

**READINGTON-LEBANON SEWERAGE AUTHORITY**

**COUNTY OF HUNTERDON**

**December 31, 2017**

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

**READINGTON-LEBANON SEWERAGE AUTHORITY**

**For the Years Ended December 31, 2017 and 2016**

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**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Roster of Officials**  
**Year Ended December 31, 2017**

<u>Members of the Authority</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 of the Authority</u>	<u>Title</u>
Jill A. Plesnarski	Administrator
R3M Engineers	Engineer
Edward Buzak	Attorney

See independent auditor's report.



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## Independent Auditors' Report

Honorable Chairman and Members of  
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, 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey. 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.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of December 31, 2017 and 2016, and the respective changes in financial position and it's 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, Schedule of Budgetary Comparison Information, Schedule of the Authority's Proportionate Share of the Net Pension Liability, Schedule of the Authority Contributions to the Public Employees Retirement System, and Roster of Officials identified in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Changes in Net Position - Restricted is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Changes in Net Position - Restricted Accounts is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Changes in Net Position - Restricted is fairly stated, in all material respects,

in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 18, 2018 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**

May 18, 2018  
Flemington, New Jersey

# *Readington-Lebanon Sewerage Authority*

Old Route 28, PO Box 136  
Whitehouse, NJ 08888

Vincent Schaible  
Chairman

Jill A. Plesnarski  
Administrator

Richard Burton  
Vice-Chairman

908-534-6171  
908-534-5688 Fax

Charles Westfield  
Secretary-Treasurer

## **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, 2017. Please read it in conjunction with the RLSA's condensed financial statements (Exhibits A and B), which follow this section.

### Financial Highlights

1. The RLSA's total current assets increased 1.32% over the course of this year's operations as a result of operating revenues and other financing sources exceeding operating expenditures.
2. Deferred outflows of resources decreased by 45.12% compared to the prior year. This was attributable to the changes in assumptions and proportion, in addition to the difference between actual and expected experience of the pension plan.
3. Current liabilities decreased by 1.78%. This is due to a decrease in the accounts payable and payroll withholdings payable liability.
4. Long-term liabilities decreased by 40.87% 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 0.71%. Operating revenues were realized as budgeted by the Authority.
6. Operating expenses decreased by 11.66%. This is attributable to less repairs, maintenance, and outsides services needed compared to the prior year. It was also attributable to a decrease in the pension expense relating to GASB 68.
7. Net position increased by 1.52%. Net Investment in capital assets decreased by 2.41% as increases in capital expenditures was offset by depreciation expense. Restricted net position increased by 11.53% as a result of a contribution for future funding for capital projects. Unrestricted net position increased by 47.18% 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 the accrual accounting method 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 statement includes the Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements.

Overview of Annual Financial Report (continued)

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 1A Old Highway 28, Whitehouse, NJ 08888

Readington-Lebanon Sewerage Authority

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Management's Discussion and Analysis**  
**Condensed Financial Statements**

Condensed Statement of Net Position

Exhibit A

	December 31,		Increase (Decrease)
	2017	2016	
<b>Assets</b>			
<b>Current assets</b>			
Unrestricted assets	\$ 2,653,174	\$ 2,299,716	\$ 353,458
Restricted assets	1,852,812	1,661,244	191,568
Capital assets, net	<u>12,896,062</u>	<u>13,214,069</u>	<u>(318,007)</u>
Total current assets	17,402,048	17,175,029	227,019
Deferred outflows of resources	<u>340,257</u>	<u>620,053</u>	<u>(279,796)</u>
Total assets and deferred outflows of resources	<u>\$ 17,742,305</u>	<u>\$ 17,795,082</u>	<u>\$ (52,777)</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Current liabilities	\$ 94,247	\$ 95,959	\$ (1,712)
Non-current liabilities	<u>1,213,004</u>	<u>2,051,329</u>	<u>(838,325)</u>
Total liabilities	1,307,251	2,147,288	(840,037)
Deferred inflows of resources	<u>549,208</u>	<u>-</u>	<u>549,208</u>
<b>Net position</b>			
Net investment in capital assets	12,896,062	13,214,069	(318,007)
Restricted	1,852,812	1,661,244	191,568
Unrestricted	<u>1,136,972</u>	<u>772,481</u>	<u>364,491</u>
Total net position	<u>15,885,846</u>	<u>15,647,794</u>	<u>238,052</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 17,742,305</u>	<u>\$ 17,795,082</u>	<u>\$ (52,777)</u>

See independent auditors' report.

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Management's Discussion and Analysis**  
**Condensed Financial Statements (continued)**

Condensed Statement of Revenues, Expenses and Changes in Net Position

Exhibit B

	December 31,		Increase (Decrease)
	2017	2016	
Operating revenues	\$ 1,614,868	\$ 1,603,433	\$ 11,435
Operating expenses	1,388,975	1,572,310	(183,335)
Operating income (loss)	225,893	31,123	194,770
Non-operating revenues	<u>12,159</u>	<u>12,005</u>	<u>154</u>
Other financing (uses) sources	<u>-</u>	<u>(2,650)</u>	<u>2,650</u>
Increase in net position	238,052	40,478	197,574
Net position - beginning of year	<u>15,647,794</u>	<u>15,607,316</u>	<u>40,478</u>
Net position - end of year	<u>\$ 15,885,846</u>	<u>\$ 15,647,794</u>	<u>\$ 238,052</u>

See independent auditors' report.

## **Basic Financial Statements**

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Comparative Statement of Net Position**  
**December 31,**

	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,401,719	\$ 1,791,379
Certificate of deposit	251,455	-
Investments	-	497,523
Accrued interest on investments	-	1,673
Accounts receivable	-	9,141
Total current assets	2,653,174	2,299,716
Non-current restricted assets		
Cash and cash equivalents	1,852,812	1,661,244
Capital assets		
Capital assets not being depreciated	357,057	291,576
Capital assets being depreciated	20,724,585	20,719,475
Less: accumulated depreciation	(8,185,580)	(7,796,982)
Net capital assets	12,896,062	13,214,069
Total assets	17,402,048	17,175,029
Deferred outflows of resources	340,257	620,053
Total assets and deferred outflows of resources	\$ 17,742,305	\$ 17,795,082

See accompanying notes to the financial statements.

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Comparative Statement of Net Position (continued)**  
**December 31,**

	<b>2017</b>	<b>2016</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 60,714	\$ 65,394
Payroll taxes and withholdings payable	6,011	4,674
Accrued vacation pay	<u>27,522</u>	<u>25,891</u>
Total current liabilities	<u>94,247</u>	<u>95,959</u>
Non-current liabilities (payable from unrestricted assets)		
Net pension liability	<u>1,213,004</u>	<u>2,051,329</u>
Total liabilities	<u>1,307,251</u>	<u>2,147,288</u>
Deferred inflows of resources	<u>549,208</u>	-
<b>Net position</b>		
Net investment in capital assets	12,896,062	13,214,069
Restricted	1,852,812	1,661,244
Unrestricted	<u>1,136,972</u>	<u>772,481</u>
Total net position	<u>15,885,846</u>	<u>15,647,794</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 17,742,305</u>	<u>\$ 17,795,082</u>

See accompanying notes to the financial statements.

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Comparative Statement of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended December 31,**

	<b>2017</b>	<b>2016</b>
Operating revenues		
User charges	\$ 1,601,500	\$ 1,601,270
Interest income	13,368	2,163
Total operating revenues	<u>1,614,868</u>	<u>1,603,433</u>
Operating expenses		
Cost of providing services	619,180	722,886
Administrative and general	381,197	489,158
Depreciation	388,598	360,266
Total operating expenses	<u>1,388,975</u>	<u>1,572,310</u>
Operating income (loss)	<u>225,893</u>	<u>31,123</u>
Non-operating revenues		
Interest income	12,159	9,771
Other income	-	2,234
Total non-operating revenues	<u>12,159</u>	<u>12,005</u>
Other financing sources (uses)		
Gain (loss) on disposal of assets	-	(2,650)
Change in net position	238,052	40,478
Net position, beginning	<u>15,647,794</u>	<u>15,607,316</u>
Net position, ending	<u>\$ 15,885,846</u>	<u>\$ 15,647,794</u>

See accompanying notes to the financial statements.

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Comparative Statement of Cash Flows**  
**For the Years Ended December 31,**

	<b>2017</b>	<b>2016</b>
Cash flows from operating activities		
Cash received from customers	\$ 1,610,641	\$ 1,592,129
Other operating cash receipts	15,041	1,802
Cash payments to suppliers and employees	(1,011,410)	(1,032,211)
Net cash provided by (used for) operating activities	<u>614,272</u>	<u>561,720</u>
Cash flows from investing activities		
Purchase of investments	-	(499,324)
Redemption of investments	497,523	652,077
Interest income	-	9,771
Net cash provided by (used for) investing activities	<u>497,523</u>	<u>162,524</u>
Cash flow from capital and related financing activities		
Purchase of capital assets	(70,591)	(281,519)
Interest income	12,159	-
Other cash receipts	-	2,234
Net cash provided by (used for) capital and related financing activities	<u>(58,432)</u>	<u>(279,285)</u>
Net increase (decrease) in cash and cash equivalents	1,053,363	444,959
Cash and cash equivalents, beginning	<u>3,452,623</u>	<u>3,007,664</u>
Cash and cash equivalents, ending	<u>\$ 4,505,986</u>	<u>\$ 3,452,623</u>
Reconciliation of balance sheet		
Unrestricted cash and cash equivalents	\$ 2,653,174	\$ 1,791,379
Restricted cash and cash equivalents	1,852,812	1,661,244
Total cash	<u>\$ 4,505,986</u>	<u>\$ 3,452,623</u>

See accompanying notes to the financial statements.

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Comparative Statement of Cash Flows (continued)**  
**For the Years Ended December 31,**

	<u>2017</u>	<u>2016</u>
Reconciliation of income (loss) from operations to net cash		
Provided by (used for) operating activities		
Income (loss) from operations	\$ 225,893	\$ 31,123
Adjustments to reconcile income (loss) from operations to		
net cash provided by (used for) operating activities		
Depreciation	388,598	360,266
Change in assets and liabilities		
Increase (decrease) in accounts payable	(4,680)	14,719
(Increase) decrease in accounts receivable	9,141	(9,141)
(Increase) decrease in prepaid expenses	-	6,861
(Increase) decrease in interest receivable on investments	1,673	(361)
Increase (decrease) in accrued sick pay	1,631	635
Increase (decrease) in deferred inflow of resources	549,208	(24,214)
(Increase) decrease in deferred outflow of resources	279,796	(367,098)
Increase (decrease) in net pension liability	(838,325)	545,330
Increase (decrease) in other current liabilities	-	(1,074)
Increase (decrease) in payroll taxes and withholdings payable	1,337	4,674
Net cash provided by (used for) operating activities	<u>\$ 614,272</u>	<u>\$ 561,720</u>

See accompanying notes to the financial statements.

## **Notes to the Financial Statements**

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 1 - Summary of significant accounting policies

The financial statements of the Readington-Lebanon Sewerage Authority (the 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 accounting policies of the Authority's accounting policies are described below.

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 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 assets are authorized in the Bond Resolution adopted on August 8, 1984. The Bond Resolution restricts various transactions and requires certain transfers be made between funds. The Bond Resolution is on file in the Authority's office.

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.

Basis of accounting

The Authority's financial statements are presented on the accrual basis in accordance with accounting principles generally accepted in the United States of America, which includes 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, liabilities and deferred inflow or outflow of resources associated with the operations are included on the Statement of Net Position. The net position (i.e., total assets net of total liabilities) is segregated into invested capital assets, restricted and unrestricted components.

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 1 - Summary of significant accounting policies (continued)

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 affect the reported amounts of assets and liabilities and disclosure of contingent net assets and liabilities at the date of the Statement of Net Position 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.

Budget and budgetary accounting

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.

Income taxes

The Authority, under existing statute, is exempt from Federal and State income taxes. Accordingly, no provision for income taxes has been made in the financial statements.

Restricted assets

The Authority has restricted the below summarized accounts which may only be utilized for the purposes indicated:

Account	Use for which Restricted
Reserve for capital improvements	Construction and/or reconstruction of assets

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 1 - Summary of significant accounting policies (continued)

Capital assets

Capital assets are recorded as expenditures at the time of purchase and the related assets are capitalized at cost, which includes direct construction costs and other expenditures related to construction. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Building and improvements	25 - 75 years
Sewer mains and interceptors	75 years
Other equipment	5 - 15 years
Pumps and dewatering equipment	75 years
Vehicles	5 years

Note 2 - Deposits, cash equivalents, and investments

Cash and cash equivalents include petty cash, change funds, cash and certificates of deposit in banks, and cash with the New Jersey Cash Management Fund. As of December 31, 2017, the Authority had no investments and as of December 31, 2016, the Authority had \$497,523 in treasury bill investments.

New Jersey Governmental Units are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or in the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of investments which may be purchased by New Jersey Governmental Units. In addition, other state statutes permit investments in obligations issued by local authorities and other state agencies. The State of New Jersey does not place any limit on the amount that the District may invest with any one issuer.

New Jersey Governmental Units are limited as to the types of investments and types of financial institutions they may invest in. New Jersey Statute 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey Governmental Units.

N.J.S.A. 17:9-41 e.t. 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.

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 2 - Deposits, cash equivalents, and investments (continued)

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a policy for custodial credit risk. New Jersey statutes require cash be deposited only in New Jersey based banking institutions that participate in the New Jersey Governmental Unit Deposit Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. 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, employee salary withholdings, or funds that may pass to the Authority relative to the happening of a future condition.

Deposits with the New Jersey Cash Management Fund are not subject to custodial credit risk as defined above. The New Jersey Cash Management 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 Fund participants.

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

	2017	2016
Deposits insured by the FDIC	\$ 500,000	\$ 653,212
Deposits insured by the GUDPA	1,102,961	912,215
Deposits with New Jersey Cash Management Fund	2,655,291	2,384,994
Total bank balances	<u>\$ 4,258,252</u>	<u>\$ 3,950,421</u>

The Authority's carrying (Statement of Net Position) amounts were \$4,505,986 and \$3,950,146 for December 31, 2017 and 2016, respectively.

Note 3 - Authority revenues

Sewer charges are based on an amount approved annually by the governing body and is based on the prior year sewer flows. The billing for the approved amount is allocated to three entities: Township of Readington, the Borough of Lebanon, and State of New Jersey for a recreation area. Bills are payable in monthly installments.

Note 4 - Pension plans

Public employees' retirement systems (PERS)

Plan description

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

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 4 - Pension plans

Public employees' retirement systems (PERS)

Plan description (continued)

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 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

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

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. The employer allocation percentages presented in the 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 of an individual employer to the total contributions to PERS during the measurement period July 1, 2016 through June 30, 2017. 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. Contributions from employers are recognized when due, based on statutory requirements.

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 4 - Pension plans

Public employees' retirement systems (PERS) (continued)

Allocation methodology and reconciliation to financial statements (continued)

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 disclosure of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense 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, 2017, are based on the ratio of each employer's contributions to total employer contributions of the group for the State fiscal year ended June 30, 2017.

Contributions

The contribution policy for PERS is set by N.J.S.A 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 non-contributory group insurance benefits is based on actual claims paid. For State 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, 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 rate was 7.20% effective July 1, 2016 and will increase annually on July 1<sup>st</sup> until eventually reaching 7.50% of base salary effective July 1, 2018.

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 4 - Pension plans

Public employees' retirement systems (PERS) (continued)

Contributions (continued)

Three-year trend information for PERS

Year Funded	Annual Contribution	
	Authority	Employee
2017	\$ 61,531	\$ 26,464
2016	57,678	25,644
2015	53,357	31,636

Collective net pension liability and actuarial information

Components of net pension liability

The components of the Authority's allocable share of the net pension liability for PERS as of June 30, 2017 and 2016 are as follows:

	2017	2016
Total pension liability	\$ 2,337,191	\$ 3,426,696
Plan fiduciary net position	1,124,187	1,375,367
Net pension liability	<u>\$ 1,213,004</u>	<u>\$ 2,051,329</u>

Plan fiduciary net position as a percentage of the total pension liability	48.10%	40.14%
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Actuarial assumptions

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

Inflation rate	2.25%
Salary increases (based on age)	
Through 2026	1.65% - 4.15%
Thereafter	2.65% - 5.15%
Investment rate of return	7.00%

Postretirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on 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 scale. 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).

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 4 - Pension plans (continued)

Public employees' retirement systems (PERS) (continued)

Collective net pension liability and actuarial information (continued)

Actuarial assumptions (continued)

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 Investment 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 real 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:

Asset Class	Target Allocations	Long-Term Expected Rate of Return
Absolute return/risk mitigation	5.00%	5.51%
Cash equivalents	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%

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 4 - Pension plans (continued)

Public employees' retirement systems (PERS) (continued)

Collective net pension liability and actuarial information (continued)

Discount rate

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. This single blended discount rate was based on the 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 rate in the most recent state 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 plans 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 collective net pension liability to changes in the discount rate

The following presents the Authority's proportionate share of the collective net pension liability of as of June 30, 2017 and 2016 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>Authority's proportionate share of the net pension liability</u>	<u>2017</u>
At current discount rate (5.00%)	\$ 1,213,004
At a 1% lower rate (4.00%)	1,504,813
At a 1% higher rate (6.00%)	969,890

<u>Authority's proportionate share of the net pension liability</u>	<u>2016</u>
At current discount rate (3.98%)	\$ 2,051,329
At a 1% lower rate (2.98%)	2,513,665
At a 1% higher rate (4.98%)	1,669,631

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 4 - Pension plans (continued)

Public employees' retirement systems (PERS) (continued)

Collective deferred outflows of resources and deferred inflows of resources

At June 30, 2017 and 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 28,562	\$ -	\$ 38,149	\$ -
Changes of assumptions	244,378	243,482	424,926	-
Net difference between projected and actual earnings on pension plan investments	8,260		78,219	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	59,057	305,726	78,759	-
Total	<u>\$ 340,257</u>	<u>\$ 549,208</u>	<u>\$ 620,053</u>	<u>\$ -</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 year ended June 30, 2017 and 2016:

June 30, 2017	Beginning Balance	Increases	Decreases	Ending Balance
Deferred outflows of resources				
Differences between expected and actual experience	\$ 28,701	\$ 8,857	\$ 8,996	\$ 28,562
Changes of assumptions	319,690	-	75,312	244,378
Differences between projected and actual investment earnings on pension plan investments	58,848	(51,992)	(1,404)	8,260
Deferred inflows of resources	-	-	-	-
Changes of assumptions	-	(297,831)	(54,349)	(243,482)
Net changes in deferred outflows (inflows) of resources	<u>\$ 407,239</u>	<u>\$ (340,966)</u>	<u>\$ 28,555</u>	<u>\$ 37,718</u>

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 4 - Pension plans (continued)

Public employees' retirement systems (PERS) (continued)

Collective deferred outflows of resources and deferred inflows of resources (continued)

June 30, 2016	Beginning Balance	Increases	Decreases	Ending Balance
Deferred outflows of resources				
Differences between expected and actual experience	\$ 37,092	\$ 10,866	\$ 9,809	\$ 38,149
Changes of assumptions	166,971	358,058	100,103	424,926
Differences between projected and actual investment earnings on pension plan investments	(24,998)	115,172	11,955	78,219
Deferred inflows of resources				
Changes of assumptions	-	-	-	-
Net changes in deferred outflows (inflows) of resources	<u>\$ 179,065</u>	<u>\$ 484,096</u>	<u>\$ 121,867</u>	<u>\$ 541,294</u>

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

December 31, 2017		December 31, 2016	
Year ending June 30,		Year ending June 30,	
2018	\$ 28,555	2017	\$ 121,867
2019	43,091	2018	121,867
2020	26,111	2019	141,188
2021	(34,727)	2020	118,619
2022	(25,312)	2021	37,753
Total	<u>\$ 37,718</u>	Total	<u>\$ 541,294</u>

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 4 - Pension plans (continued)

Public employees' retirement systems (PERS) (continued)

Pension expense

The components of allocable pension expense, which exclude pension expense related to specific liabilities of individual employers, for the Authority for the year ending June 30, 2017 and 2016 are as follows:

	2017	2016
Service cost	\$ 56,578	\$ 66,946
Interest on total pension liability	102,668	146,168
Member contributions	(26,913)	(34,698)
Administrative expense	704	1,107
Expected investment return net of investment expense	(73,304)	(105,327)
Pension expense related to specific liabilities of individual employers	(796)	(218)
Recognition of deferred inflows/outflows of resources	-	-
Amortization of expected versus actual experience	8,996	9,809
Amortization of assumption changes or inputs	20,963	100,103
Amortization of projected versus actual investment earnings on pension plan investments	(1,404)	11,955
Pension expense	<u>\$ 87,492</u>	<u>\$ 195,845</u>

Note 5 - Capital assets

A summary of changes in capital assets and accumulated depreciation is as follows:

December 31, 2017	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 231,628	\$ -	\$ -	\$ 231,628
Construction in progress	59,948	65,481	-	125,429
Plant	16,026,139	-	-	16,026,139
Building	3,342,487	-	-	3,342,487
Building improvements	896,808	-	-	896,808
Vehicles	57,890	-	-	57,890
Operating equipment	396,151	5,110	-	401,261
Subtotal	<u>21,011,051</u>	<u>70,591</u>	<u>-</u>	<u>21,081,642</u>
Transfers	-	-	-	-
Total capital assets	21,011,051	70,591	-	21,081,642
Accumulated depreciation	7,796,982	(388,598)	-	(8,185,580)
Capital assets, net	<u>\$ 13,214,069</u>	<u>\$ (318,007)</u>	<u>\$ -</u>	<u>\$ 12,896,062</u>

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 5 - Capital assets (continued)

December 31, 2016	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 231,628	\$ -	\$ -	\$ 231,628
Construction in progress	637,774	269,693	847,519	59,948
Plant	16,026,139	-	-	16,026,139
Building	3,342,487	-	-	3,342,487
Building improvements	49,289	847,519	-	896,808
Vehicles	57,890	-	-	57,890
Operating equipment	397,374	11,826	13,049	396,151
Subtotal	20,742,581	1,129,038	860,568	21,011,051
Transfers	-	(847,519)	(847,519)	-
Total capital assets	20,742,581	281,519	13,049	21,011,051
Accumulated depreciation	7,447,115	360,266	10,399	7,796,982
Capital assets, net	<u>\$ 13,295,466</u>	<u>\$ (78,747)</u>	<u>\$ 2,650</u>	<u>\$ 13,214,069</u>

Note 6 - Long-term liabilities

Long-term liability activity for the years ended December 31, 2017 and 2016 is as follows:

December 31, 2017	Beginning Balance	Additions	Reductions	Ending Balance
PERS net pension liability	<u>\$ 2,051,329</u>	<u>\$ -</u>	<u>\$ 838,325</u>	<u>\$ 1,213,004</u>

December 31, 2016	Beginning Balance	Additions	Reductions	Ending Balance
PERS net pension liability	<u>\$ 1,505,999</u>	<u>\$ 835,602</u>	<u>\$ 290,272</u>	<u>\$ 2,051,329</u>

Note 7 - Accrued vacation payable

The Authority has allowed unused vacation time to be accumulated to a maximum of 120 days per employee. Up to one half of accumulated sick days may be paid upon disability or retirement or compensating time-off may be taken. If present employees were eligible for this benefit at December 31, 2017 and 2016, the liability to the Authority would be approximately \$27,522 and \$25,891, respectively.

Note 8 - Post-retirement benefits

Current accounting standards requires certain disclosures relating to governmental entities obligations for other post-employment benefits (OPEB), which are post-employment benefits other than pensions. The Authority has an OPEB obligation for healthcare provided to eligible retirees through the NJ State Health Benefits Program.

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 8 - Post-retirement benefits (continued)

*Plan description* - The Authority contributes to the State Health Benefits Program (SHBP), a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. SHBP was established in 1961 under N.J.S.A.52:14-17.25 et seq., to provide health benefits to state employees, retirees, and their dependents. Rules governing the operation and administrator 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 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 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 <http://www.state.nj.us/treasury/pensions/health-benefits.shtml>.

*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 monthly. 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, 2017 and 2016 were \$42,027 and \$56,205, which equaled the required benefit contribution for each year. There were two retired participants eligible at December 31, 2017 and 2016.

The unfunded liabilities related to the post employment retirement benefits have not been recorded.

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* - Risks of losses from worker's compensation, property, automobile, liability, and public official's liability are covered by insurance with New Jersey Utilities Authorities Joint Insurance Fund, plus separate policies for employee bonds and official's liability. 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 three prior years.

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 10 - Deferred compensation plan

The Authority has a deferred compensation plan available to all full-time employees who wish to participate. The plan is fully funded by employee contributions and is administered by Lincoln National Insurance Company.

Note 11 - Subsequent events

The Authority's management has determined that no material events or transactions occurred subsequent to December 31, 2017 and through May 18, 2018, the date of the Authority's financial statement issuance, which requires additional disclosure in the Authority's financial statements.

Note - 12 Accounting standards change

The Government Accounting Standards Board (GASB), issued Statement No. 75 Accounting and Financial Report for Postemployment Benefits Other than Pensions. This statement requires the liability of employers for benefits, such as the State Health Benefits Program, to be measured as a liability. This change will be effective for the Municipality's December 31, 2018 financial report. Management of the Municipality has not evaluated the impact of this statement, which could be material on the financial statements.

## **Required Supplementary Information**

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Schedule of the Authority's Proportionate Share of the Net Pension Liability**  
**Public Employees Retirement System**

**Last Five Years**

**Unaudited**

	Years Ending December 31,				
	2017	2016	2015	2014	2013
Authority's proportion of the net pension liability	0.0052108543%	0.0069261582%	0.0067088364%	0.0064723355%	0.0033779620%
Authority's proportion of the net pension liability	\$ 1,213,004	\$ 2,051,329	\$ 1,505,999	\$ 1,211,798	\$ 1,211,799
Authority's covered employee payroll	364,010	359,684	452,810	460,866	445,872
Authority's proportionate share of the net pension liability as a percentage of its covered employee payroll	333.23%	570.31%	332.59%	262.94%	271.78%
Plan fiduciary net position as a percentage of the total pension liability	48.10%	40.14%	47.93%	52.08%	48.72%

See independent auditors' report.

**READINGTON-LEBANON SEWERAGE AUTHORITY**

**Schedule of the Authority Contributions**

**Public Employees Retirement System**

**Last Five Years**

**Unaudited**

	Years Ending December 31,				
	2017	2016	2015	2014	2013
Contractually required contributions	\$ 48,273	\$ 61,531	\$ 57,678	\$ 53,357	\$ 47,754
Contributions in relation to the contractually required contribution	<u>48,273</u>	<u>61,531</u>	<u>57,678</u>	<u>53,357</u>	<u>47,754</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered employee payroll	\$ 364,010	\$ 359,684	\$ 452,810	\$ 460,866	\$ 445,872
Contributions as a percentage of covered employee payroll	13.26%	17.11%	12.74%	11.58%	10.71%

See independent auditors' report.

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Notes to the Required Supplementary Information**  
**(Unaudited)**  
**December 31, 2017**

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 5.00% as of the June 30, 2017 plan measurement date and 3.98% as of the June 30, 2016 plan measurement date. The single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and 7.65% and municipal bond rates of 3.58% and 2.85% for the respective plan measurement dates of June 30, 2017 and June 30, 2016.

## **Supplementary Information**

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Schedule of Changes in Net Position - Restricted Accounts**  
**For the Fiscal Year Ended December 31, 2017**

	Net Position	
	Capital Improvement Fund	Total Net Position
Balance at beginning of year	\$ 1,661,244	\$ 1,661,244
Additions		
Budget transfer	250,000	250,000
Interest income	12,159	12,159
Total additions	<u>262,159</u>	<u>262,159</u>
Deductions		
Capital expenditures	<u>70,591</u>	<u>70,591</u>
Balance at end of year	<u>\$ 1,852,812</u>	<u>\$ 1,852,812</u>

See independent auditors' report.

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Schedule of Budgetary Comparison Information**  
**For the Years Ended**

	December 31, 2017		December 31, 2016	
	Unaudited		Unaudited	
	Budget	Actual	Budget	Actual
<b>Revenues</b>				
Net position appropriated	\$ 125,000	\$ 125,000	\$ 125,000	\$ 125,000
<b>Operating revenues</b>				
User charges and fees				
Readington Township	1,230,433	1,230,433	1,235,380	1,235,380
Lebanon Borough	335,354	335,354	329,221	329,221
Round Valley - State of NJ	35,713	35,713	36,669	36,669
Interest income	-	13,368	-	2,163
Total operating revenues	<u>1,601,500</u>	<u>1,614,868</u>	<u>1,601,270</u>	<u>1,603,433</u>
Non-operating revenues				
Interest income	-	12,159	-	9,771
Other income	-	-	-	2,234
Total non-operating revenues	<u>-</u>	<u>12,159</u>	<u>-</u>	<u>12,005</u>
Total revenues	<u><u>\$ 1,726,500</u></u>	<u><u>\$ 1,752,027</u></u>	<u><u>\$ 1,726,270</u></u>	<u><u>\$ 1,740,438</u></u>
<b>Expenses</b>				
Administrative and general				
Salaries and wages	\$ 210,000	\$ 211,589	\$ 210,000	\$ 201,960
PERS and other employee benefits	122,640	107,735	122,753	126,366
Pension expense - GASB 68	-	(5,417)	-	86,480
Legal fees	7,000	180	11,000	540
Engineering fees	10,000	-	8,000	3,249
Auditing and accounting fees	14,500	14,500	14,000	14,000
Medical services	1,000	-	-	-
Trustee fees	1,000	-	-	-
Insurance	22,500	20,637	22,500	20,251
Workers compensation insurance	14,000	12,072	14,000	11,587
Education, seminars, conferences	5,000	688	5,000	2,645
Travel expenses and meals	7,000	3,609	7,000	4,632

See independent auditors' report.

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Schedule of Budgetary Comparison Information (continued)**  
**For the Years Ended**

	December 31, 2017		December 31, 2016	
	Budget	Actual	Budget	Actual
Expenses (continued)				
Administrative and general (continued)				
Dues and memberships	\$ 4,000	\$ 2,612	\$ 4,000	\$ 2,803
Office supplies and expenses	8,000	3,968	8,000	6,512
Public advertisements	1,500	624	1,500	783
Permits and licenses	<u>10,000</u>	<u>8,400</u>	<u>10,000</u>	<u>7,350</u>
Total administrative and general	<u>438,140</u>	<u>381,197</u>	<u>437,753</u>	<u>489,158</u>
Cost of providing services				
Salaries and wages	290,000	171,623	290,000	176,006
PERS and other employee benefits	169,360	81,954	169,517	90,425
Pension expense - GASB 68	-	(3,904)	-	67,538
Communications	8,000	6,170	8,500	6,134
Utilities	156,000	124,650	157,500	127,617
Chemicals	52,000	50,424	52,000	46,910
Sludge disposal	155,000	114,062	149,000	122,462
Fuel	5,000	3,016	5,000	1,020
Uniforms	1,000	187	1,000	-
Laboratory	6,000	2,060	7,000	3,785
Outside lab service	15,000	11,746	16,000	9,331
Safety equipment	5,000	1,645	5,000	1,501
Maintenance outside services	40,000	5,319	45,000	7,498
Plant maintenance	34,000	22,782	31,000	24,699
Lawn care	17,000	12,950	17,000	15,207
Janitorial service	3,000	1,730	3,000	2,840
Instrument and meter calibration	2,000	-	2,000	-
Vehicle maintenance	5,000	2,211	5,000	1,970
Equipment replacement	50,000	6,775	50,000	13,755
Contingencies	20,000	-	20,000	405
Plant security	5,000	3,780	5,000	3,783
Total cost of providing services	<u>1,038,360</u>	<u>619,180</u>	<u>1,038,517</u>	<u>722,886</u>
Reserves and capital outlay				
Capital acquisition	250,000	250,000	250,000	250,000
Total expenses	<u>\$ 1,726,500</u>	<u>\$ 1,250,377</u>	<u>\$ 1,726,270</u>	<u>\$ 1,462,044</u>

See independent auditors' report.



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**Independent Auditors' 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, 2017 and December 31, 2016 and the related Notes to the Financial Statements, which collectively comprise the Readington-Lebanon Sewerage Authority's (the Authority) basic financial statements, and have issued our report thereon dated May 18, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Authority's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstance for the purpose of expressing our opinion 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 and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 that are required to be reported under *Government Auditing Standards*.

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 compliance. The report is an integral part of any 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**

May 18, 2018  
Flemington, New Jersey

**READINGTON-LEBANON SEWERAGE AUTHORITY**  
**Schedule of General Comments and Recommendations**

**Significant Deficiencies**

None noted

**Recommendations**

No recommendations have been developed as a result of this audit.

**Status of Prior Year's Audit Findings/Recommendations**

There were no prior year recommendations.

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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.

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