

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 years ended December 31, 2017 and 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, 2017 and 2016

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INDEPENDENT AUDITOR'S REPORT

The Chairman and Commissioners
of South Toms River Sewerage Authority
South Toms River, New Jersey 08757

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 years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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.

Opinions

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, State of New Jersey, as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and 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 accompanying schedule of revenues and expenses – budget to actual is presented for purposes of additional analysis as required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and is not a required part of the basic financial statements.

The accompanying schedule of revenues and expenses – budget to actual is the responsibility of management and was derived from and relates 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 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 schedule of revenues and expenses – budget to actual is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 8, 2018, on our consideration of the 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 Authority's internal control over financial reporting and compliance.

Respectively Submitted,

A handwritten signature in black ink that reads "HOLMAN FRENIA ALLISON PC". The signature is written in a cursive, slightly slanted style.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

May 8, 2018
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 Chairman and Commissioners
of South Toms River Sewerage Authority
South Toms River, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and 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 South Toms River Sewerage Authority (herein referred to as "the Authority"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated May 8, 2018.

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. We did identify a certain deficiency in internal control, described in the accompanying comments and recommendation section as finding no. 2017-001.

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 is 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 no. 2017-001.

South Toms River Sewerage Authority's Response to Findings

South Toms River Sewerage Authority's response to the finding identified in our audit is described in the accompanying comments and recommendation section. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Audit 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 in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectively Submitted,



HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

May 8, 2018
Toms River, New Jersey

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, 2017 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, 2017 and 2016.

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, 2017 has total assets and deferred outflow of resources of \$3,810,211 compared to \$3,967,768 at December 31, 2016 and \$3,931,573 at December 31, 2015. The decrease from 2016 to 2017 can be primarily attributed to the decrease in capital assets due to the sale of the Authority building. The decrease from 2015 to 2016 can be primarily attributed to the prior period adjustment due to GASB 68.

The Authority at December 31, 2017 has total liabilities and deferred inflow of resources of \$282,102 compared to \$282,697 at December 31, 2016 and \$189,735 at December 31, 2015. The decrease from 2016 to 2017 can be primarily attributed to the adjustment due to GASB 68. The increase from 2015 to 2016 can be primarily attributed to the prior period adjustment due to GASB 68.

The Authority at December 31, 2017 has a total net position of \$3,528,109 compared to \$3,685,071 at December 31, 2016 and \$3,741,838 at December 31, 2015. The decrease from 2016 to 2017 is primarily related to the operating loss for the year ended December 31, 2017. The decrease from 2015 to 2016 can be primarily attributed to the operating loss for the year ended December 31, 2016. See paragraph below for more information.

As described in Note 10 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, 2015. 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 10 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, 2017, 2016 and 2015 include the following balances:

Financial Position:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<i>ASSETS</i>			
Current assets	\$ 747,504	\$ 792,486	\$ 769,089
Property, plant and equipment, net	<u>2,981,784</u>	<u>3,059,992</u>	<u>3,155,408</u>
Total assets	<u>3,729,288</u>	<u>3,852,478</u>	<u>3,924,497</u>
<i>DEFERRED OUTFLOW OF RESOURCES</i>			
Deferred outflow of resources	<u>80,923</u>	<u>115,290</u>	<u>7,076</u>
Total assets and deferred outflow of resources	<u>\$ 3,810,211</u>	<u>\$ 3,967,768</u>	<u>\$ 3,931,573</u>
<i>LIABILITIES</i>			
Current liabilities	\$ 34,136	\$ 20,548	\$ 35,786
Noncurrent liabilities	<u>206,643</u>	<u>262,149</u>	<u>153,949</u>
Total liabilities	<u>240,779</u>	<u>282,697</u>	<u>189,735</u>
<i>DEFERRED INFLOW OF RESOURCES</i>			
Deferred inflow of resources	<u>41,323</u>	-	-
Total deferred inflow of resources	<u>41,323</u>	-	-
<i>NET POSITION</i>			
Net position	<u>3,528,109</u>	<u>3,685,071</u>	<u>3,741,838</u>
Total liabilities and deferred inflow of resources	<u>\$ 3,810,211</u>	<u>\$ 3,967,768</u>	<u>\$ 3,931,573</u>
<u>Other Financial Information:</u>			
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues	\$ 554,351	\$ 564,580	\$ 555,073
Expenses	<u>(711,313)</u>	<u>(659,757)</u>	<u>(617,956)</u>
Changes in net position	<u>\$ (156,962)</u>	<u>\$ (95,177)</u>	<u>\$ (62,883)</u>

Authority revenues showed a favorable variance of \$10,527 for 2017 when compared to budget. However Authority expenses showed an unfavorable variance of \$25,433 for 2017 when compared to budget. 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. Favorable revenue variances can be attributed to the collection of higher than expected user charges and unbudgeted connection fees. Unfavorable expense variances can be attributed to higher 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 E. Gleason

William Gleason
Chairman

SOUTH TOMS RIVER SEWERAGE AUTHORITY
(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)
Statements of Net Position
December 31, 2017 and 2016

<u>ASSETS</u>	<u>2017</u>	<u>2016</u>
Current Assets:		
Unrestricted Assets:		
Cash & Cash Equivalents	\$ 623,015	\$ 665,352
Accounts Receivable, Net	87,670	88,779
Prepaid Expenses	36,819	38,355
Total Current Unrestricted Assets	<u>747,504</u>	<u>792,486</u>
Total Current Assets	<u>747,504</u>	<u>792,486</u>
Noncurrent Assets (Note 4):		
Capital Assets	5,722,809	5,826,526
Less: Accumulated Depreciation	(2,741,025)	(2,766,534)
Net Capital Assets	<u>2,981,784</u>	<u>3,059,992</u>
Total Noncurrent Assets	<u>2,981,784</u>	<u>3,059,992</u>
Total Assets	<u>3,729,288</u>	<u>3,852,478</u>
 <u>DEFERRED OUTFLOW OF RESOURCES</u>		
Deferred Outflows Related to Pensions (Note 6)	<u>80,923</u>	<u>115,290</u>
Total Deferred Outflow of Resources	<u>80,923</u>	<u>115,290</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 3,810,211</u>	<u>\$ 3,967,768</u>
 <u>LIABILITIES</u>		
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable	\$ 12,728	\$ 9,107
Accounts Payable - Related to Pensions (Note 6)	8,250	-
Accrued Expenses	10,492	9,924
Unearned Revenues	2,666	1,517
Total Current Liabilities Payable from Unrestricted Assets	<u>34,136</u>	<u>20,548</u>
Noncurrent Liabilities:		
Compensated Absences Payable	6,197	5,312
Net Pension Liability (Note 6)	200,446	256,837
Total Noncurrent Liabilities	<u>206,643</u>	<u>262,149</u>
Total Liabilities	<u>240,779</u>	<u>282,697</u>
 <u>DEFERRED INFLOW OF RESOURCES</u>		
Deferred Inflows Related to Pensions (Note 6)	<u>41,323</u>	<u>-</u>
Total Deferred Inflow of Resources	<u>41,323</u>	<u>-</u>
 <u>NET POSITION</u>		
Net Investment in Capital Assets	2,981,784	3,059,992
Unrestricted	546,325	625,079
Total Net Position	<u>3,528,109</u>	<u>3,685,071</u>
Total Liabilities, Deferred Inflow of Resources, and Net Position	<u>\$ 3,810,211</u>	<u>\$ 3,967,768</u>

SOUTH TOMS RIVER SEWERAGE AUTHORITY
(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)
Statements of Revenues, Expenses and Changes in Net Position
For the years ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Sewer User Charges	\$ 535,734	\$ 551,807
Connection Fees	9,770	3,896
Delinquent Charges	6,933	7,967
	<u>552,437</u>	<u>563,670</u>
Total Operating Revenues		
Operating Expenses:		
Cost of Providing Services	337,327	337,577
Administrative Expenses	226,050	203,869
Depreciation Expense	89,923	92,976
	<u>653,300</u>	<u>634,422</u>
Total Operating Expenses		
Operating Loss	<u>(100,863)</u>	<u>(70,752)</u>
Non-Operating Revenues (Expenses):		
(Loss) on Sale of Fixed Assets	(32,539)	-
Interest Income	1,914	910
Appropriation to Municipality	(25,474)	(25,335)
	<u>(56,099)</u>	<u>(24,425)</u>
Total Non-Operating Revenues (Expenses)		
Net Loss	(156,962)	(95,177)
Net Position, January 1,	3,685,071	3,741,838
Prior period restatement (see Note 10)	<u>-</u>	<u>38,410</u>
Net Position, January 1, as restated	<u>3,685,071</u>	<u>3,780,248</u>
Net Position, December 31,	<u>\$ 3,528,109</u>	<u>\$ 3,685,071</u>

SOUTH TOMS RIVER SEWERAGE AUTHORITY
(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)
Statements of Cash Flows
For the years ended December 31, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities:		
Cash Received from Service Users	\$ 554,695	\$ 558,762
Cash Paid to Suppliers and Employees	(529,218)	(518,047)
Net Cash Provided by Operating Activities	25,477	40,715
Cash Flows from Capital and Related Financing Activities:		
Payment of Township Appropriations	(25,474)	(25,335)
Acquisition and Construction of Capital Assets	(44,254)	2,441
Net Cash Used by Capital and Related Financing Activities	(69,728)	(22,894)
Cash Flows from Investing Activities:		
Interest on Investments and Deposits	1,914	910
Net Cash Provided by Investing Activities	1,914	910
Net (Decrease)/Increase in Cash and Cash Equivalents	(42,337)	18,731
Cash and Cash Equivalents, January 1	665,352	646,621
Cash and Cash Equivalents, December 31	\$ 623,015	\$ 665,352
Reconciliation to Statements of Net Position:		
Current Unrestricted Assets:		
Cash and Cash Equivalents	\$ 623,015	\$ 665,352
Cash and Cash Equivalents, December 31	\$ 623,015	\$ 665,352
Reconciliation of Operating Income to Cash Flows from Operating Activities:		
Operating Loss	\$ (100,863)	\$ (70,752)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Items Which Did Not Use Cash:		
Depreciation Expense	89,923	92,976
Pension Liability Expense - GASB 68	27,549	29,881
Working Capital Changes which provided/(used) cash:		
Decrease/(Increase) in Accounts Receivable	1,109	(4,086)
Decrease/(Increase) in Prepaid Expenses	1,536	(580)
Increase/(Decrease) in Accounts Payable	3,621	(8,625)
Increase in Accrued Expenses	568	1,285
Increase/(Decrease) in Unearned Revenues	1,149	(822)
Increase in Compensated Absences	885	1,438
Total Adjustments	126,340	111,467
Net Cash Provided by Operating Activities	\$ 25,477	\$ 40,715

Noncash Investing, Capital, and Financing Activities:

During the years ended December 31, 2017 and 2016, noncash capital contributions received were \$0 and \$0 respectively.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)
Notes to Financial Statements
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the South Toms River 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

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.

The Authority provides sewerage collection services to the territorial limits of the Borough of South Toms River.

The Authority consists of five members, who are appointed by resolution of the Borough Committee for three year terms.

Component Unit

The Authority is considered to be a "Component Unit" of the Borough of South Toms River under GAAP however, the Borough 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 Borough's financial statements of potential component units, based on the separate legal status of these units. Accordingly, the financial statements of the Borough do not include the Authority as a component unit.

Basis of 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 on a going concern basis.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing 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, accountability or other purposes.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

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.

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 are 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 no later than the beginning of the Authority's fiscal year. The governing body may amend the budget at any point during the year by resolution of the Board of Commissioners. 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.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets and Budgetary Accounting (continued)

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 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 cash in banks and may include petty cash and change funds. It may also include 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.

New Jersey Authorities are required by *N.J.S.A. 40A:5-14* to deposit public funds into 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 Authorities. The Authority is required by *N.J.S.A. 17:9-41* 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.

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

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.

Prepaid Expenses

Prepaid expenses recorded on the financial statements represent payments made to vendors for services that will benefit periods beyond the Authority's fiscal year end.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)
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For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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. Assets contributed by developer's are valued at estimated fair market value as of the date of contribution. Costs incurred for construction projects are recorded as construction in progress. In the year that the project is completed, these costs are transferred to capital assets.

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
Buildings	40
Building renovations	15
Equipment	5-15

Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statements 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 statements 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(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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.

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.

The Authority receives payments for connection fees when new users connect to the water and/or sewer system. Since the Authority does not supply the user with supplies or services to make the physical connection, this would be considered a nonexchange transaction and recorded as deferred revenue under deferred inflows of resources. The Authority recognizes the revenue in the period that the user exercises their right to connect to the system.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 fiduciary net position of the Public Employees' Retirement System ("PERS") and additions to/deductions from the PERS's fiduciary net position have been determined on the same basis as they are reported by the plan. 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 - 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. 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.

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".

Income Taxes

As a public body, under existing statutes and Section 115, the Authority appropriately is exempt from income taxes.

Operating and Non-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. Non-operating revenues primarily consist of interest income and on investments of securities. Operating expenses are costs incurred in the operation of its program activities to provide services to residents and others. Non-operating expenses primarily include expenses attributable to the Authority's interest on debt, contribution to Borough and sales of capital assets.

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Notes to Financial Statements (continued)
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Impact of Recently Issued Accounting Principles

Adopted Accounting Pronouncements

For the year ended December 31, 2017, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The adoption this Statement had no impact on the Authority's financial statements.

For the year ended December 31, 2017, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The adoption this Statement had no impact on the Authority's financial statements.

For the year ended December 31, 2017, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The adoption this Statement had no impact on the Authority's financial statements.

For the year ended December 31, 2017, the Authority adopted Governmental Accounting Standards Board (GASB) 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*. The adoption this Statement had no impact on the Authority's financial statements.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
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Notes to Financial Statements (continued)
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently Issued Accounting Pronouncements

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

Statement No. 75, *Accounting and Financial Reporting for 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. 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.

Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement will become effective for the Authority in the fiscal year ending December 31, 2018. Management has not yet determined the impact of this Statement on the financial statements.

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Notes to Financial Statements (continued)
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently Issued Accounting Pronouncements (continued)

Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement will become effective for the Authority in the fiscal year ending December 31, 2020. Management has not yet determined the impact of this Statement on the financial statements.

Subsequent Events

South Toms River Sewerage Authority has evaluated subsequent events occurring after December 31, 2017 through May 8, 2018, which is the date the financial statements were available to be issued. In 2017, the South Toms River Sewerage Authority moved its administrative offices into the Borough of South Toms River municipal facility. As a result of this move, the Authority sold its property to the Borough for \$1, with the agreement that the Borough would thereafter sell the property and donate to the Authority 10% of the sales price, up to \$40,000. As of the report date of May 8, 2018, the sale of the building was still pending.

NOTE 2: 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, 2017 and 2016, reported at fair value, are as follows:

	2017	2016
Deposits:		
Demand deposits	<u>\$623,015</u>	<u>\$665,352</u>
Total deposits	<u>\$623,015</u>	<u>\$665,352</u>
 Reconciliation to Statements of Net Position:		
Current assets:		
Cash and cash equivalents	<u>\$623,015</u>	<u>\$665,352</u>
Total deposits	<u>\$623,015</u>	<u>\$665,352</u>

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

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Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 2: CASH AND CASH EQUIVALENTS (continued)

Custodial Credit Risk Related to Deposits (continued)

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 December 31, 2017 and 2016, the Authority's bank balances were insured or exposed to credit risk as follows:

	2017	2016
Insured by FDIC	\$ 250,000	\$ 250,000
Collateralized in the Authority's name under GUDPA	145,130	187,921
	\$ 395,130	\$ 437,921

New Jersey Cash Management Fund

During the years ended December 31, 2017 and 2016, the Authority participated in the New Jersey Cash Management Fund. The Fund is governed by regulations of the State Investment Council, who prescribe standards designed to insure the quality of investments in order to minimize risk to the Funds participants. Deposits with the New Jersey Cash Management Fund are not subject to custodial credit risk as defined above. At December 31, 2017 and 2016, the Authority's deposits with the New Jersey Cash Management Fund were \$227,184 and \$225,271, respectively.

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable balances at December 31, 2017 and 2016 were \$87,670 and \$88,779, respectively. Balances consisted of unrestricted receivables entirely from customer accounts. The Authority believes that all receivables are collectible and has not established an allowance for doubtful accounts.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
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Notes to Financial Statements (continued)
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NOTE 4: CAPITAL ASSETS

The activity in capital assets for the year ended December 31, 2017 is as followed:

	Balance December 31, 2016	Additions	Retirements and Transfers	Balance December 31, 2017
Capital Assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Total Capital Assets not being depreciated	-	-	-	-
Capital Assets being depreciated:				
Collection System	5,464,617	-	-	5,464,617
Buildings	147,971	-	(147,971)	-
Equipment	213,938	2,582	-	216,520
Leasehold Improvments	-	41,672	-	41,672
Total Capital Assets being depreciated	5,826,526	44,254	(147,971)	5,722,809
Less: Accumulated Depreciation:				
Collection System	(2,518,003)	(72,861)	-	(2,590,864)
Buildings	(115,432)	-	115,432	-
Equipment	(133,099)	(15,307)	-	(148,406)
Leasehold Improvments	-	(1,755)	-	(1,755)
Total Accumulated Depreciation	(2,766,534)	(89,923)	115,432	(2,741,025)
Total Capital Assets being depreciated, net	3,059,992	(45,669)	(32,539)	2,981,784
Total Governmental Activities Capital Assets, net	\$ 3,059,992	\$ (45,669)	\$ (32,539)	\$ 2,981,784

The activity in capital assets for the year ended December 31, 2016 is as followed:

	Balance December 31, 2015	Additions	Retirements and Transfers	Balance December 31, 2016
Capital Assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in Progress	5,200	-	(5,200)	-
Total Capital Assets not being depreciated	5,200	-	(5,200)	-
Capital Assets being depreciated:				
Collection System	5,464,617	-	-	5,464,617
Buildings	147,971	-	-	147,971
Equipment	211,178	2,760	-	213,938
Total Capital Assets being depreciated	5,823,766	2,760	-	5,826,526
Less: Accumulated Depreciation:				
Collection System	(2,445,142)	(72,861)	-	(2,518,003)
Buildings	(110,538)	(4,894)	-	(115,432)
Equipment	(117,878)	(15,221)	-	(133,099)
Total Accumulated Depreciation	(2,673,558)	(92,976)	-	(2,766,534)
Total Capital Assets being depreciated, net	3,150,208	(90,216)	-	3,059,992
Total Governmental Activities Capital Assets, net	\$ 3,155,408	\$ (90,216)	\$ (5,200)	\$ 3,059,992

SOUTH TOMS RIVER SEWERAGE AUTHORITY
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Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 5: LIABILITIES

During the years ended December 31, 2017 and 2016, the following changes occurred in long-term obligations:

Net Pension Liability

For details on the net pension liability, see the Pension Obligations section below. The Authority's annual required contribution to the Public Employees' Retirement System is budgeted and paid on an annual basis.

Compensated Absences

For the years ended December 31, 2017 and 2016, the Authority accrued compensated absences in the amount of \$6,197 and \$5,312, respectively.

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, 2017 and 2016, the balances totaled \$2,666 and \$1,517, respectively.

	<u>Balance</u> <u>December 31, 2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December 31, 2017</u>	<u>Balance</u> <u>Due Within</u> <u>One Year</u>
Net Pension Liability	\$ 256,837	\$ -	\$ 56,391	\$ 200,446	\$ -
Compensated Absences	5,312	885	-	6,197	-
	<u>\$ 262,149</u>	<u>\$ 885</u>	<u>\$ 56,391</u>	<u>\$ 206,643</u>	<u>\$ -</u>

	<u>Balance</u> <u>December 31, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December 31, 2016</u>	<u>Balance</u> <u>Due Within</u> <u>One Year</u>
Net Pension Liability	\$ 150,075	\$ 106,762	\$ -	\$ 256,837	\$ -
Compensated Absences	3,874	1,438	-	5,312	-
	<u>\$ 153,949</u>	<u>\$ 108,200</u>	<u>\$ -</u>	<u>\$ 262,149</u>	<u>\$ -</u>

SOUTH TOMS RIVER SEWERAGE AUTHORITY
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Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 6: PENSION OBLIGATIONS

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 <http://www.nj.gov/treasury/pensions/financial-reports.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.

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,

SOUTH TOMS RIVER SEWERAGE AUTHORITY
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Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 6: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

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 2017, 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. For the year ended December 31, 2017, the Authority's contractually required contribution to PERS plan was \$7,977.

Components of Net Pension Liability - At December 31, 2017, the Authority's proportionate share of the PERS net pension liability was \$200,446. The net pension liability was measured as of June 30, 2017. 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, 2016, which was rolled forward to June 30, 2017. 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, 2017. The Authority's proportion measured as of June 30, 2017, was .00086% which was a decrease of .000006% from its proportion measured as of June 30, 2016.

Collective Balances at December 31, 2017 and December 31, 2016

	<u>12/31/2017</u>	<u>12/30/2016</u>
Actuarial valuation date (including roll forward)	June 30, 2017	June 30, 2016
Deferred Outflows of Resources	\$ 80,923	\$ 115,290
Deferred Inflows of Resources	41,323	-
Net Pension Liability	200,446	256,837
Authority's portion of the Plan's total net pension Liability	0.00086%	0.00087%

Pension Expense and Deferred Outflows/Inflows of Resources - At December 31, 2017, the Authority's proportionate share of the PERS expense, calculated by the plan as of the June 30, 2017 measurement date is \$27,278. At December 31, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

SOUTH TOMS RIVER SEWERAGE AUTHORITY
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Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 6: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 4,720	\$ -
Changes of Assumptions	40,383	40,235
Net Difference between Projected and Actual Earnings on Pension Plan Investments	1,365	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions	<u>34,455</u>	<u>1,088</u>
	<u>\$ 80,923</u>	<u>\$ 41,323</u>

The Authority will amortize the above sources of deferred outflows and inflows related to PERS over the following number of years:

	<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	-
June 30, 2016	5.57	-
June 30, 2017	5.48	-
Changes of Assumptions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
June 30, 2017	-	5.48

SOUTH TOMS RIVER SEWERAGE AUTHORITY
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Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 6: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

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

The following is a summary of the deferred outflows of resources and deferred inflows of resources related to PERS that will be recognized in future periods:

Year Ending <u>Dec 31,</u>	<u>Amount</u>
2018	\$ 17,328
2019	19,565
2020	10,921
2021	(4,089)
2022	<u>(4,125)</u>
	<u>\$ 39,600</u>

Actuarial Assumptions - The total pension liability for the June 30, 2017 measurement date was determined by using an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions:

SOUTH TOMS RIVER SEWERAGE AUTHORITY
(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 6: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

Inflation	2.25%
Salary Increases:	
Through 2026	1.65% - 4.15% Based on Age
Thereafter	2.65% - 5.15% Based on Age
Investment Rate of Return	7.00%
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, 2016 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 (7.00% at June 30, 2017) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2017 are summarized in the following table:

SOUTH TOMS RIVER SEWERAGE AUTHORITY
(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 6: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute Return/Risk Mitigation	5.00%	5.51%
Cash	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public High Yield	2.50%	6.82%
Global Diversified Credit	5.00%	7.10%
Credit Oriented Hedge Funds	1.00%	6.60%
Debt Related Private Equity	2.00%	10.63%
Debt Related Real Estate	1.00%	6.61%
Private Real Asset	2.50%	11.83%
Equity Related Real Estate	6.25%	9.23%
U.S. Equity	30.00%	8.19%
Non-U.S. Developed Markets Equity	11.50%	9.00%
Emerging Markets Equity	6.50%	11.64%
Buyouts/Venture Capital	8.25%	13.08%
	<u>100.00%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. The single blended discount rate was based on long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.58% as of June 30, 2017 based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount 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 40% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension 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 (4.00%) or 1-percentage-point higher (6.00%) than the current rate:

SOUTH TOMS RIVER SEWERAGE AUTHORITY
(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 6: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

	1% Decrease <u>(4.00%)</u>	Current Discount Rate <u>(5.00%)</u>	1% Increase <u>(6.00%)</u>
Authority's Proportionate Share of the Net Pension Liability	<u>\$ 248,667</u>	<u>\$ 200,446</u>	<u>\$ 160,272</u>

NOTE 7: RATE STRUCTURE

The Authority adopted the following rate structures for residential and commercial users effective January 1, 2008.

Residential User Charges

- A residential private dwelling, single family house having four bedrooms or less shall be charged at the rate of one unit.
- Multiple residential dwellings; each apartment shall be charged at the rate of one unit.
- Each unit will be billed \$100 per quarter.

Commercial User Charges

- Commercial businesses will be billed on a quarterly basis at the rate of \$110 per quarter for the first four fixtures. Each additional fixture will be billed \$27.50 each per quarter. Fixtures are defined as sinks, toilets, bathtubs, showers, dishwashers, washing machines and floor drains.
- Commercial businesses will also be billed for water usage on a monthly basis for usage amounts exceeding 6,000 gallons. Monthly usage over 6,000 gallons will be billed at \$4.00 for every additional 1,000 gallons.

NOTE 8: COMMITMENTS

The Authority entered into an agreement with the Borough of South Toms River for the leasing of premises at 19 Double Trouble Road. The lease is for a period of ninety-nine (99) years or until the building is no longer in use by the Borough of South Toms River, whichever comes first. This period of time shall be renewable by way of a resolution passed by both the Borough and the Authority. During said period, the Authority shall pay the Borough rent in the amount of \$500 per month.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)
Notes to Financial Statements (continued)
For the years ended December 31, 2017 and 2016

NOTE 9: 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, 2017, 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, 2017, there were no significant reductions in coverages from those provided in the previous year.

NOTE 10: 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
(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)
Schedule of Authority's Proportionate Share of the Net Pension Liability
Public Employees' Retirement System (PERS)
Last Four Fiscal Years

	2017	2016	2015	2014	2013
Authority's proportion of the net pension liability	0.00086%	0.00087%	0.00080%	0.00080%	0.00044%
Authority's proportionate share of the net pension liability	\$ 200,446	\$ 256,837	\$ 180,397	\$ 150,075	\$ 84,110
Authority's covered payroll	\$ 59,656	\$ 69,116	\$ 60,777	\$ 61,454	\$ 58,741
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	336.00%	371.60%	296.82%	244.21%	143.19%
Plan fiduciary net position as a percentage of the total pension liability	48.10%	47.93%	52.08%	52.08%	48.72%

*The amounts presented for each fiscal year were determined as of the previous fiscal year end (the measurement date).

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
(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)
Schedule of Authority Contributions
Public Employees' Retirement System (PERS)
Last Four Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Authority's contractually required contribution	\$ 7,977	\$ 7,704	\$ 6,909	\$ 6,608	\$ 3,316
Contributions in relation to the contractually required contribution	<u>(7,977)</u>	<u>(7,704)</u>	<u>(6,909)</u>	<u>(6,608)</u>	<u>(3,316)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered payroll	\$ 59,656	\$ 59,656	\$ 69,116	\$ 60,777	\$ 61,454
Contributions as a percentage of covered payroll	13.37%	12.91%	10.00%	10.87%	5.40%

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
(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)
Notes to Required Supplementary Information
For the year ended December 31, 2017

Public Employees' Retirement System (PERS)

Changes in Benefit Terms - None.

Changes in Assumptions - The discount rate changed from 3.98% as of June 30, 2016, to 5.00% as of June 30, 2017.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Schedule of Revenues and Expenses - Budget to Actual
For the year ended December 31, 2017
(With comparative totals for the year ended December 31, 2016)

	For the year ended December 31, 2017				For the year ended December 31, 2016			
	Original Budget	Final Budget	Actual	Favorable (Unfavorable)	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
REVENUES:								
User Charges and Fees	\$ 533,728	\$ 533,728	\$ 535,734	\$ 2,006	\$ 502,720	\$ 502,720	\$ 551,807	\$ 49,087
Connection Fees	3,896	3,896	9,770	5,874	-	-	3,896	3,896
Delinquent Charges	6,000	6,000	6,933	933	5,800	5,800	7,967	2,167
Interest Income	100	100	1,914	1,814	100	100	910	810
Other Revenue	100	100	-	(100)	80	80	-	(80)
TOTAL REVENUES	543,824	543,824	554,351	10,527	508,700	508,700	564,580	55,880
EXPENSES:								
Operating Appropriations:								
Cost of Providing Services:								
Salaries, Wages and Payroll Taxes	23,250	27,450	27,439	11	24,000	19,800	21,400	(1,600)
OCUA Fees	290,000	284,750	284,729	21	280,000	285,400	285,327	73
Engineering	6,000	6,400	6,388	12	4,000	6,500	9,045	(2,545)
Sewer Maintenance Supplies	7,000	7,600	7,564	36	5,000	7,600	11,082	(3,482)
Garage Rental	3,600	3,600	3,600	-	3,600	3,600	3,600	-
Renewal and Replacement	1,000	-	-	-	2,000	-	-	-
Total Cost of Providing Services	330,850	329,800	329,720	80	318,600	322,900	330,454	(7,554)
Administrative Expenses:								
Salaries, Wages and Payroll Taxes	75,600	71,950	71,935	15	73,000	70,200	68,371	1,829
Employee Fringe Benefits	16,900	9,400	9,359	41	17,500	8,900	8,865	35
Health Insurance	22,175	21,875	21,830	45	25,000	22,000	21,887	113
Legal Expense	8,000	9,050	16,886	(7,836)	15,000	7,400	7,136	264
Audit and Consulting	25,000	23,750	23,710	40	24,000	22,500	22,340	160
Data Processing	250	-	-	-	4,000	-	-	-
Office Expenses and Supplies	15,000	28,900	24,101	4,799	14,000	14,000	14,579	(579)
Office Cleaning and Maintenance	3,000	1,650	1,635	15	4,000	4,000	3,300	700
Insurance	-	-	20,949	(20,949)	-	20,200	20,178	22
Postage	3,000	2,800	2,800	-	3,000	3,000	3,000	-
Telephone	2,000	1,650	1,608	42	2,000	2,000	1,541	459
Utilities	6,000	3,950	3,902	48	6,000	6,000	5,095	905
Fuel	1,200	1,450	1,442	8	1,600	1,600	883	717
Licenses and Permits	-	3,000	3,000	-	-	3,000	3,000	-
Miscellaneous	1,500	1,250	2,951	(1,701)	1,000	1,000	936	64
Total Administrative Expenses	179,625	180,675	206,108	(25,433)	190,100	185,800	181,111	4,689
TOTAL OPERATING APPROPRIATIONS	510,475	510,475	535,828	(25,353)	508,700	508,700	511,565	(2,865)
OTHER COSTS FUNDED BY REVENUES:								
Appropriation to Municipality	25,474	25,474	25,474	-	25,335	25,335	25,335	-
TOTAL COSTS FUNDED BY REVENUES	25,474	25,474	25,474	-	25,335	25,335	25,335	-
TOTAL EXPENSES	535,949	535,949	561,302	(25,353)	534,035	534,035	536,900	(2,865)
BUDGETARY REVENUES OVER EXPENSES	\$ 7,875	\$ 7,875	\$ (6,951)	\$ (14,826)	\$ (25,335)	\$ (25,335)	\$ 27,680	\$ 53,015

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Schedule of Revenues and Expenses - Budget to Actual (continued)
For the year ended December 31, 2017
(With comparative totals for the year ended December 31, 2016)

	<u>2017</u> <u>Actual</u>	<u>2016</u> <u>Actual</u>
Reconciliation of Budgetary Basis to Net Loss:		
Budgetary Revenues Over Expenses	\$ (6,951)	\$ 27,680
Adjustments to Budgetary Basis:		
Depreciation Expense	(89,923)	(92,976)
Pension Liability Expense - GASB 68	(27,549)	(29,881)
Loss on Sale of Assets	(32,539)	-
Total Adjustments	<u>(150,011)</u>	<u>(122,857)</u>
Net Loss	<u>\$ (156,962)</u>	<u>\$ (95,177)</u>

SOUTH TOMS RIVER SEWERAGE AUTHORITY
(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)
Board of Commissioners and Management
December 31, 2017

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



HOLMAN | FRENIA
ALLISON, P.C.

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The Chairman and Commissioners
of South Toms River Sewerage Authority
South Toms River, New Jersey

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, 2017. 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 supporting documentation indicated that quotes were requested for all items that required them.

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 2017-001:***

During our audit, it was noted the Authority overspent their operating budget by \$25,353.

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, 2018.

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.

Property, Plant & Equipment

The property, plant and equipment 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 November 9, 2016 and adopted its operating budget on December 21, 2016.

Follow-Up of Prior Years' Findings

In accordance with *Government Auditing Standards* and audit requirements prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, our procedures included a review of all prior year findings. Corrective action had been taken on all prior year findings except those marked with an asterisk (*).

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 concerning our comments or recommendations, or should you desire any assistance in implementing our recommendations, please call us.

Respectively Submitted,

Handwritten signature in black ink that reads "HOLMAN FRENIA ALLISON PC".

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

May 8, 2018
Toms River, New Jersey