

**REPORT OF AUDIT
READINGTON - LEBANON
SEWERAGE AUTHORITY
COUNTY OF HUNTERDON
YEAR 2015**

**BEDARD, KUROWICKI CO., CPA'S, PC
CERTIFIED PUBLIC ACCOUNTANTS**

**READINGTON - LEBANON SEWERAGE AUTHORITY
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READINGTON - LEBANON SEWERAGE AUTHORITY

PART I

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS

AND REQUIRED SUPPLEMENTARY INFORMATION PART I

YEARS ENDED DECEMBER 31, 2015 AND DECEMBER 31, 2014

**READINGTON - LEBANON SEWERAGE AUTHORITY
ROSTER OF OFFICIALS
YEAR ENDED DECEMBER 31, 2015**

| <u>Members</u> | <u>Title</u> |
|-----------------------|---------------------|
| Dr. Vincent Schaible | Chairman |
| Richard Burton | Vice Chairman |
| Dr. Charles Westfield | Secretary/Treasurer |
| Edward Cichone | Member |
| Ronald Monaco | Member |
| Tanya Rohrbach | Member |

* * * * *

| <u>Administration and Professionals</u> | <u>Title</u> |
|---|---------------|
| Jill A. Plesnarski | Administrator |
| R3M Engineers | Engineer |
| Edward Buzak | Attorney |



Bedard, Kurowicki & Co.

Certified Public Accountants, PC

www.bkc-cpa.com

Independent Auditors' Report

To the Honorable Chairman and Members
of the Readington-Lebanon Sewerage Authority
Whitehouse, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Readington-Lebanon Sewerage Authority (the Authority), as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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. 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Modified Opinions

As described more fully in Note 6 to the financial statements, the Authority has not determined the cost of its post-retirement benefits in accordance with accounting principles generally accepted in the United States of America, which require the cost of post-retirement benefits to be recognized over the employees' respective service periods and a liability to be recognized when the accumulated benefit obligation exceeds the fair value of the plan assets. The effects of that departure on the financial statements are not reasonably determinable.

Modified Opinions

In our opinion, except for the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of December 31, 2015 and 2014, 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.

Emphasis of Matter

As discussed in Note 11 to the basic financial statements, the Authority implemented Governmental Auditing Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions-An Amendment to GASB Statement No. 27 during the year ended December 31, 2015. Our opinions are not modified with respect to this matter. The implementation resulted in the restatement of certain balances of the Comparative Statement of Net Position; Comparative Statement of Revenues, Expenses and Changes in Net Position, and the ending balance for Net Position as of December 31, 2014 as detailed in Note 11 to the financial statements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary pension schedules be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The supplementary data schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 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 supplementary data schedules are fairly stated, in all material respects, in relation to the 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 June 20, 2016, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

Bedard, Kurowicki & Co.
BEDARD, KUROWICKI & CO., CPA'S, PC

June 20, 2016
Flemington, New Jersey

REQUIRED SUPPLEMENTARY INFORMATION PART I

Readington-Lebanon Sewerage Authority

Old Route 28, PO Box 136
Whitehouse, NJ 08888

Vincent Schaible
Chairman

Richard Burton
Vice-Chairman

Charles Westfield
Secretary-Treasurer

Jill A. Plesnarski
Administrator

908-534-6171
908-534-5688 Fax

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

This section of the Readington-Lebanon Sewerage Authority (RLSA) annual financial report presents our discussion and analysis of the RLSA's financial performance during the fiscal year ending December 31, 2015. Please read it in conjunction with the RLSA's condensed financial statements (Exhibits A), which follow this section.

FINANCIAL HIGHLIGHTS

1. The RLSA's total assets increased .26% over the course of this year's operations. Increases in capital asset expenditures were offset by depreciation expense.
2. Deferred outflows of resources increased by 322.82% compared to the prior year. This was attributable to increases in changes in assumptions and proportion, in addition to the difference between actual and expected experience.
3. Current liabilities decreased by 13.06%. This is due to a decrease in the accrued vacation liability resulting from a payout of unused vacation days due to the former plant administrator.
4. Long-term liabilities increased by 24.28% compared to the prior year. This is the result of an adjustment of the actuarially determined net pension liability of the Authority.
5. During the year, the RLSA's operating revenues increased by 1.27%. Operating revenues were realized as budgeted by the Authority.
6. Operating expenses increased by 4.87%. This is primarily attributable to an increase in pension expense recognized by the Authority as a result of an increase in the actuarially determined net pension liability of the Authority.
7. Net position increased by .02%. Net Investment in capital assets increased by 2.39% as increases in capital expenditures was offset by depreciation expense. Restricted net position decreased by 18.81% as a result of funding for unbudgeted capital projects such as the belt filter press project. Unrestricted net position increased by 15.01% as a result of operating revenues and other financing sources exceeding operating expenditures.

OVERVIEW OF ANNUAL FINANCIAL REPORT

The financial statements report information about the RLSA using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The financial statements include a statement of net position; a statement of revenues, expenses and changes in net position; a statement of cash flows; and notes to the financial statements.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

OVERVIEW OF ANNUAL FINANCIAL REPORT-(CONTINUED)

The statement of net position presents the financial position of the Authority on a full accrual historical cost basis. The statement of net position presents information on all of the RLSA's assets and liabilities, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the RLSA is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents the results of the RLSA's activities over the course of the fiscal year and information as to how the net position changed during the year.

The statement of cash flow presents changes in cash and cash equivalents resulting from operational, financing and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide disclosures and other information that is essential to a full understanding of material data provided in the statements. Supplementary information comparing the budget to actual revenues and expenses as well as changes in restricted accounts is provided.

FINANCIAL ANALYSIS

The attached comparative condensed financial statements serve as the key financial data and indicators for management, monitoring and planning.

AVAILABILITY OF FINANCIAL REPORT

This report is prepared in compliance with State mandates and will be made available to residents, taxpayers and any interested person or entity upon request at the RLSA office located at Old Route 28, Whitehouse, NJ 08888

Readington - Lebanon Sewerage Authority

READINGTON - LEBANON SEWERAGE AUTHORITY
CONDENSED FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2015 AND 2014

Condensed Statement of Net Position

| | December 31, | |
|---|---------------|---------------|
| | 2015 | 2014 |
| Unrestricted Assets | \$ 1,981,979 | \$ 1,858,567 |
| Restricted Assets | 1,684,134 | 2,074,254 |
| Capital Assets, Net | 13,295,466 | 12,984,512 |
| Total Assets | 16,961,579 | 16,917,333 |
| | | |
| Deferred Outflows of Resources | 252,955 | 59,825 |
| | | |
| Total Assets and Deferred Outflows of Resources | \$ 17,214,534 | \$ 16,977,158 |
| | | |
| Liabilities (Unrestricted): | | |
| Current Liabilities | \$ 77,005 | \$ 88,568 |
| Long-Term Liabilities | 1,505,999 | 1,211,798 |
| Total Liabilities | 1,583,004 | 1,300,366 |
| | | |
| Deferred Inflows of Resources | 24,214 | 72,217 |
| | | |
| Net Position: | | |
| Net Investment in Capital Assets | 13,295,466 | 12,984,512 |
| Restricted | 1,684,134 | 2,074,254 |
| Unrestricted | 627,716 | 545,809 |
| Total Net Position | 15,607,316 | 15,604,575 |
| | | |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | \$ 17,214,534 | \$ 16,977,158 |

Condensed Statement of Revenues, Expenses and Changes in Net Position

| | December 31, | |
|---|---------------|---------------|
| | 2015 | 2014 |
| Operating Revenues | \$ 1,577,308 | \$ 1,557,565 |
| Operating Expenses | 1,594,158 | 1,507,674 |
| Operating Income (Loss) | (16,850) | 49,891 |
| Non-Operating Revenues (Expenses) | 19,591 | 1,090 |
| Prior Period Adjustment-Net Pension Liability | - | (12,911) |
| Increase (Decrease) in Net Position | 2,741 | 38,070 |
| Net Position @ Beg of Year | 15,604,575 | 15,566,505 |
| Net Position @ End of Year | \$ 15,607,316 | \$ 15,604,575 |

READINGTON - LEBANON SEWERAGE AUTHORITY
CONDENSED FINANCIAL STATEMENTS
FOR THE YEARS ENDING DECEMBER 31, 2015 AND 2014

Condensed Statement of Capital Assets

| | December 31, | |
|--|----------------------|----------------------|
| | 2015 | 2014 |
| Capital Assets, Not Being Depreciated: | | |
| Land | \$ 231,628 | \$ 231,628 |
| Construction in Progress | 637,774 | 76,086 |
| Total | 869,402 | 307,714 |
| Capital Assets Being Depreciated: | | |
| Plant | 16,026,139 | 16,026,139 |
| Building | 3,342,487 | 3,342,487 |
| Building Improvements | 49,289 | 49,289 |
| Vehicles | 57,890 | 52,237 |
| Operating Equipment | 397,374 | 385,984 |
| Total | 19,873,179 | 19,856,136 |
| Accumulated Depreciation: | | |
| Plant | 5,314,741 | 5,097,407 |
| Building | 1,790,754 | 1,704,543 |
| Building Improvements | 43,189 | 41,559 |
| Vehicles | 5,789 | 52,237 |
| Operating Equipment | 292,642 | 283,592 |
| Total | 7,447,115 | 7,179,338 |
| Total Capital Assets Being Depreciated, Net | 12,426,064 | 12,676,798 |
| Total Capital Assets | \$ 13,295,466 | \$ 12,984,512 |

Condensed Statement of Outstanding Long Term Debt

| | December 31, | |
|-----------------------|---------------------|---------------------|
| | 2015 | 2014 |
| Net Pension Liability | \$ 1,505,999 | \$ 1,211,798 |

READINGTON - LEBANON SEWERAGE AUTHORITY

PART II

FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION PART II

AND SUPPLEMENTARY DATA

YEARS ENDED DECEMBER 31, 2015 AND DECEMBER 31, 2014

FINANCIAL STATEMENTS

READINGTON - LEBANON SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2015 AND 2014

| | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|
| ASSETS | | |
| Unrestricted Assets: | | |
| Cash and Cash Equivalents | \$ 1,323,530 | \$ 697,024 |
| Investments | 650,276 | 1,150,116 |
| Prepaid Expenses | 6,861 | 10,652 |
| Accrued Interest on Investments | 1,312 | 775 |
| Total Unrestricted Assets | <u>1,981,979</u> | <u>1,858,567</u> |
| Restricted Assets: | | |
| Cash and Cash Equivalents | <u>1,684,134</u> | <u>2,074,254</u> |
| Capital Assets: | | |
| Capital Assets not Being Depreciated | 869,402 | 307,714 |
| Capital Assets Being Depreciated | 19,873,179 | 19,856,136 |
| Less: Accumulated Depreciation | <u>(7,447,115)</u> | <u>(7,179,338)</u> |
| Net Capital Assets | <u>13,295,466</u> | <u>12,984,512</u> |
| Total Assets | <u>16,961,579</u> | <u>16,917,333</u> |
| Deferred Outflows of Resources: | | |
| Deferred Amount on Pension Activity | <u>252,955</u> | <u>59,825</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 17,214,534</u> | <u>\$ 16,977,158</u> |

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

READINGTON - LEBANON SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2015 AND 2014
(Continued)

| | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | | |
| Current Liabilities (Payable from Unrestricted Assets): | | |
| Accounts Payable | \$ 50,675 | \$ 54,255 |
| Accrued Vacation Liability | 25,256 | 34,100 |
| Other Current Liabilities | <u>1,074</u> | <u>213</u> |
| | 77,005 | 88,568 |
| Noncurrent Liabilities (Payable from Unrestricted Assets): | | |
| Net Pension Liability | <u>1,505,999</u> | <u>1,211,798</u> |
| Total Liabilities | <u>1,583,004</u> | <u>1,300,366</u> |
| Deferred Inflows of Resources: | | |
| Deferred Amount on Pension Activity | <u>24,214</u> | <u>72,217</u> |
| Net Position: | | |
| Net Investment in Capital Assets | 13,295,466 | 12,984,512 |
| Restricted | 1,684,134 | 2,074,254 |
| Unrestricted | <u>627,716</u> | <u>545,809</u> |
| Total Net Position | <u>15,607,316</u> | <u>15,604,575</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION | <u>\$ 17,214,534</u> | <u>\$ 16,977,158</u> |

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

**READINGTON - LEBANON SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION**

| | For the Years Ended December 31, | |
|--|----------------------------------|----------------------|
| | 2015 | 2014 |
| Operating Revenues: | | |
| User Charges | \$ 1,575,700 | \$ 1,556,200 |
| Interest Income | 1,590 | 1,317 |
| Other Income | 18 | 48 |
| Total Operating Revenues | <u>1,577,308</u> | <u>1,557,565</u> |
| Operating Expenses: | | |
| Cost of Providing Services | 871,323 | 820,993 |
| Administrative and General | 391,505 | 362,067 |
| Depreciation | 331,330 | 324,614 |
| Total Operating Expenses | <u>1,594,158</u> | <u>1,507,674</u> |
| Operating Income (Loss) | <u>(16,850)</u> | <u>49,891</u> |
| Non-Operating Revenues (Expenses): | | |
| Interest Income | 2,191 | 1,090 |
| Other Income | 400 | |
| Total Non-Operating Revenues (Expenses) | <u>2,591</u> | <u>1,090</u> |
| Other Financing Sources: | | |
| Gain on Disposal of Capital Assets | <u>17,000</u> | <u>-</u> |
| Increase (Decrease) in Net Position | <u>2,741</u> | <u>50,981</u> |
| Net Position at Beginning of Year | 15,604,575 | 16,777,784 |
| Restatement to Include Net Pension Liability | <u>-</u> | <u>(1,224,190)</u> |
| Net Position at Beginning of Year-Restated | <u>15,604,575</u> | <u>15,553,594</u> |
| Net Position at End of Year | <u>\$ 15,607,316</u> | <u>\$ 15,604,575</u> |

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

READINGTON - LEBANON SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF CASH FLOWS

| | For the Years Ended December 31, | |
|---|----------------------------------|--------------|
| | 2015 | 2014 |
| Cash Flows from Operating Activities: | | |
| Cash Received from Customers | \$ 1,575,700 | \$ 1,556,200 |
| Other Operating Cash Receipts | 1,071 | 1,611 |
| Cash Payments to Suppliers & Employees | (1,217,532) | (1,176,491) |
| Net Cash Provided by Operating Activities | 359,239 | 381,320 |
| Cash Flows from Investing Activities: | | |
| Purchase of Investments | (500,160) | (3,001,287) |
| Redemption of Investments | 1,000,000 | 3,000,000 |
| Interest Income | 2,191 | 1,090 |
| Net Cash Provided (Used) by Investing Activities | 502,031 | (197) |
| Cash Flow from Capital and Related Financing Activities: | | |
| Purchase of Capital Assets | (642,284) | (86,066) |
| Sale of Capital Assets | 17,000 | - |
| Other Cash Receipts | 400 | - |
| Net Cash Used by Capital and Related Financing Activities | (624,884) | (86,066) |
| Increase (Decrease) in Cash and Cash Equivalents | 236,386 | 295,057 |
| Cash and Cash Equivalents at Beginning of Year | 2,771,278 | 2,476,221 |
| Cash and Cash Equivalents at End of Year | \$ 3,007,664 | \$ 2,771,278 |
| Reconciliation of Balance Sheet: | | |
| Unrestricted Cash and Cash Equivalents | \$ 1,323,530 | \$ 697,024 |
| Restricted Cash and Cash Equivalents | 1,684,134 | 2,074,254 |
| | \$ 3,007,664 | \$ 2,771,278 |

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

READINGTON - LEBANON SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF CASH FLOWS
(Continued)

| | <u>For the Years Ended December 31,</u> | |
|--|---|-------------------|
| | <u>2015</u> | <u>2014</u> |
| Reconciliation of Income from Operations to Net Cash Provided (Used) by Operating Activities: | | |
| Income (Loss) from Operations | \$ (16,850) | \$ 49,891 |
| Adjustments to Reconcile Income (Loss) from Operations to Net Cash Provided (Used) by Operating Activities: | | |
| Depreciation | 331,330 | 324,614 |
| Change in Assets and Liabilities: | | |
| (Increase) Decrease in Prepaid Expenses | 3,791 | (10,652) |
| (Increase) Decrease in Interest Receivable on Investments | (537) | 246 |
| (Increase) Decrease in Deferred Outflow of Resources | (193,130) | - |
| Increase (Decrease) in Accounts Payable | (3,580) | 15,305 |
| Increase (Decrease) in Accrued Vacation Liability | (8,844) | 1,798 |
| Increase (Decrease) in Other Current Liabilities | 861 | 118 |
| Increase (Decrease) in Deferred Inflow of Resources | (48,003) | - |
| Increase (Decrease) in Net Pension Liability | 294,201 | - |
| Net Cash Provided in Operating Activities | <u>\$ 359,239</u> | <u>\$ 381,320</u> |

SEE ACCOMPANYING NOTES TO FINANCIAL STATEMENTS

NOTES TO FINANCIAL STATEMENTS

**READINGTON - LEBANON SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Readington - Lebanon Sewerage Authority (Authority) have been prepared in conformity with generally accepted accounting principles (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 more significant of the Authority's accounting policies are described below.

A. Reporting Entity

The Authority was created to construct and operate a wastewater treatment system to serve Readington Township, Lebanon Borough, and the State of New Jersey for the Round Valley recreational area. The authority bills and collects its revenue directly from the Township of Readington, the Borough of Lebanon and the State of New Jersey.

The Authority consists of six appointed officials and is responsible for the fiscal control of the operations of the sewer system. The various funds used by the Authority to control its assets are authorized in the Bond Resolution adopted on August 8, 1984. The Bond Resolution restricts various transactions and requires that certain transfers be made between funds. The Bond Resolution is on file in the Authority's office.

As a public body, under existing statute, the Authority is exempt from both Federal and State income taxes.

B. Basis of Presentation - Fund Accounting

The operations of the Authority are recorded in a proprietary fund type. Proprietary funds are used to account for activities that are financed and operated in a manner similar to business enterprises and the intention is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis are to be financed or recovered primarily through user charges.

C. Basis of Accounting

The Authority's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The Authority has adopted GASB statement 34 and subsequent Statements and Interpretations required certain changes in terminology, format and content, as well as inclusion of the management's discussion and analysis as required supplementary information.

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 and all liabilities 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 "net investment in capital assets", "restricted" and "unrestricted" components.

**READINGTON - LEBANON SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Accounting (Continued)

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of American requires management to make certain estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent net assets and liabilities at the statement of net position date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, among other accounts. Actual results may differ from those estimates

The accrual basis of accounting is used for measuring financial position and operating results of proprietary fund types. Under this method of accounting, revenues are recorded in the accounting period in which they are earned and expenses are recorded as incurred.

D. Property, Plant and Equipment

Property, plant and equipment is stated at cost, which includes direct construction costs and other expenditures related to construction.

Depreciation is determined on a straight-line basis for all plant and equipment. Depreciation is provided over the following estimated useful lives:

| | |
|------------------------------|---------------|
| Building and Improvements | 25 - 75 Years |
| Sewer Mains and Interceptors | 75 Years |
| Other Equipment | 5 - 15 Years |
| Pump and Equipment | 75 Years |
| Dewatering Equipment | 75 Years |

E. Restricted Accounts

In accordance with the 1984 Bond Resolution, the Authority has established the following funds to maintain the cash and investment accounts for the deposit, in the priority of the order listed, of all revenue received by the Authority.

| Fund | Amount | Use for Which Restricted |
|-----------|--|--|
| Revenue | All revenue received by the Authority using several Bank accounts. | Authorized operating expenses and transfers to the various accounts described below. |
| Operating | Amount needed for payment of operating expenses. | Operations and items included in the annual budget. |
| General | Excess from other fund. | If all other funds are at required amounts, funds are not restricted. |

**READINGTON - LEBANON SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Budgets and Budgetary Control

The Authority follows the following procedures in establishing the budgetary data as reflected in these financial statements.

At least 60 days prior to the Authority's year-end (December 31), the Authority must file its operating budget with the Director of the Division of Local Government Services for approval. Within 45 days after receipt of the Authority's budget the Director shall either approve or notify the Authority of the reasons for non-approval of the budget and to state the conditions upon which the approval will be granted. After approval, the Authority will formally adopt the budget. The budget is prepared based on the accounting principles and practices as prescribed by the Division of Local Government Services.

G. Compensated Absences

The Authority's personnel policy contains a provision for the carryover of unused vacation time for one year, after which the unused vacation time is forfeited. All unused sick time is cumulative for the duration of the employee's tenure with the Authority, but can only be used for sick time as described in the personnel policy. Upon resignation or termination of employment, unused sick time is forfeited. The monetary value of these earned and unused employee benefits have not been accrued by either charges to operations or to budgets of prior years. At December 31, 2015 and 2014, the Authority estimated this liability to be approximately \$25,256 and \$34,100, respectively.

NOTE 2: CASH AND INVESTMENTS

Cash and cash equivalents include petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. U.S. Treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at amortized cost. All other investments are stated at fair value.

New Jersey authorities are limited as to the types of investments and types of financial institutions they may invest in. New Jersey statutes provide a list of permissible investments that may be purchased by New Jersey authorities.

Additionally, the Authority has adopted a cash management plan that requires it to deposit public 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.

**READINGTON - LEBANON SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 2: CASH AND INVESTMENTS (Continued)

NJSA 17:9-41 et seq establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include Savings and Loan institutions, banks (both state and national banks) and saving banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

Cash and cash equivalents includes amounts in deposits, and short-term investments with original maturities of three months or less. The carrying (statement of net position) amounts were \$3,007,664 and \$2,771,278 for December 31, 2015 and 2014, respectively. The bank balances were \$3,427,013 and \$2,771,702 for December 31, 2015 and 2014, respectively.

Investments are stated at cost, which approximates market. The Authority classifies certificates of deposit which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

Deposit and Investment Risk

GASB Statement No. 40 "Deposit and Investment Risk Disclosures" requires state and local governments to communicate key information about deposit and investment risks. Required disclosures are as follows:

1. Custodial credit risk disclosures are required for:
 - a. Deposits that are uninsured and either (a) uncollateralized or (b) collateralized with securities held by the pledging financial institution, or its trust department or agent but not in the government's name.
 - b. Investment securities that are uninsured, are not registered in the name of the government, and are held by either (a) the counterparty or (b) the counterparty's trust department or agent but not in the government's name.

As the authority has no such investments, this disclosure is not applicable.

2. Credit quality ratings for investments in debt securities, external investment pools, money market funds, bond mutual funds, and other pooled investments of fixed-income securities. As the authority has no such investments, this disclosure is not applicable.
3. Disclosure of investments by amount and issuer for any issuer that represents five percent of more of total investments. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds or pools. This disclosure is reported below under Concentration of Credit Risk.
4. Interest rate risk disclosures are required for all debt investments and non-money market like pools. As the authority has no such investments, this disclosure is not applicable.

**READINGTON - LEBANON SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 2: CASH AND INVESTMENTS (Continued)

5. Investments that are exposed to foreign currency risk should be disclosed. As the authority has no such investments this disclosure is not applicable.

Concentration of Credit Risk

The State of New Jersey does not place any limit on the amount that the authority may invest with any one issuer. As of December 31, 2015, the authority had the following investments:

| Fund | Item | Maturity Date | Cost | Market Value |
|-----------------|------------------------|---------------|-------------------|-------------------|
| Non Restricted: | | | | |
| General | Certificate of Deposit | 03/24/2016 | \$ 151,168 | \$ 151,168 |
| | U.S. Treasury Bills | 04/28/2016 | 499,108 | 499,108 |
| | | | <u>\$ 650,276</u> | <u>\$ 650,276</u> |

NOTE 3: PENSION PLAN

Employees, who are eligible for a pension plan, are enrolled in the Public Employees' Retirement System (PERS), which is administered by the Division of Pensions, Treasury Department of the State of New Jersey. The plan is considered a cost-sharing multiple-employer defined benefit pension plan. For additional information about PERS, please refer to Division's Comprehensive Annual Financial Report which can be found at www.state.nj.us/treasury/pensions/annrpts.shtml.

The vesting and benefit provisions are set by NJSA 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:

| Tier | Definition |
|------|---|
| 1. | Members enrolled prior to July 1, 2007 |
| 2. | Members eligible to enroll on or after July 1, 2007 and prior to November 2, 2008 |
| 3. | Members eligible to enroll on or after November 2, 2008 and prior to May 22, 2010 |
| 4. | Members eligible to enroll on or after May 22, 2010 and prior to June 28, 2011 |
| 5. | Members eligible to enroll on or after June 28, 2011 |

**READINGTON - LEBANON SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 3: PENSION PLAN

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

Allocation Methodology and Reconciliation to Financial Statements

Although the Division administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense excluding that attributable to employer-paid member contributions are determined separately for each individual employer of the State and local groups of the plan.

To facilitate the separate (sub) actuarial valuations, the Division maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer allocations are applied to amounts presented in the schedules of pension amounts by employer. The allocation percentages for each group as of June 30, 2015 and 2014 are based on the ratio of each employer's contributions to total employer contributions of the group for the fiscal years ended June 30, 2015 and 2014, respectively.

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, requires participating employers in PERS to recognize their proportionate share of the collective net pension liability, collective deferred outflows of resources, collective deferred inflows of resources and collective pension expense excluding that attributable to employer-paid member contributions. The employer allocation percentages presented in the Division's schedule of employer allocations and applied to amounts presented in the schedule of pension amounts by employer are based on the ratio of the contributions as an individual employer to total contributions to the PERS during the years ended June 30, 2015 and 2014. Employer allocation percentages have been rounded for presentation purposes, therefore amounts presented in the schedule of pension amounts by employer may result in immaterial differences.

**READINGTON - LEBANON SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 3: PENSION PLAN (Continued)

Contributions

The contribution policy for PERS is set by NJSA 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 Fiscal years 2015 and 2014, 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, PL 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.

The contribution policy is set by state statutes and contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Significant legislation which became effective October 1, 2011 will gradually increase the employee contribution rate for PERS members. Effective October 1, 2011 the rate increased from 5.50% to 6.50% of annual contractual compensation for employees enrolled in the PERS pension plans. The rate will increase each year on the first of July over a seven year phase-in period until the withholding rate reaches 7.50% effective July 1, 2018.

Three-Year Trend Information for PERS

| <u>Year Funding</u> | <u>Annual Contribution Authority</u> | <u>Annual Contribution Employee</u> |
|-------------------------|--|---|
| 12/31/15 | \$ 53,357 | \$ 31,636 |
| 12/31/14 | 47,754 | 31,569 |
| 12/31/13 | 48,973 | 32,928 |

**READINGTON - LEBANON SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 3: PENSION PLAN (Continued)

Contributions (Continued)

Components of Net Pension Liability

The components of the Authority's allocable share of the net pension liability for PERS as of June 30, 2015 and 2014 are as follows:

| | <u>2015</u> | <u>2014</u> |
|---|---------------------|---------------------|
| Total Pension Liability | \$ 2,892,151 | \$ 2,528,837 |
| Plan Fiduciary Net Position | <u>1,386,152</u> | <u>1,317,039</u> |
| Net Pension Liability | <u>\$ 1,505,999</u> | <u>\$ 1,211,798</u> |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 47.93% | 52.08% |

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which was rolled forward to June 30, 2015. The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 1, 2014. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation Rate 3.04%

Salary Increases (Based on Age):

| | |
|------------|---------------|
| 2012-2021 | 2.15% - 4.40% |
| Thereafter | 3.15% - 5.40% |

Investment Rate of Return 7.90%

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for females) with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA.

The actuarial assumptions used in the July 1, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011.

**READINGTON - LEBANON SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 3: PENSION PLAN (Continued)

Contributions (Continued)

Long-Term Expected Rate of Return

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

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

**READINGTON - LEBANON SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 3: PENSION PLAN (Continued)

Contributions (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 4.90% and 5.39% as of June 30, 2015 and 2014, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 3.80% and 4.29% as of June 30, 2015 and 2014, respectively, 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 average of the last five years of contributions made in relation to the last five years of recommended 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 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate

The following presents the collective net pension liability of the Authority as of June 30, 2015 and 2014, respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

| | |
|----------------------------------|--------------|
| | <u>2015</u> |
| At Current Discount Rate (4.90%) | \$ 1,505,999 |
| At a 1% Lower Rate (3.90%) | 1,871,773 |
| At a 1% Higher Rate (5.90%) | 1,199,337 |
| | <u>2014</u> |
| At Current Discount Rate (5.39%) | \$ 1,211,798 |
| At a 1% Lower Rate (4.39%) | 1,524,483 |
| At a 1% Higher Rate (6.39%) | 949,222 |

**READINGTON - LEBANON SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 3: PENSION PLAN (Continued)

Contributions (Continued)

Collective Deferred Outflows of Resources and Deferred Inflows of Resources

At December 31, 2015, 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> |
|---|---|--|
| Differences between expected and actual experience | \$ 35,928 | \$ - |
| Changes of assumptions | 161,732 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 24,214 |
| Changes in proportion and differences between Authority contributions and proportionate share of contributions | <u>55,295</u> | <u>-</u> |
| Total | <u>\$ 252,955</u> | <u>\$ 24,214</u> |

The following presents a summary of changes in the collective deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the plan measurement date year ended June 30, 2015:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| Deferred Outflows of Resources: | | | | |
| Changes of Assumptions | \$ 39,498 | \$ 200,470 | \$ 42,308 | \$ 197,660 |
| Deferred Inflows of Resources: | | | | |
| Difference Between Projected and Actual Earnings on Pension Plan Investments | 74,856 | (39,910) | 10,732 | <u>24,214</u> |
| Net of Deferred Outflows/ (Inflows) | | | | <u>\$ 173,446</u> |

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions (excluding employer specific amounts, deferrals from Authority contributions subsequent to the measurement date, and deferrals from change on proportion) will be recognized in pension expense as follows:

**READINGTON - LEBANON SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 3: PENSION PLAN (Continued)

Contributions (Continued)

Collective Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

| <u>Year Ending June 30,</u> | |
|-----------------------------|-------------------|
| 2016 | \$ 31,576 |
| 2017 | 31,576 |
| 2018 | 31,576 |
| 2019 | 50,290 |
| 2020 | <u>28,428</u> |
| Total | <u>\$ 173,446</u> |

Pension Expense

For the year ended December 31, 2015, the Authority recognized net pension expense of \$164,102 which represents the Authority's proportionate share of allocable plan pension expense of \$98,793 plus the net amortization of deferred amounts from changes in proportion of \$11,952 plus the actual contribution paid by the Authority in the current year of \$53,357. The components of allocable pension expense, which exclude amounts attributable to employer paid member contributions and pension expense related to specific liabilities of individual employers, for the Authority for the measurement date fiscal year ending June 30, 2015 are as follows:

| | |
|---|------------------|
| Service Cost | \$ 59,174 |
| Interest on Total Pension Liability | 141,021 |
| Member Contributions | (32,733) |
| Administrative Expense | 1,100 |
| Expected Investment Return Net of Investment Expense | (100,760) |
| Pension Expense Related to Specific Liabilities of Individual Employers | (585) |
| Recognition of Deferred Inflows/Outflows of Resources: | |
| Amortization of Assumption Changes or Inputs | 34,696 |
| Amortization of Expected and Actual Experience | 7,612 |
| Amortization of Projected Versus Actual Investment Earnings on Pension Plan Investments | <u>(10,732)</u> |
| Pension Expense | <u>\$ 98,793</u> |

**READINGTON - LEBANON SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 4: CAPITAL ASSETS

Capital asset activity during the year ended December 31, 2015 was as follows:

| | <u>Balance Dec 31, 2014</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance Dec 31, 2015</u> |
|---|---------------------------------|-------------------|------------------|---------------------------------|
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$ 231,628 | \$ - | \$ - | \$ 231,628 |
| Construction in Progress | <u>76,086</u> | <u>561,688</u> | <u>-</u> | <u>637,774</u> |
| Total | <u>307,714</u> | <u>561,688</u> | <u>\$ -</u> | <u>869,402</u> |
| Capital Assets, Being Depreciated: | | | | |
| Plant | 16,026,139 | - | - | 16,026,139 |
| Building | 3,342,487 | - | - | 3,342,487 |
| Building Improvements | 49,289 | - | - | 49,289 |
| Vehicles | 52,237 | 57,890 | 52,237 | 57,890 |
| Operating Equipment | <u>385,984</u> | <u>22,706</u> | <u>11,316</u> | <u>397,374</u> |
| Total | <u>19,856,136</u> | <u>80,596</u> | <u>63,553</u> | <u>19,873,179</u> |
| Accumulated Depreciation: | | | | |
| Plant | 5,097,407 | 217,334 | - | 5,314,741 |
| Building | 1,704,543 | 86,211 | - | 1,790,754 |
| Building Improvements | 41,559 | 1,630 | - | 43,189 |
| Vehicles | 52,237 | 5,789 | 52,237 | 5,789 |
| Operating Equipment | <u>283,592</u> | <u>20,366</u> | <u>11,316</u> | <u>292,642</u> |
| Total | <u>7,179,338</u> | <u>331,330</u> | <u>63,553</u> | <u>7,447,115</u> |
| Total Capital Assets Being Depreciated, Net | <u>12,676,798</u> | <u>(250,734)</u> | <u>-</u> | <u>12,426,064</u> |
| Total Capital Assets | <u>\$ 12,984,512</u> | <u>\$ 310,954</u> | <u>\$ -</u> | <u>\$ 13,295,466</u> |

**READINGTON - LEBANON SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 4: CAPITAL ASSETS (Continued)

Capital asset activity during the year ended December 31, 2014 was as follows:

| | <u>Balance Dec 31, 2013</u> | <u>Additions</u> | <u>Disposals</u> | <u>Balance Dec 31, 2014</u> |
|---|---------------------------------|---------------------|------------------|---------------------------------|
| Capital Assets, Not Being Depreciated: | | | | |
| Land | \$ 231,628 | \$ - | \$ - | \$ 231,628 |
| Construction in Progress | 18,055 | 58,031 | - | 76,086 |
| Total | <u>249,683</u> | <u>58,031</u> | <u>\$ -</u> | <u>307,714</u> |
| Capital Assets, Being Depreciated: | | | | |
| Plant | 16,018,789 | 7,350 | - | 16,026,139 |
| Building | 3,342,487 | - | - | 3,342,487 |
| Building Improvements | 49,289 | - | - | 49,289 |
| Vehicles | 52,237 | - | - | 52,237 |
| Operating Equipment | 365,299 | 20,685 | - | 385,984 |
| Total | <u>19,828,101</u> | <u>28,035</u> | <u>-</u> | <u>19,856,136</u> |
| Accumulated Depreciation: | | | | |
| Plant | 4,880,073 | 217,334 | - | 5,097,407 |
| Building | 1,618,332 | 86,211 | - | 1,704,543 |
| Building Improvements | 39,928 | 1,631 | - | 41,559 |
| Vehicles | 52,237 | - | - | 52,237 |
| Operating Equipment | 264,154 | 19,438 | - | 283,592 |
| Total | <u>6,854,724</u> | <u>324,614</u> | <u>-</u> | <u>7,179,338</u> |
| Total Capital Assets Being Depreciated, Net | <u>12,973,377</u> | <u>(296,579)</u> | <u>-</u> | <u>12,676,798</u> |
| Total Capital Assets | <u>\$ 13,223,060</u> | <u>\$ (238,548)</u> | <u>\$ -</u> | <u>\$ 12,984,512</u> |

**READINGTON - LEBANON SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 5: LONG-TERM DEBT

Long-term liability activity during the year ended December 31, 2015 was as follows:

| | <u>Balance Dec 31, 2014</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance Dec 31, 2015</u> |
|----------------------------|---------------------------------|------------------|-------------------|---------------------------------|
| PERS Net Pension Liability | \$ 1,211,798 | \$ 339,487 | \$ 45,286 | \$ 1,505,999 |

Long-term liability activity during the year ended December 31, 2014 was as follows:

| | <u>Balance Dec 31, 2013</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance Dec 31, 2014</u> |
|----------------------------|---------------------------------|------------------|-------------------|---------------------------------|
| PERS Net Pension Liability | \$ 1,211,279 | \$ 519 | \$ - | \$ 1,211,798 |

NOTE 6: POST-RETIREMENT BENEFITS

GASB Statement 45 requires certain disclosures relating to governmental entities obligations for other post-employment benefits (OPEB), which are post-employment benefits other than pensions. The Authority's only material OPEB obligation is for healthcare provided to eligible retirees through the NJ State Health Benefits Program.

Plan Description - The Authority contributes to the State Health Benefits Program (SHBP), a cost-sharing, multiple-employer definer benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. SHBP was established in 1961 under NJSA 52:14-17.25 et seq., to provide health benefits to State employees, retirees, and their dependents. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code, SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. The Authority adopted a resolution to participate in the SHBP. The State Health Benefits Commission is the executive body established by the statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at <httpwww.state.nj.us/treasury/pensions/health-benefits.shtml>.

**READINGTON - LEBANON SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 6: POST-RETIREMENT BENEFITS (Continued)

Funding Policy - Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the plan have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Contributions to pay for the health premiums of participating retirees in the SHBP are billed to the Authority on a monthly basis. Premiums are funded entirely by the Authority and are based on the type of coverage selected by the employee.

The Authority's contributions to the SHBP for post-retirement benefits for the years ended December 31, 2015 and 2014 were \$23,070 and \$19,340 which equaled the required benefit contribution for each year. There were two retired participants eligible at December 31, 2015 and one retired participant eligible at December 31, 2014.

The unfunded liabilities related to the post employment retirement benefits could not be determined.

NOTE 7: CONTINGENT LIABILITIES

In the opinion of the Authority's management there are no matters pending that will have a material adverse effect on the financial position of the Authority.

NOTE 8: 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 - The Authority maintains commercial insurance coverage for property, liability and surety bonds. Significant losses are covered by commercial insurance and there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current or the prior three years.

NOTE 9: DEFERRED COMPENSATION PLAN

The Authority has a deferred compensation plan available to all full-time employees who wish to participate. The plan is fully contributory and is administered by Lincoln National Insurance Company, which is audited by independent public accountants. During 1998, the plan was amended to reflect the provisions of the Small Business Job protection Act of 1996 IRS Code Section 457, (US Public Law No. 104-188). This amendment was approved by the New Jersey Division of Local Government Services on November 11, 1998.

**READINGTON - LEBANON SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 10: SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through June 20, 2016, which is the date the financial statements were available to be issued and no additional items were noted for disclosure.

NOTE 11: RESTATEMENT OF PRIOR YEAR NET POSITION

During the year ending December 31, 2015, the Authority has determined that a restatement of its prior year net position is necessary. Due to changes in accounting principles resulting from the issuance of Government Accounting Standards Board's (GASB) Statement No. 68, for pension liabilities, adjustments to the net position for the net pension liability and deferred outflows of resources as of the measurement date of June 30, 2014 are necessary. The following is a summary of the Authority's restatement of net position as of December 31, 2014:

| | | <u>Business-Type Activities</u> |
|---|-----------------|-------------------------------------|
| Net Position, December 31, 2014 as Originally Stated | | \$ 16,828,765 |
| Add: Deferred Outflow of Resources for Pension Activity | | 59,825 |
| Less: Net Pension Liability as of December 31, 2014 | (\$1,211,798) | |
| Deferred Inflow of Resources for Pension Activity | <u>(72,217)</u> | |
| | | <u>(1,284,015)</u> |
| Net Position, December 31, 2014 as Restated | | <u>\$ 15,604,575</u> |

NOTE 12: RESTATEMENT OF PRIOR YEAR NET POSITION ALLOCATIONS

During the year ending December 31, 2015, the Authority has determined that a restatement of its prior year net position is necessary. The change is due to the Authority reclassifying the funding source of capital expenditures incurred in the prior year. The following is a summary of the Authority's restatement of net position allocations:

| | <u>Restricted Net Position</u> | <u>Unrestricted Net Position</u> |
|---|------------------------------------|--------------------------------------|
| Balance, December 31, 2014 as Originally Stated | \$ 2,124,200 | \$ 495,863 |
| Adjusted by: | | |
| Capital Expenditures Incurred in the Prior Year | <u>(49,946)</u> | <u>49,946</u> |
| Balance, December 31, 2014 as Restated | <u>\$ 2,074,254</u> | <u>\$ 545,809</u> |

**READINGTON - LEBANON SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 13: RECENT ACCOUNTING PRONOUNCEMENTS NOT YET EFFECTIVE

The following is a list of recent accounting pronouncements which are not yet effective as of the year end date of this report:

In February 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 72 *“Fair Value Measurement and Application”*. This statement, which is effective for reporting periods beginning after June 15, 2015, is not expected to have a material impact on the Authority’s financial reporting.

In June 2015, the Governmental Accounting Standards Board (GASB) issued 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.”* This statement, which is effective for reporting periods beginning after June 15, 2015 and June 15, 2016 for pension systems not within the scope of GASB 68, is not expected to have a material impact on the Authority’s financial reporting.

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 74 *“Financial Reporting for Postemployment Benefit Plans Other than Pension Plans”*. This statement, which is effective for reporting periods beginning after June 15, 2016, is not expected to have a material effect on the Authority’s financial reporting.

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 75 *“Accounting and Financial Reporting for Postemployment Benefits Other than Pensions”*. This statement, which is effective for reporting periods beginning after June 15, 2017, is not expected to have a material effect on the Authority’s financial reporting.

In June 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 76 *“The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”*. This statement, which is effective for reporting periods beginning after June 15, 2015, is not expected to have a material impact on the Authority’s financial reporting.

In August 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 77 *“Tax Abatement Disclosures”*. This statement, which is effective for reporting periods beginning after December 15, 2015, is not expected to have a material impact on the Authority’s financial reporting.

In December 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 78 *“Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans”*. This statement, which is effective for reporting periods beginning after December 15, 2015, is not expected to have a material impact on the Authority’s financial reporting.

**READINGTON - LEBANON SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

NOTE 13: RECENT ACCOUNTING PRONOUNCEMENTS NOT YET EFFECTIVE (Continued)

In December 2015, the Governmental Accounting Standards Board (GASB) issued Statement No. 79 *“Certain External Investment Pools and Pool Participants”*. This statement, which is effective for reporting periods beginning after December 15, 2015, is not expected to have a material impact on the Authority’s financial reporting.

In January 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 80 *“Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14”*. This statement, which is effective for reporting periods beginning after June 15, 2016, is not expected to have a material impact on the Authority’s financial reporting.

In March 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 81 *“Irrevocable Split-Interest Agreements”*. This statement, which is effective for reporting periods beginning after June 15, 2016, is not expected to have a material impact on the Authority’s financial reporting.

In March 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 82 *“Pension Issues - an amendment of GASB Statements No. 67, No. 68 and No. 73”*. This statement is effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. This statement is not expected to have a material impact on the Authority’s financial reporting.

REQUIRED SUPPLEMENTARY INFORMATION PART II

**READINGTON - LEBANON SEWERAGE AUTHORITY
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST THREE YEARS
UNAUDITED**

| | For the Years Ended December 31, | | |
|--|----------------------------------|---------------|---------------|
| | 2015 | 2014 | 2013 |
| Authority's Proportion of the Net Pension Liability | 0.0067088364% | 0.0064723355% | 0.0063377962% |
| Authority's Proportion of the Net Pension Liability | 1,505,999 | 1,211,798 | 1,211,279 |
| Authority's Covered Employee Payroll | 452,810 | 460,866 | 445,872 |
| Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll | 332.59% | 262.94% | 271.67% |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 47.93% | 52.08% | 48.72% |

**READINGTON - LEBANON SEWERAGE AUTHORITY
 SCHEDULE OF THE AUTHORITY CONTRIBUTIONS
 PUBLIC EMPLOYEES RETIREMENT SYSTEM
 LAST THREE YEARS
 UNAUDITED**

| | For the Years Ended December 31, | | |
|---|----------------------------------|---------------|---------------|
| | 2015 | 2014 | 2013 |
| Contractually Required Contributions | \$ 57,678 | \$ 53,357 | \$ 47,754 |
| Contributions in Relation to the Contractually Required Contribution | <u>57,678</u> | <u>53,357</u> | <u>47,754</u> |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Authority's Covered Employee Payroll | 452,810 | 460,866 | 445,872 |
| Contributions as a Percentage of Covered Employee Payroll | 12.74% | 11.58% | 10.71% |

**READINGTON LEBANON SEWERAGE AUTHORITY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION-PART II
YEAR ENDED DECEMBER 31, 2015**

NOTE 1: PUBLIC EMPLOYEES RETIREMENT SYSTEM

There were no changes in benefit terms.

Changes in assumptions

The discount rate used to measure the total pension liability was 4.90% as of the June 30, 2015 plan measurement date and 5.39% as of the June 30, 2014 plan measurement date. The single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.90% for both plan measurement dates and municipal bond rates of 3.80% and 4.29% for the respective plan measurement dates of June 30, 2015 and June 30, 2014.

SUPPLEMENTARY SCHEDULES

**READINGTON - LEBANON SEWERAGE AUTHORITY
SCHEDULE OF CHANGES IN NET POSITION-RESTRICTED
YEAR ENDED DECEMBER 31, 2015**

| | <u>Net Position-Restricted</u> | |
|------------------------------|---|----------------------------|
| | <u>Capital Improvement Fund</u> | <u>Total</u> |
| Balance at Beginning of Year | <u>\$ 2,074,254</u> | <u>\$ 2,074,254</u> |
| Additions: | | |
| Deposits Received | 250,000 | 250,000 |
| Interest Income | 2,164 | 2,164 |
| Total Additions | <u>252,164</u> | <u>252,164</u> |
| Total Funds Available | <u>2,326,418</u> | <u>2,326,418</u> |
| Deductions: | | |
| Capital Expenditures | <u>642,284</u> | <u>642,284</u> |
| Total Deductions | <u>642,284</u> | <u>642,284</u> |
| Balance at End of Year | <u><u>\$ 1,684,134</u></u> | <u><u>\$ 1,684,134</u></u> |

**READINGTON - LEBANON SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUES COMPARED TO BUDGET
YEARS ENDED DECEMBER 31, 2015 AND 2014**

| | 2015 | | 2014 | |
|----------------------------------|---------------------|---------------------|---------------------|---------------------|
| | Budget | Actual | Budget | Actual |
| Retained Earnings Appropriated | \$ 125,000 | \$ 125,000 | \$ 125,000 | \$ 125,000 |
| User Charges: | | | | |
| Readington Township | 1,208,877 | 1,208,877 | 1,209,946 | 1,209,946 |
| Lebanon Borough | 331,842 | 331,842 | 311,084 | 311,084 |
| Round Valley-State of New Jersey | 34,981 | 34,981 | 35,170 | 35,170 |
| | <u>1,575,700</u> | <u>1,575,700</u> | <u>1,556,200</u> | <u>1,556,200</u> |
| Other Income: | | | | |
| Miscellaneous | - | 18 | - | 48 |
| Interest | - | 1,590 | - | 1,317 |
| | <u>-</u> | <u>1,608</u> | <u>-</u> | <u>1,365</u> |
| Total Revenue | <u>\$ 1,700,700</u> | <u>\$ 1,702,308</u> | <u>\$ 1,681,200</u> | <u>\$ 1,682,565</u> |

READINGTON - LEBANON SEWERAGE AUTHORITY
SCHEDULE OF EXPENDITURES FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET
YEARS ENDED DECEMBER 31, 2015 AND 2014

| | 2015 | | 2014 | |
|---|---------------------|---------------------|---------------------|---------------------|
| | Budget | Actual | Budget | Actual |
| Salaries and Wages | \$ 528,000 | \$ 491,508 | \$ 517,000 | \$ 490,689 |
| Administrative & General Expenses: | | | | |
| Social Security Taxes | 43,000 | 35,491 | 42,000 | 35,651 |
| Unemployment & Disability Fund | 2,000 | 1,384 | 2,000 | 1,421 |
| PERS & Other Employee Benefits | 190,000 | 204,912 | 189,000 | 149,190 |
| Professional Services: | | | | |
| Legal | 7,000 | 3,058 | 8,000 | 866 |
| Auditor | 14,000 | 13,600 | 14,500 | 13,260 |
| Engineering | 8,000 | 11,005 | 8,000 | 2,456 |
| Medical | 1,000 | - | 1,000 | - |
| Trustee Fees | 1,000 | - | 1,000 | - |
| Insurance | 21,200 | 19,077 | 21,200 | 18,281 |
| Workers Compensation Insurance | 14,500 | 12,803 | 16,500 | 12,774 |
| Education, Seminars & Conventions | 6,000 | 1,121 | 6,000 | 1,364 |
| Travel Expenses & Meals | 8,000 | 3,395 | 8,000 | 5,464 |
| Dues & Memberships | 3,500 | 2,594 | 3,000 | 2,420 |
| Office Supplies | 8,000 | 4,371 | 8,000 | 5,920 |
| Public Advertisements | 1,500 | 1,035 | 1,500 | 761 |
| Utility Costs-Telephone | 9,000 | 6,043 | 10,000 | 6,287 |
| Total Administrative & General Expenses | <u>337,700</u> | <u>319,889</u> | <u>339,700</u> | <u>256,115</u> |
| Operation & Maintenance: | | | | |
| Chemical Costs-Other | 48,000 | 50,193 | 45,000 | 37,339 |
| Utility Costs: | | | | |
| Electric | 130,000 | 126,714 | 130,000 | 115,683 |
| Natural Gas & Propane | 12,000 | 8,217 | 10,000 | 9,684 |
| Supplies & Services: | | | | |
| Sludge Disposal | 153,000 | 139,791 | 140,000 | 144,190 |
| Fuel | 10,000 | 2,470 | 12,000 | 6,277 |
| Uniform Rental | 1,000 | - | 1,500 | 21 |
| Lab Expense | 7,000 | 4,509 | 7,000 | 6,486 |
| Outside Lab | 25,000 | 10,918 | 20,000 | 16,392 |
| Safety Equipment | 5,000 | 1,775 | 5,000 | 3,537 |
| Permits, Licenses & Easement Fees | 9,000 | 7,692 | 9,000 | 6,831 |
| Maintenance: | | | | |
| Service Contracts | 45,000 | 13,448 | 40,000 | 22,266 |
| Plant & Collection System | 35,000 | 27,834 | 50,000 | 30,100 |
| Lawn Care | 17,000 | 16,983 | 17,000 | 15,446 |
| Janitorial | 3,000 | 2,050 | 3,000 | 2,520 |
| Instrument & Meter Calibration | 2,000 | 1,130 | 2,000 | - |
| Vehicles | 8,000 | 1,298 | 8,000 | 6,896 |
| Unbudgeted Repairs | - | 13,867 | - | - |
| Capital Acquisition | 250,000 | 250,000 | 250,000 | 250,000 |
| Equipment Replacement | 50,000 | 18,733 | 50,000 | 9,172 |
| Miscellaneous Contingencies | 20,000 | - | 20,000 | 100 |
| Plant Security | 5,000 | 3,809 | 5,000 | 3,316 |
| Total Operations & Maintenance | <u>835,000</u> | <u>701,431</u> | <u>824,500</u> | <u>686,256</u> |
| Total Expenditures | <u>\$ 1,700,700</u> | <u>\$ 1,512,828</u> | <u>\$ 1,681,200</u> | <u>\$ 1,433,060</u> |

READINGTON - LEBANON SEWERAGE AUTHORITY
SCHEDULE OF INSURANCE
YEAR ENDED DECEMBER 31, 2015
(Unaudited)

| | Coverage | Deductible |
|---|----------------|------------|
| Property Coverage-New Jersey Utility Authority Joint Insurance Fund: | | |
| Fund Limit | \$ 150,000,000 | \$ 1,000 |
| Authority Package Policy-New Jersey Utility Authority Joint Insurance Fund: | | |
| General Liability Limit | 300,000 | |
| Business Automobile Limit | 300,000 | |
| Crime Limit | 50,000 | 1,000 |
| Excess Liability Policy-Municipal Excess Liability Joint Insurance Fund: | | |
| General Liability Limit | 700,000 | |
| Business Automobile Limit | 700,000 | |
| Crime Limit | 950,000 | |
| Additional Excess Liability Coverage-New Jersey Utility Authority Joint Insurance Fund through Munich American Insurance Company: | | |
| Fund Limit | 10,000,000 | |
| Workers Compensation-New Jersey Utility Authority Authority Joint Insurance Fund: | | |
| Fund Limit | 300,000 | |
| Excess Workers Compensation-Municipal Excess Liability Joint Insurance Fund: | | |
| Fund Limit | 1,700,000 | |
| Public Officials Liability Coverage-New Jersey Utility Authority Joint Insurance Fund through XL Insurance Company: | | |
| Policy Limit | 2,000,000 | 20,000 |
| Excess Public Officials Liability Coverage-New Jersey Utility Authority Joint Insurance Fund through Munich American Insurance Company: | | |
| Fund Limit | 3,000,000 | |
| Environmental Legal Liability Policy-New Jersey Municipal Environmental Risk Management Fund: | | |
| Fund Limit | 2,500,000 | 2,500 |

Adequacy of Insurance Coverage is the Responsibility of the Authority.

READINGTON - LEBANON SEWERAGE AUTHORITY

PART III

**REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING**

GENERAL COMMENTS AND RECOMMENDATIONS

YEAR ENDED DECEMBER 31, 2015



Bedard, Kurowicki & Co.
Certified Public Accountants, PC
www.bkc-cpa.com

**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**

Honorable Chairman and
Members of the Readington-
Lebanon Sewerage Authority
Whitehouse, 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, the financial statements as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the Readington-Lebanon Sewerage Authority's (the Authority's) basic financial statements, and have issued our report thereon dated June 20, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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 certain deficiencies in internal control, described in the accompanying schedule of general comments that we consider to be significant deficiencies. (2015-01 & 2015-02)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and the audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Readington-Lebanon Sewerage Authority's Response to Findings

Readington-Lebanon Sewerage Authority's response to findings identified in our audit is described in the accompanying schedule of general comments. Readington-Lebanon Sewerage Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Bedard, Kurowicki & Co.
BEDARD, KUROWICKI & CO., CPA'S, PC

June 20, 2016
Flemington, New Jersey

**READINGTON-LEBANON SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE BOROUGH OF LEBANON)
GENERAL COMMENTS**

SIGNIFICANT DEFICIENCIES

2015-01 Segregation of Duties

Condition: An overall lack of segregation of duties in all accounting control processes.

Criteria: Segregation of duties for the recordkeeping and treasury functions would increase the likelihood that misstatement of the financial statement amounts due to error or fraud would be detected within a reasonable period of time.

Cause: The small size of the Authority's administrative staff.

Effect: Because of the lack of segregation of duties, errors in accounting control processes could be made and not detected by existing control mechanisms in place.

Recommendation: Procedures should be implemented by the Authority to reduce the risk of errors occurring and going undetected.

Views of Responsible Officials and Planned Corrective Action: (unaudited)

The officials of the Authority have determined that the Authority is effectively and efficiently served with a single individual performing these functions. The Authority has implemented compensating controls and continues to consider risk assessment as it relates to the likelihood of misstatement of financial statement amounts due to error or fraud.

2015-02 Purchases over the Bid Threshold

Condition: The Authority purchased equipment that was individually over the bid threshold without following bidding guidelines as set forth in the New Jersey local public contracts law.

Criteria: The New Jersey local public contracts law requires that formal bidding procedures be followed for contracts that are expected to exceed \$17,500.

Cause: Controls were not in place guaranteeing that bids would be obtained for purchases that were expected to exceed the bid threshold.

**READINGTON-LEBANON SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE BOROUGH OF LEBANON)
GENERAL COMMENTS (Continued)**

Effect: Because the purchases were made without soliciting bids, the Authority was not in compliance with requirements of the New Jersey local public contracts law.

Recommendation: Procedures should be implemented by the Authority guaranteeing that bidding procedures are followed for contracts expected to exceed the bid threshold.

Views of Responsible Officials and Planned Corrective Action: (unaudited)

The officials of the Authority have determined that procedures will be implemented to ensure that bidding procedures are followed for contracts expected to exceed the bid threshold.

RECOMMENDATIONS

2015-01 Procedures should be implemented by the Authority to reduce the risk of errors in connection with a lack of segregation of duties.

2015-02 Procedures should be implemented by the Authority guaranteeing that bidding requirements are met for contracts expected to exceed the bid threshold.

STATUS OF PRIOR YEAR'S AUDIT FINDINGS/RECOMMENDATIONS

There were no prior year recommendations.

We would be pleased to confer on questions that might arise with respect to any matters in this report.

We wish to express our appreciation for the assistance and courtesies rendered by the Authority officials and employees during the course of the examination.

Respectfully submitted,

Bedard, Kurowicki & Co.
BEDARD, KUROWICKI & CO., CPA'S, PC