, 2016

NOTE 10: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Property and Liability Insurance - During the year ended December 31, 2016, the Authority continued to transfer all insurable risks through the purchase of commercial insurance policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage during each of the past three fiscal years. During the year ended December 31, 2015 there were no significant reductions in coverages from those provided in the previous year.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Schedule of Operating Revenues and Costs Funded by Operations - Budget to Actual
For the year ended December 31, 2016

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating revenues:				
User charges	\$ 502,720	\$ 502,720	\$ 551,807	\$ 49,087
Connection fees	-	-	3,896	3,896
Delinquent charges	5,800	5,800	7,967	2,167
Interest	100	100	910	810
Miscellaneous	80	80	-	(80)
Total operating revenues	<u>508,700</u>	<u>508,700</u>	<u>564,580</u>	<u>55,880</u>
Maintenance and treatment expenses:				
OCUA fees	280,000	285,400	285,327	73
Engineering	4,000	6,500	9,045	(2,545)
Maintenance salaries and payroll taxes	24,000	19,800	21,400	(1,600)
Sewer maintenance supplies	5,000	7,600	11,082	(3,482)
Garage rental	3,600	3,600	3,600	-
Renewal and replacement	2,000	-	-	-
Total maintenance and treatment expenses	<u>318,600</u>	<u>322,900</u>	<u>330,454</u>	<u>(7,554)</u>
Administrative expenses:				
Salaries, wages and payroll taxes	73,000	70,200	68,371	1,829
Fringe benefits	17,500	8,900	8,865	35
Health insurance	25,000	22,000	21,887	113
Legal	15,000	7,400	7,136	264
Audit and consulting	24,000	22,500	22,340	160
Data processing	4,000	-	-	-
Office expenses and supplies	14,000	14,000	14,579	(579)
Office cleaning and maintenance	4,000	4,000	3,965	35
Insurance	-	20,200	20,178	22
Postage	3,000	3,000	3,000	-
Telephone	2,000	2,000	1,541	459
Utilities	6,000	6,000	5,095	905
Fuel	1,600	1,600	883	717
Licenses and permits	-	3,000	3,000	-
Miscellaneous	1,000	1,000	271	729
Total administrative expenses	<u>190,100</u>	<u>185,800</u>	<u>181,111</u>	<u>4,689</u>
Appropriation to municipality	25,335	25,335	25,335	-
Total costs funded by operations	<u>534,035</u>	<u>534,035</u>	<u>536,900</u>	<u>(2,865)</u>
Excess of revenues over expenses	<u>\$ (25,335)</u>	<u>\$ (25,335)</u>	27,680	<u>\$ 53,015</u>
Less:				
Depreciation expense			(92,975)	
GASB Statement No. 68 unfunded pension expense			(29,881)	
Change in net position per Statement of Revenue, Expenses and Changes in Net Position			<u>\$ (95,176)</u>	

**SOUTH TOMS RIVER SEWERAGE AUTHORITY
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST THREE FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's proportion of the net pension liability (asset)	0.00087%	0.00080%	0.00080%
Authority's proportionate share of the net pension liability (asset)	\$ 256,837	\$ 180,397	\$ 150,075
Authority's covered-employee payroll	\$ 59,656	\$ 69,116	\$ 60,777
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	430.53%	261.01%	246.93%
Plan fiduciary net position as a percentage of the total pension liability	47.93%	47.93%	52.08%

NOTE: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

**SOUTH TOMS RIVER SEWERAGE AUTHORITY
SCHEDULE OF AUTHORITY CONTRIBUTIONS
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST THREE FISCAL YEARS**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 7,704	\$ 6,909	\$ 6,774
Contributions in relation to the contractually required contribution	<u>7,704</u>	<u>6,909</u>	<u>6,774</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 59,656	\$ 69,116	\$ 60,777
Contributions as a percentage of covered-employee payroll	12.91%	10.00%	11.15%

**This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
December 31, 2016

Public Employees' Retirement System (PERS)

Basis of Presentation. The amounts presented in the Schedules were prepared in accordance with U.S. generally accepted accounting principles. The numbers were derived in a report provided by KPMG dated April 6, 2017. The full report is available by the State of New Jersey, Division of Pension and Benefits. Such preparation requires management of PERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

Changes of benefit terms. The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS.

Changes of assumptions. Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rate were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on the mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scales. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Board of Commissioners and Management
December 31, 2016

	<u>Position</u>	<u>Term</u>
William Gleason.....	Chairman	2019
Jason Glogolich	Vice Chairman	2018
Ernest Hemmann	Secretary	2020
George Rutzler.....	Treasurer	2017
Kayla Rolzhausen.....	Asst Treasurer	2021



HOLMAN | FRENIA
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To the Board of Commissioners of
South Toms River Sewerage Authority

We have audited the financial accounts and transactions of the South Toms River Sewerage Authority, a component unit of the Borough of South Toms River, County of Ocean, State of New Jersey for the year ended December 31, 2016. In accordance with requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the following are the *General Comments* and *Recommendations* for the year then ended.

GENERAL COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required to be advertised by (N.J.S.A.40A:11-4)

N.J.S.A.40A:11-4 - Every contract or agreement, for the performance of any work or furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of public funds not included within the terms of Section 3 of this act, shall be made or awarded only by the governing body of the contracting unit after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other Law. No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate \$17,500 except by contract or agreement.

It is pointed out that the Members of the Authority have the responsibility of determining whether the expenditures in any category will exceed the statutory minimum within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the solicitor's opinion should be sought before a commitment is made.

Review of the minutes and financial transactions did not identify any bids requested by public advertising.

The minutes indicate that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services," per *N.J.S.A.40A:11-5*.

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed. The results of our examination did not disclose any discrepancies.

Contracts and Agreements Required to be advertised by (N.J.S.A.40A:11-4)(continued)

The examination of expenditures did not reveal any contracts or agreements in excess of \$2,625 "for the performance of any work or the furnishing or hiring of any materials or supplies", other than those where bids had been previously sought by public advertisement or where a resolution had been previously adopted under the provision of (N.J.S.A.40A:11-6.1).

The minutes do not indicate quotes were obtained for any services.

General Ledger

The general ledger was complete with the required journal entries.

Examination of Bills

A test check of paid bills was made and each bill, upon proper approval, was considered as a separate and individual contract unless the records disclosed it to be a part payment or estimate. The results of the examination did not disclose any discrepancies with respect to signatures, certification or supporting documentation.

Finding 2016-001:

During our audit, it was noted the Authority overspent their operating budget by \$2,865.

Recommendation:

The Authority should properly approve expenditures prior to payment including certifying that funds are available.

Management Response:

This finding will be corrected in the fiscal year ending December 31, 2017.

Payroll Fund

The examination of the payroll account included the detailed computation of various deductions or other credits from the payroll of the Authority employees and ascertained that the accumulated withholdings were disbursed to the proper agencies.

Capital Assets

The capital asset subsidiary ledger was maintained properly and a reconciliation between the physical and perpetual inventory records was performed at year-end.

Budget Adoption

The State of New Jersey requires that the Authority's operating and capital budgets be approved and adopted for each fiscal year. The Authority approved its operating budget on October 21, 2015 and adopted its operating budget on November 18, 2015.

Follow-Up of Prior Years' Findings

In accordance with *government auditing standards* we have included a review of all prior year findings. Our review indicated that corrective action has been taken on all prior year findings.

Acknowledgment

We received the complete cooperation of all the Authority officials and employees and we greatly appreciate the courtesies extended to the members of the audit team.

Should you have any questions or should you desire any assistance, please call us.

HOLMAN FRENIA ALLISON

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

April 12, 2017
Toms River, New Jersey