

**TOWNSHIP OF NEPTUNE  
SEWERAGE AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY**

**ANNUAL FINANCIAL REPORT  
YEARS ENDED DECEMBER 31, 2017 and 2016**

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY**

**ANNUAL FINANCIAL REPORT**

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# FALLON & LARSEN LLP

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## INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners  
Township of Neptune Sewerage Authority  
Neptune, New Jersey

We have audited the accompanying financial statements of the Township of Neptune 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 accompanying table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Township of Neptune Sewerage Authority as of December 31, 2017 and 2016, and the respective changes in financial position and cash flows 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, budgetary comparison information, and pension liability and contribution information on pages 5-13 and 43-47 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 Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated July 9, 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 the Authority's 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.

*Fallon & Larsen LLP*

Fallon & Larsen LLP  
Hazlet, New Jersey  
July 9, 2018

# FALLON & LARSEN LLP

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## INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Commissioners  
Township of Neptune Sewerage Authority  
Neptune, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the Township of Neptune Sewerage Authority (the "Authority"), as of and for the year ended December 31, 2017 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 9, 2018.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority'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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

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

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Fallon & Larsen LLP*

Fallon & Larsen LLP  
Hazlet, New Jersey  
July 9, 2018

## **MANAGEMENT DISCUSSION AND ANALYSIS**

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY  
MANAGEMENT DISCUSSION AND ANALYSIS**

**INTRODUCTION**

Mission

The Authority was created to protect and preserve the vital ecology of its service area and that of adjoining areas. The Authority accomplishes this by effectively treating wastewater and recycling sage, clean water back into the Atlantic Ocean. TNSA efficiently meets or surpasses all mandated federal and state regulations and standards.

The Authority extends its mission beyond the geographical boundaries of its service area by affiliating with and participating in various organizations and activities dedicated to preserving the environment. By cooperating with many watershed groups and agencies operating within its Service Area, TNSA further demonstrates its commitment to environmental protection.

Responsibility and Controls

The Authority has prepared, and is responsible for, the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and the books and records reflect only authorized transactions. Limitations exist in any system of internal controls. However, recognizing that the cost of a system should not exceed its benefits, management believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The Authority's system of internal accounting controls is evaluated on an ongoing basis by the Authority's financial staff. Independent external auditors also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

Management believes that its policies and procedures provide guidance and reasonable assurance that the Authority's operations are conducted in accordance with management's intentions and to a high standard of business ethics.

In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flow of the Authority in conformity with accounting principles generally accepted in the United States of America. The unqualified opinion of our independent external auditors, Fallon & Larsen, LLP is included in this report.



Management's Discussion and Analysis (MD&A) provides an introduction to, and should be read with, the basic audited Financial Statements and supplementary information. It presents management's analysis of the Authority's financial condition and performance. Financial Statement data, key financial and operational indicators, the operating budget, bond resolutions and other management tools were used for this analysis.

### Financial Highlights

- Total assets decreased \$463,939.
- Total liabilities decreased by \$569,681.
- Operating expenses increased \$364,512.
- Net position at year-end was \$21,846,050, an increase of \$105,742.

### Overview of Annual Financial Report

The Financial Statements utilize full accrual accounting methods such as are applicable for similar business activities in the private sector. However, rate-regulated accounting principles applied to private utilities are not used by government utilities. The financial statements included 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.

The Statement of Net Position presents the Authority's year-end financial position on a full accrual, historical cost basis. It provides information on Authority assets and liabilities, with the difference reported as net position. Over time, increases and decreases in net position are an indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position present the results of business activities for the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to change occurs, regardless of the timing of related cash flows.

The Statement of Cash Flows presents changes in cash and cash equivalents resulting from operational, financing, and investing activities. Receipts and disbursements are presented on a cash, not an accrual, basis.

The Notes to the Financial Statements present such required disclosures and information as are essential to fully understanding material data provided in the statements, including significant policies, balances, activities, risks, obligations, commitments, contingencies and subsequent events, if any.

## Summary of Organization and Business

TNSA, a public body corporate and politic, was created pursuant to Chapter 138 of the Laws of 1946 of the State of New Jersey (the "Original Act"). It serves seven (7) municipal entities: Neptune Township, Ocean Grove, Bradley Beach, Avon-by-the-Sea, Neptune City, Tinton Falls and Wall Township. Each customer municipality must comply with the Authority's Rules and Regulations, wherein uniform requirements for system users assure the Authority's compliance with applicable federal and state laws.

The Authority owns and operates an 8.5 Million Gallons per Day (MGD) wastewater treatment system consisting of a secondary trickling filter treatment facility, with an aerated stabilization pond, and a new "state of the art" biological aerated filtration plant that is used as a polishing point before discharging effluent a mile into the Atlantic Ocean via an Authority-owned outfall pipe. The system includes an elaborate series of trunk lines and force mains, plus one pump station (Laird Ave.) that handles the majority of the wastewater flow from customer municipalities.

TNSA has completed many upgrades to its treatment facility over the past ten years. Most notable are: 1) Replacement of trickling filter media, from stone to cross flow plastic, 2) Upgrading the aeration system and cleaning the aerated stabilization pond; and 3) installation of a "state of the Art" biological-filtration-oxygenated-reactor (BIOFOR) system.

In addition to these upgrades, the Authority has made several mechanical equipment upgrades at the wastewater treatment facility. These upgrades included the purchase and installation of new Horizontal Chopper Sludge Recirculation Pumps, new Rotary Lobe Sludge Transfer Pumps, new energy efficient turbo blower for the Stabilization Pond Aeration System, new Trickling Filter Re-circulation Pumps, new waste gas burner to comply with current NJDEP air emission permit requirements, new dry pit submersible pumps located in the Chlorine Contact Tank Number 1 and Intermediate and Outfall Pump Station Buildings and new grit conveyance pumps for Grit Chamber Numbers 1 and 2.

TNSA's treatment facility is divided into three complete sections called "trains". Each train consists of a muffin monster (grinder), flow meter, grit chamber, primary clarifier, trickling filter (with media and distributor), secondary clarifier and a chlorine contact tank. After wastewater has flowed through a treatment train it is pumped from the chlorine contact tank up to the aerated stabilization pond before entering the BIOFOR system.

The BIOFOR system is the last treatment process the wastewater goes through before being discharged into the Atlantic Ocean. The BIOFOR treatment system employs a biological fixed-film technology, using proprietary media that acts as both a biological contactor and a filter, thereby eliminating the need for separate clarification. The primary advantages of the BIOFOR system, when compared to conventional activated sludge systems, are reduced space requirements, elimination of secondary clarifiers, and

improved treatment of cold and diluted wastewaters, rapid startup and fully automated operation.

A five member board of Commissioners, appointed by Neptune Township, governs the Authority. An Executive Director, appointed by the Commissioners, administers the Authority. Including the Executive Director, TNSA has 21 full time employees and 1 part time administrative employee.

The Authority has no power to levy or to collect taxes. Operation and maintenance costs are funded from service fees and other charges. Acquisition and construction of capital assets are funded through Operating Revenues, the General Fund, Federal and State Grants, Sewer Revenue Bonds and New Jersey Environmental Infrastructure Trust Financing Program Loans.

### Trends

In the early 1960s, the Township of Neptune constructed a wastewater treatment plant with a capacity of 2.5 million gallons per day to serve the western part of the Township. The plant employed the trickling filter process to provide "secondary treatment" according to then-current New Jersey treatment standards.

The Public Sanitary Sewerage Facilities Assistance Act of 1965 authorized municipal participation in federal grants-in-aid programs for wastewater treatment. In 1972, in furtherance of the State's regionalization policy, the Township of Neptune Sewerage Authority (TNSA) was created to implement build and operate pollution abatement facilities for Avon-by-the-Sea, Bradley Beach, Neptune City, Neptune Township (including Ocean Grove) and parts of Tinton Falls and Wall Township.

Under the Federal Water Pollution Control Act Amendments of 1972 (PL92-500), the United States Environmental Protection Agency ("USEPA") provided substantial funding of wastewater treatment facilities, provided those facilities were designed according to USEPA national standards. TNSA's plan called for the nucleus of the plant to be Neptune Township's original 2.5 million gallon per day trickling filter plant, called "Train #1". The Authority would add a parallel, interconnected, 2.5 million gallon per day "Train #2", and a parallel, essentially separate, 3.5 million gallon per day "Train #3".

Over time, as USEPA's standards became more stringent, additional treatment procedures were required. An aerated effluent stabilization lagoon, to enhance the trickling filter process, added in 1976. The State of New Jersey and USEPA provided 14.5 million of grants-in-aid to TNSA for construction.

In 1977, the State adopted the Water Pollution Control Act (N.J.S.A. 58:10A-1 et seq.) to address requirements of the Federal Clean Water Act of 1977 (PL 95-217). Under the New Jersey Act, wastewater treatment plants were required to obtain permits for the discharge of effluents to State waters. The permits would contain specific effluent limitations for each wastewater discharger based on so-called "conventional pollutants"

(oxygen demand, suspended solids, coliforms, and certain physical/chemical parameters widely used at the time). The same pollutants had been the basis for both design and approval of the original TNSA treatment plant. Eventually, USEPA delegated permitting authority to the New Jersey Department of Environmental Protection ("NJDEP") under the New Jersey Pollutant Discharge Elimination System ("NJPDES").

The Clean Water Act emphasized toxic substances that had not been addressed by the USEPA national standards nor, therefore, by most 1970s plant designs. In 1986, NJDEP added a limit on effluent acute toxicity to TNSA's permit. Consequently, from January 1987 through December 1990, TNSA failed 56 percent of its quarterly toxicity tests, although maintaining a solid record of passing grades for conventional pollutants.

NJDEP did not cite TNSA for the failures because its plant had not been designed to handle toxicity. However, in 1994 and under 1991 amendments to NJ's Pollution Control Act (N.J.S.A. 58:10A-1 et seq.), NJDEP was compelled to initiate enforcement action. On June 26, 1995, TNSA accepted an Administrative Consent Order ("ACO") with NJDEP that temporarily set aside toxicity limitations in its permit while the Authority sought the causes of, and remedies to, the toxicity problem.

#### Events

TNSA embarked on a comprehensive program aimed at bringing the treatment facility to complete compliance with all NJDEP parameters. The comprehensive program included:

- Pilot studies (GAC/Activated Sludge/BIOFOR)
- Toxicity identification, evaluation and reduction studies
- Service area studies and surveys

As a result of many plant upgrades the Authority has effected since 1996, and for the first time in well over a decade, TNSA is out of NJDEP "ACO" program. The plant has passed the majority of its bioassay tests with better than 100% results and no measurable trace of toxicity.

## Financial Analysis

### Financial Condition

The Authority's financial condition remained strong at year end with adequate liquid assets, a reasonable level of unrestricted net position, and reliable facilities and systems to meet demand. The Authority's financial condition, technical capabilities, and operating and modernization plans are secure.

	<u>2017</u>	<u>2016</u>
Total Current Assets	\$ 16,568,682	\$ 17,589,020
Total Noncurrent Assets	1,575,087	1,937,816
Net Capital Assets	<u>31,306,093</u>	<u>30,386,965</u>
Total Assets	<u>\$ 49,449,862</u>	<u>\$ 49,913,801</u>
Total Current Liabilities Payable		
From Unrestricted Assets	\$ 2,151,523	\$ 1,774,883
Total Current Liabilities Payable		
From Restricted Assets	3,340,082	3,413,602
Total Noncurrent Liabilities	20,833,751	22,723,537
Deferred Inflow of Resources		
Pension deferrals	<u>1,278,456</u>	<u>261,471</u>
Total Liabilities	<u>27,603,812</u>	<u>28,173,493</u>
Total Net Position Invested in Capital		
Assets, Net of Related Debt	26,927,924	25,062,926
Total Restricted Net Position	1,710,533	1,779,457
Total Unrestricted Net Position	<u>(6,792,407)</u>	<u>(5,102,075)</u>
Total Net Position	<u>21,846,050</u>	<u>21,740,308</u>
Total Liabilities and Net Position	<u>\$ 49,449,862</u>	<u>\$ 49,913,801</u>

### Results of Operations

Operations and administrative functions were conducted as intended by, and within the budget established by, TNSA's Board of Commissioners:

	<u>2017</u>	<u>2016</u>
Total Operating Revenues	\$ <u>6,736,459</u>	\$ <u>6,731,019</u>
Operating Expenses	4,840,593	4,369,983
Depreciation	<u>1,115,466</u>	<u>1,221,564</u>
Total Operating Expenses	<u>5,956,059</u>	<u>5,591,547</u>
Operating Income	<u>780,400</u>	<u>1,139,472</u>
Nonoperating Revenues/(expenses):		
Interest Income	75,547	35,629
Gain on sale of fixed assets	-	2,472
Interest Expense	(121,891)	(154,961)
Amortization of Deferred Charges	(17,308)	(22,709)
Change in OPEB obligation	<u>(611,006)</u>	<u>(667,937)</u>
Total Nonoperating Revenues (expenses)	<u>(674,658)</u>	<u>(807,506)</u>
Net Income	105,742	331,966
Net Position, January 1	<u>21,740,308</u>	<u>21,408,342</u>
Net Position, December 31	<u>\$ 21,846,050</u>	<u>\$ 21,740,308</u>

### Statement of Cash Flows

Cash flow was adequate to meet operating, capital and debt requirements.

	<u>2017</u>	<u>2016</u>
Net Cash Provided by Operating Activities	\$ 1,195,470	\$ 3,753,009
Net Cash Used in Capital and Related Financing Activities	(3,479,146)	(1,643,621)
Net Cash Provided by Investing Activities	<u>70,567</u>	<u>35,624</u>
Net Increase (Decrease) in Cash And Cash Equivalents	(2,213,109)	2,145,012
Balance, Beginning of Year	<u>17,240,905</u>	<u>15,095,893</u>
Balance, End of Year	<u>\$ 15,027,796</u>	<u>\$ 17,240,905</u>

### Rates, Billing and Collection Processes

The annual Service Charge to each of TNSA's seven customers is set by allocating the year's operating and debt service requirements among the customers, based on their actual prior-year inflows and capacity ownership, respectively.

Service Charges are certified to each customer not later than January 31st of each year and are due, in equal installments on and be made on or before the 1<sup>st</sup> day of April, July, October and January. Pursuant to the "Sewerage Authorities Law" (N.J.S.A. 40:14A), customers are assessed interest at the rate of one and one-half percent (1.5%) per month on any Service Charge installment, or portion thereof, unpaid beyond its due date.

### Capital Improvement Program and Debt Administration

TNSA's 5-Year Capital Improvement Program ("Plan") was prepared in consultation with, and reviewed by, the Authority's engineer, commissioners, and staff and presented as directed by the Division of Local Government Services ("DLGS"), State of New Jersey. Funding the plan will not result in extraordinary increases in annual Service Charges to customers.

	<u>Est. Total Cost</u>	<u>Unreserved Retained Earnings</u>	<u>Debt Auth.</u>
Digester Upgrade Project	\$ 1,832,000	\$ 1,832,000	
Odor Control Project	380,000	380,000	
Transfer Switch/Substation Upgrades	350,000	350,000	
Contingencies	50,000	50,000	
Grit Chamber Rehabilitation	2,005,000		\$ 2,005,000
Fiber Optic Communication System	300,000	300,000	
Stabilization Pond Rehabilitation	750,000	750,000	
Repair Plant Roadways	<u>500,000</u>	<u>500,000</u>	<u>                    </u>
Total	<u>\$ 6,167,000</u>	<u>\$ 4,162,000</u>	<u>\$ 2,005,000</u>

Closing Comments

The Financial condition of the Township of Neptune Sewerage Authority is strong. Its facilities, staff, management, and its planning and funding options, are sufficient to assure TNSA's ability to meet its operating responsibilities well into the future.



**FINANCIAL STATEMENTS**

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY  
COMPARATIVE STATEMENTS OF NET POSITION  
DECEMBER 31, 2017 and 2016**

	2017	2016
<u>ASSETS</u>		
Current Assets:		
Unrestricted Assets:		
Cash and cash equivalents	\$ 8,538,812	\$ 10,643,369
Customer accounts receivable	1,511,740	328,328
Other receivables	24,099	19,119
Prepaid expenses	5,047	668
	10,079,698	10,991,484
Total Unrestricted Assets		
Restricted Assets:		
Cash and cash equivalents	6,488,984	6,597,536
	6,488,984	6,597,536
Total Restricted Assets		
Total Current Assets		
	16,568,682	17,589,020
Deferred Outflow of Resources:		
Pension deferrals	1,545,276	1,890,697
Unamortized deferred charges	29,811	47,119
	1,575,087	1,937,816
Total Deferred Assets		
Plant, Property and Equipment, net	31,306,093	30,386,965
Total Assets	\$ 49,449,862	\$ 49,913,801
 <u>LIABILITIES AND NET POSITION</u>		
Current Liabilities (payable from unrestricted assets):		
Accounts payable	\$ 238,810	\$ 281,449
Accrued liabilities	516,869	155,734
Retainage payable	32,844	-
Current portion of long-term debt	1,285,000	1,235,000
Accrued interest payable	78,000	102,700
	2,151,523	1,774,883
Total Current Liabilities (payable from unrestricted assets)		

The accompanying notes are an integral part of this statement.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY**  
**COMPARATIVE STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2017 and 2016**

	2017	2016
Current Liabilities (payable from restricted assets):		
Reserve for escrow	\$ -	\$ 35,222.00
Security held for member municipalities	3,340,082	3,378,380
Total Current Liabilities (payable from restricted assets)	3,340,082	3,413,602
Non-Current Liabilities:		
Unrestricted Liabilities:		
Accrued employee benefits	521,328	504,974
Pension liability	5,386,060	6,555,246
Net OPEB obligation	12,185,284	11,574,278
Long-term debt (inclusive of premiums of \$126,079 and \$189,039 2017 and 2016, respectively)	2,741,079	4,089,039
Total Non-Current Liabilities	20,833,751	22,723,537
Deferred Inflow of Resources:		
Pension deferrals	1,278,456	261,471
Total Liabilities	27,603,812	28,173,493
Net Position		
Invested in capital assets, net of related debt	26,927,924	25,062,926
Restricted Net Position:		
Bond service reserve	960,533	1,029,457
Renewal and replacement	750,000	750,000
Total Restricted Net Position	1,710,533	1,779,457
Unrestricted Net Position	(6,792,407)	(5,102,075)
Total Net Position	21,846,050	21,740,308
Total Liabilities and Net Position	\$ 49,449,862	\$ 49,913,801

The accompanying notes are an integral part of this statement.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY  
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Service charges of member municipalities	\$ 6,727,300	\$ 6,729,900
Miscellaneous income	9,159	1,119
Total Operating Revenues	<u>6,736,459</u>	<u>6,731,019</u>
Operating Expenses:		
Personnel costs and benefits	2,951,877	2,772,377
Administrative and general	473,912	379,701
Plant, system and maintenance	1,414,804	1,217,905
Depreciation	1,115,466	1,221,564
Total Operating Expenses	<u>5,956,059</u>	<u>5,591,547</u>
Operating Income	<u>780,400</u>	<u>1,139,472</u>
Non-Operating Revenue (Expenses):		
Interest income	75,547	35,629
Gain on sale of fixed assets	-	2,472
Interest expense	(121,891)	(154,961)
Amortization expense	(17,308)	(22,709)
Change in OPEB obligation	(611,006)	(667,937)
Total Non-Operating Expenses	<u>(674,658)</u>	<u>(807,506)</u>
Net Income	105,742	331,966
Net Position, January 1	<u>21,740,308</u>	<u>21,408,342</u>
Net Position, December 31	<u>\$ 21,846,050</u>	<u>\$ 21,740,308</u>

The accompanying notes are an integral part of this statement.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY  
COMPARATIVE STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,**

	2017	2016
Cash Flows from Operating Activities:		
Cash received from member municipalities	\$ 5,543,888	\$ 7,870,057
Cash paid to suppliers	(2,571,194)	(2,399,273)
Cash paid to employees	(1,786,383)	(1,718,894)
Other operating receipts	9,159	1,119
Net Cash Flows from Operating Activities	1,195,470	3,753,009
Cash Flows from Capital and Related Financing Activities:		
Acquisition of property, plant and equipment	(2,034,595)	(198,871)
Principal payments on bonds payable	(1,235,000)	(1,190,000)
Sale of fixed assets	-	2,472
Interest expense	(209,551)	(257,222)
Net Cash Provided (Used) in Capital and Related Financing Activities	(3,479,146)	(1,643,621)
Cash Flows from Investing Activities:		
Interest received on investments	70,567	35,624
Net Cash Provided by Investing Activities	70,567	35,624
Net Increase (Decrease) in Cash and Cash Equivalents	(2,213,109)	2,145,012
Cash and Cash Equivalents, Beginning of Year	17,240,905	15,095,893
Cash and Cash Equivalents, End of Year	\$ 15,027,796	\$ 17,240,905
Reconciliation to Balance Sheet:		
Unrestricted cash and cash equivalents	\$ 8,538,812	\$ 10,643,369
Restricted cash and cash equivalents	6,488,984	6,597,536
	\$ 15,027,796	\$ 17,240,905

The accompanying notes are an integral part of this statement.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY  
COMPARATIVE STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,**

	2017	2016
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:		
Operating Income	\$ 780,400	\$ 1,139,472
Depreciation	1,115,466	1,221,564
	1,895,866	2,361,036
Change in Assets and Liabilities:		
(Increase)/decrease in receivables	(1,183,412)	1,140,157
(Increase)/decrease in other receivables and prepaids	(4,378)	1,290
(Increase)/decrease in deferred pension asset	345,421	(959,311)
Increase/(decrease) in accounts payable	(42,639)	56,897
Increase/(decrease) in accrued expenses and retainage	410,333	45,969
Increase/(decrease) in pension liability	(1,169,186)	1,359,342
Increase/(decrease) in deferred pension liability	1,016,985	(246,531)
Increase/(decrease) in reserve for escrow	(35,222)	33,622
Increase/(decrease) in security held for member municipalities	(38,298)	(39,462)
	(700,396)	1,391,973
Net Cash Flows from Operating Activities	\$ 1,195,470	\$ 3,753,009

The accompanying notes are an integral part of this statement.

**NOTES TO FINANCIAL STATEMENTS**

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 and 2016**

**NOTE 1 ORGANIZATION**

Reporting Entity

The Township of Neptune Sewerage Authority, a public body, corporate and political of the County of Monmouth, State of New Jersey, was organized and exists under the Sewerage Authority Law, constituting Chapter 138 of the Pamphlet Laws of 1946, of the State of New Jersey, and the acts amendatory thereof and supplemental thereof. The Authority was established in accordance with the provisions of the Act in order to own and operate a regional sewerage treatment system to serve the Townships of Neptune and Wall, Ocean Grove Sewerage District, and the Boroughs of Avon-by-the-Sea, Bradley Beach, Tinton Falls, and Neptune City. The Act authorized the Authority to issue its bonds and other obligations in an unlimited aggregate amount in order to accomplish its public purpose of promoting the relief of waters in or bordering the State of New Jersey from pollution by providing adequate sewerage treatment and disposal services to the Service Area.

The Authority provides sewerage treatment to its seven member municipalities in accordance with service agreements established with each municipality. The service agreements obligate each member to the Authority for their proportionate share of the Authority's operating expenses, debt service and required reserve additions to the extent not met by other sources.

The Authority's financial statements include all accounts of the Authority's operations.

The criteria for including organizations as component units within the Authority's reporting entity, as set forth in Section 2100 of GASB's Codification of Government Accounting and Financial Reporting Standards, including whether:

- the organization is legally separate (can sue and be sued in their own name)
- the Authority holds the corporate powers of the organization
- the Authority appoints a voting majority of the organization's board
- the Authority is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Authority
- there is a fiscal dependency by the organization on the Authority

Based on the above criteria, the Authority has no component units.

Based on the above criteria, the Authority is a component unit of the Township of Neptune. The Authority issues separate financial statements from the Township. However, if the Township presented its financial statements in accordance with GAAP, these financial statements would be included with the Township's on a blended basis.



**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 and 2016**

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES**

A. Basis of Presentation and Accounting

The Authority's financial statements are presented on the full accrual basis in accordance with the accounting principles generally accepted in the United States of America. The Authority applies all Government Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund.

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

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Total Net Position (i.e., total assets net of total liabilities) are segregated into invested capital assets, net of related debt; restricted for capital activity; restricted for debt service; and unrestricted components.

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

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 and 2016**

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**B. Budgetary Accounting**

Each year the Authority adopts a budget which is approved by the State of New Jersey, Department of Community Affairs, Division of Local Government Services. The budget may be amended by resolution of the Board of Commissioners of the Authority. The budgetary basis of accounting is utilized to determine the Authority has sufficient cash to operate and pay debt service. As such, certain items such as bond payments are included in budgetary expenses while depreciation is not included. A reconciliation from the budgetary basis to the statement of revenues, expenses and changes in net position is included in Schedule 1 of the Supplementary Information.

**C. Cash, Cash Equivalents and Investments**

New Jersey Authorities are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of securities which may be purchased by New Jersey authorities. The Authority is required to deposit funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect government units from a loss of funds on deposit with a failed banking institution in New Jersey.

N.J.S.A. 17:9-42 requires government units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

Public funds are defined as the funds of any government unit. Public depositories include banks (both state and national banks), savings and loan institutions and savings banks, the deposits of which are federally insured. All public depositories pledge collateral, having a market value of five percent of the average daily balance of collected public funds, to secure the deposits of government units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories in the collateral pool, is available to pay the full amount of their deposits to the government units.

For the Statements of Cash Flows, the Authority combines the unrestricted cash with the restricted cash and cash equivalents. The Authority considers investments with maturities of three months or less at the time of purchase to be cash equivalents.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 and 2016**

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

D. Restricted Accounts

In accordance with the Bond Resolutions and the Trust Agreement securing the 2010 and 2012 Revenue Bonds ("the Bonds"), the Authority has established various cash and investment accounts with a trustee with restrictions on the use of funds. These funds, accounts and the related principal restrictions are as follows:

Construction Fund - The Construction Fund has been established for the payment of the cost of each project for which bonds have been issued under the Trust Agreement. Upon completion of the construction project, any funds remaining and not reserved for unpaid costs shall be applied to payment of costs of any portion of the system, payment of any principal or interest on the bonds, payment of any sinking fund installment, or redemption of any bonds.

Revenue Fund - All pledged revenues as defined in the Trust Agreement are required to be paid over to the Trustee upon receipt and deposited in the Revenue Fund. Transfers from the Revenue Fund shall be made on the first business day of each month in amounts needed to establish the respective fund balances as follows:

Operating Fund - to increase the amount which is on deposit in the Operating Fund to an amount equal to the Authority's net operating expenses for the current month and the next succeeding three months.

Bond Service Fund - to equal the interest and principal falling due on the Bonds during the fiscal year.

Bond Reserve Fund - to maintain or provide an amount equal to the average annual debt service requirement as defined in the Trust Agreement in the bonds for any succeeding fiscal year.

Renewal and Replacement Fund - to equal the reasonably required reserve called for by the Trust Agreement.

General Fund - to deposit therein the balance of the pledged revenues to the extent any monies are available.

Operating Fund - to pay all reasonable and necessary costs of operating, maintaining and repairing the sewer system.

Bond Service Fund - to pay principal and interest on the bonds.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 and 2016**

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

D. Restricted Accounts (continued)

Bond Reserve Fund - to make up any deficiencies in the Bond Service Fund or any other Sinking Fund Account. In addition to transfers from the Revenue Fund, monies from the Renewal and Replacement and the General Funds may be transferred into this Fund.

Renewal and Replacement Fund - If the amount in the Bond Reserve Fund shall be less than the Bond Reserve requirement, the Trustee shall withdraw from the General Fund and then from the Renewal and Replacement Fund, and pay into the Bond Reserve Fund the amount needed to increase the amount in the Bond Reserve Fund so that it equals the Bond Reserve requirement. Monies in this Fund may be applied to the reasonable and necessary expenses of the Authority with respect to the Sewer System for major repairs, renewals, replacements or maintenance items of a type not recurring annually or at shorter intervals.

General Fund - If the amount in the Bond Reserve Fund shall be less than the Bond Reserve requirement the Trustee shall withdraw from the General Fund and pay into the Bond Reserve Fund the amount needed to increase the amount in the Bond Reserve Fund so that it equals the Bond Reserve requirement. Under the condition set forth in the Trust Agreement, the Trustee may transfer monies from the General Fund to the Revenue Fund or to the Authority to be spent for any lawful purpose.

E. Property, Plant and Equipment

Property, plant and equipment are stated at cost. The cost of property, plant and equipment is depreciated over its estimated useful life, by the straight-line method. Major improvements to existing plant and equipment are capitalized. Repairs and maintenance that do not extend the economic life of plant and equipment are charged to expense as incurred. Upon the sale or retirement of property, plant and equipment, the cost and related accumulated depreciation is eliminated from the accounts and any related gain or loss is reflected in the Statement of Revenues, Expenses and Changes in Net Position.

System construction costs are charged to construction in progress until such time as given segments of the system are completed and placed in operation. The assets are then transferred to the appropriate property and plant account and depreciated on a straight-line basis over the asset's estimated useful life.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

E. Property, Plant and Equipment (continued)

The estimated useful lives of the assets are:

Treatment Plant	75 years
Force Main and Ocean Outfall	75 years
BioFor Treatment Plant	40 years
Pumping Station	10-40 years
Equipment	5-15 years
Vehicles	5 years
Office Furniture	5 years

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. Investment Income

Investment Income on amounts held by the Authority as security for member municipalities is restricted and added to principal amounts for reinvestment. All other investment income earned is unrestricted and is utilized to defray the cost of operations and debt service.

H. Capitalized Interest

The Authority capitalizes interest on self-constructed assets during the period of construction. The amount of interest cost capitalized on qualifying assets acquired with proceeds of tax-exempt borrowings that are externally restricted to finance acquisition of specified assets is all interest cost of the borrowing less any interest earned on related interest-bearing investments acquired with such unexpended proceeds from the date of the borrowings until the assets are substantially complete and are ready for their intended use. Interest cost of tax-exempt borrowings is eligible for capitalization on other qualifying assets of the Authority when the specified qualifying assets are no longer eligible for interest capitalization. The Authority did not capitalize interest costs during the periods ended December 31, 2017 and 2016.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

I. Inventory of Supplies

Minimal inventories of replacement parts, chemicals and supplies are maintained by the Authority and are expensed at the time the individual items are purchased.

J. Income Taxes

The Authority is exempt from federal and state income taxes as it is a public body politic and corporate of the State of New Jersey.

K. Net Position

Net position comprises the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net position is classified in the following three components: net investment in capital assets, restricted, and unrestricted. Net invested in capital assets consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted includes resources with external restrictions. Unrestricted consists of all other resources not included in the above categories.

**NOTE 3 CASH, CASH EQUIVALENTS, AND INVESTMENTS**

A. Deposits

Cash and Cash Equivalents consist of the following at December 31:

	2017	2016
Cash	\$ 272,558	\$ 174,048
Money Market Funds	14,755,238	17,066,857
	\$ 15,027,796	\$ 17,240,905

As of December 31, 2017, the Authority's Cash and Cash Equivalents are insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

The carrying amount of the Authority's cash and cash equivalents at December 31, 2017 was \$15,027,796 and the bank balance was \$15,030,219.97. Of the bank balance, \$525,201.27 was covered by federal depository insurance, and the remaining \$14,505,018.70 was covered under the unit certificate of eligibility as required by New Jersey statutes.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 and 2016**

**NOTE 3 CASH, CASH EQUIVALENTS, AND INVESTMENTS (continued)**

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a financial institution or counterparty to a transaction, the Authority will not be able to recover the value of its investment. The Authority mitigates this risk by depositing or investing with public depositories protected from loss under the provisions of the GUPTA.

B. Investments

The Authority had no investments at December 31, 2017 and 2016.

**NOTE 4 PROPERTY, PLANT AND EQUIPMENT**

Property, Plant and Equipment consisted of the following at December 31:

	Balance Dec. 31, 2016	Additions	Disposals	Balance Dec. 31, 2017
Land	\$ 346,264	\$ -	\$ -	\$ 346,264
Plant and Improvements	53,843,816	226,795	-	54,070,611
Equipment and Vehicles	530,385	37,126	-	567,511
Construction in Progress	85,341	1,770,674	-	1,856,015
	<u>54,805,806</u>	<u>2,034,595</u>	-	<u>56,840,401</u>
Less: Accumulated Depreciation	<u>24,418,842</u>	<u>1,115,466</u>	-	<u>25,534,308</u>
Property, Plant and Equipment, Net	<u>\$ 30,386,964</u>	<u>\$ 919,129</u>	<u>\$ -</u>	<u>\$ 31,306,093</u>

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 and 2016**

**NOTE 5 DEFERRED CHARGES**

Deferred Charges relate to the issuance costs, including legal, printing and financing costs, of the 2010 and 2012 Sewer Revenue Bond Series. These charges are being amortized on the interest method over the life of the respective bonds. During 2012, the 2003A Sewer Revenue Bond Series was refunded and the deferred charges written off as part of the loss on bond refunding.

Deferred Charges consist of the following at December 31:

	2017	2016
Bond Issuance Costs	\$ 47,119	\$ 69,828
Less:		
Accumulated Amortization	17,308	22,709
Net Deferred Charges	\$ 29,811	\$ 47,119

**NOTE 6 LONG-TERM DEBT**

Long-Term Debt consisted of the following at December 31:

	2017	2016
2010 Series, Sewer Revenue Refunding Bonds	\$ 695,000	\$ 1,360,000
2012 Series, Sewer Revenue Refunding Bonds	3,205,000	3,775,000
Total Long-term Debt	3,900,000	5,135,000
Unamortized Bond Premium	126,079	189,039
Current Portion	(1,285,000)	(1,235,000)
Net Long-term Debt	\$ 2,741,079	\$ 4,089,039



**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 and 2016**

**NOTE 6 LONG-TERM DEBT (continued)**

2010 Sewer Revenue Refunding Bonds

The Sewer Revenue Refunding Bonds, Series 2010 were authorized for the purpose of refunding \$5,055,000 of the outstanding principle amount of the Authority's Sewer Revenue Bonds, Series 1998, and to provide funds to pay all fees and expenses incurred with the issuance of the Bonds. The Bonds consist of \$4,970,000 in Serial Bonds which mature annually on July 1, 2011 through 2018. Interest during that period ranges from 3.000% to 4.000% payable semi-annually on January 1 and July 1.

2012 Sewer Revenue Refunding Bonds

The Sewer Revenue Refunding Bonds, Series 2012 were authorized for the purpose of refunding \$6,250,000 of the outstanding principle amount of the Authority's Sewer Revenue Bonds, Series 2003A, and to provide funds to pay all fees and expenses incurred with the issuance of the Bonds. The Bonds consist of \$5,930,000 in Serial Bonds which mature annually on July 1, 2012 through 2022. Interest during that period ranges from 3.000% to 4.000% payable semi-annually on January 1 and July 1.

Annual Debt Service

The following table sets forth the annual debt service (budgetary basis) of the Authority for all bonds outstanding:

<u>12 Month Period Ending Dec 31,</u>	<u>2010</u>	<u>2012 Series A</u>	<u>Total Debt Service</u>
2018	\$ 722,800	\$ 718,200	\$ 1,441,000
2019	-	719,600	719,600
2020	-	720,000	720,000
2021	-	719,400	719,400
2022	-	722,800	722,800
	<u>\$ 722,800</u>	<u>\$ 3,600,000</u>	<u>\$ 4,322,800</u>

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 and 2016**

**NOTE 6 LONG-TERM DEBT (continued)**

The following table sets forth the debt service requirements for principal and interest:

12 Month Period Ending Dec 31,	Principal	Interest	Total
2018	\$ 1,285,000	\$ 156,000	\$ 1,441,000
2019	615,000	104,600	719,600
2020	640,000	80,000	720,000
2021	665,000	54,400	719,400
2022	695,000	27,800	722,800
	<u>\$ 3,900,000</u>	<u>\$ 422,800</u>	<u>\$ 4,322,800</u>

Changes in the outstanding debt for 2017 are as follows:

Issue	Balance Dec. 31, 2016	Issued	Paid	Balance Dec. 31, 2017
Series 2010	\$ 1,360,000	\$ -	\$ 665,000	\$ 695,000
Series 2012	3,775,000	-	570,000	3,205,000
	<u>\$ 5,135,000</u>	<u>\$ -</u>	<u>\$ 1,235,000</u>	<u>\$ 3,900,000</u>

**NOTE 7 SECURITY HELD FOR MEMBER MUNICIPALITIES**

Service agreements with member municipalities provide that payments shall be at 102% of the member municipality's obligation for sewer treatment services. The additional 2% shall be deposited to the credit of the municipality in a Sewer Rent Reserve Account until deposits and interest earned in investment of such amounts equals the next two quarterly payments to become due from the member municipality.

Investment accounts have been established for each of the member municipalities as directed by the individual governing bodies.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 8 COMPENSATED ABSENCES**

Per the Authority's "Personnel Code", its employees are entitled to sick leave benefits and vacation time.

Sick Leave

Sick leave allowances are determined as follows:

After one year of employment, an employee will be allowed 15 days sick leave in each twelve month period. Sick leave eligibility will be credited on the basis of one and one-quarter days for each month in which the employee is on the payroll.

Unused sick leave may be accumulated from year to year without a limit. An employee is entitled to use the accumulated sick leave with pay when needed.

Sick leave in excess of the accrued time may be granted at the discretion of the Authority when warranted by the employee's overall work record.

An employee who has used five days or less of sick time in a calendar year can elect to be compensated for up to five (5) of the remaining days and banking the remainder of the days in their accumulated sick time totals. The compensation for up to seven (7) unused days may be taken as a cash payment or as compensatory time off. If compensatory time off is chosen, this will be taken as straight time (i.e. 8 hours = 8 hours compensatory time off).

One half of the accumulated sick leave shall be paid upon retirement, permanent disability or death. Sick leave will not be granted as credit toward early retirement.

At December 31, 2017 and 2016, the computed contingent liability for accumulated sick leave compensation is \$521,328 and \$504,974 respectively. This is presented on the comparative balance sheet as an unrestricted noncurrent liability under to caption "Accrued Employee Benefits".

Vacation Time

It is the policy of the Authority that all employees be granted time away from work for the purpose of vacation. Each employee shall take advantage of the authorized vacation period for reasons of health, rest relaxation and pleasure; and therefore, extra compensation in lieu of vacation will not be allowed. The amount of time granted shall be determined by the employee's length of service. A vacation year shall run from the anniversary date of each employee's employment date.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 and 2016**

**NOTE 8 COMPENSATED ABSENCES (continued)**

Sick Leave (continued)

All vacation time earned in a given year must be used within the vacation year or be forfeited.

Employees who terminate their employment will receive vacation pay according to their accruals, provided the employee is in compliance with all requirements related to termination.

At December 31, 2017 and 2016, the computed contingent liability for accrued vacation time is \$117,102 and \$91,812, respectively. This is presented on the comparative balance sheet as an unrestricted current liability included with other accrued liabilities under the caption "Accrued Liabilities".

**NOTE 9 PENSION PLAN**

Description of the System

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 the 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).

Description of the System (continued)

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

<u>Tier</u>	<u>Definition</u>
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/5 5th 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

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 and 2016**

**NOTE 9**    **PENSION PLAN (continued)**

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.

Membership

Membership in the PERS is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction. Since PERS covers public employees throughout the State separate records are not maintained for each reporting unit; accordingly, the actuarial data for the employees of the Authority who are members of PERS are not available.

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 noncontributory group insurance benefits is based on actual claims paid. For fiscal year 2015, the State's pension contribution was less than the actuarial determined amount. The local employers' contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets. Authority contributions to PERS amounted to \$198,997 and \$180,288 for 2016 and 2015, respectively. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments, cost of medical premiums after retirement for qualified retirees, and noncontributory death benefits.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 and 2016**

**NOTE 9 PENSION PLAN (continued)**

The employee contribution rate was 7.20% effective July 1, 2016 and increased to 7.23% effective July 1, 2017. Subsequent increases after October 1, 2011 are being phased in over 7 years effective on each July 1st to bring the total pension contribution rate to 7.5% of base salary as of July 1, 2018. The Authority contribution to the plan for the past three years are as follows:

<u>Year</u>	<u>PERS</u>
2017	\$ 203,897
2016	198,997
2015	180,288

All contributions were equal to the required contributions for each of the three years, respectively.

In 2004 the Authority deferred a portion of their pension obligation as allowed. The present value of the deferral at December 31, 2017 and 2016 is \$43,525 and \$46,711, respectively. This amount is included as an accrued liability on the balance sheet. The Authority is obligated to pay, at a minimum \$6,673 per year plus an adjustment based on the rate of return of the actuarial value of the plans assets for 15 years beginning in 2012 to pay back the deferral. For the minimum payment the State is charging 8.25% interest.

Net Pension Liability and Pension Expense

At December 31, 2017 and 2016, the Authority's proportionate share of the PERS net pension liability is valued to be \$6,555,246 and \$6,555,246, respectively. The net pension liabilities were measured as of June 30, 2016 and 2015, respectively. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of June 30, 2015, to the measurement date of June 30, 2016. The Authority's proportion of the net pension liability was based on the Authority's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2016. The Authority's proportion measured as of June 30, 2016, was 0.0221332915%, which was an decrease of 0.0010131129% from its proportion measured as of June 30, 2015 of .0231464044%.

	<u>2016</u>	<u>2015</u>	<u>Increase/ (Decrease)</u>
Actuarial Valuation Date	July 1, 2017	July 1, 2016	
Net Pension Liability	\$ 5,386,060	\$ 6,555,246	\$ (1,169,186)
Authority's Proportion of the Plan's Total Net Pension Liability	0.0231375835%	0.0221332915%	0.0010042920%

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 and 2016**

**NOTE 9 PENSION PLAN (continued)**

Net Pension Liability and Pension Expense (continued)

For the year ended December 31, 2017 and 2016 the Authority recognized pension expense of \$553,536 and \$402,152, respectively. The Authority reported deferred outflow of resources and deferred inflow of resources related to pension from the following sources:

Year ended December 31, 2016	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 121,908	\$ -
Changes of assumptions	1,357,897	-
Changes in proportion	160,935	261,471
Net difference between projected and actual investment earning on pension plan investments	<u>249,957</u>	<u>-</u>
	<u>\$ 1,890,697</u>	<u>\$ 261,471</u>
Year ended December 31, 2017	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 126,823	\$ -
Changes of assumptions	1,085,105	1,081,127
Changes in proportion	296,673	197,329
Net difference between projected and actual investment earning on pension plan investments	<u>36,675</u>	<u>-</u>
	<u>\$ 1,545,276</u>	<u>\$ 1,278,456</u>

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 and 2016**

**NOTE 9 PENSION PLAN (continued)**

Net Pension Liability and Pension Expense (continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31,

2018	\$	143,457
2019		204,436
2020		135,682
2021		(129,155)
2022		<u>(87,600)</u>
Total	\$	<u>266,820</u>

December 31,  
2017

Deferred Outflows	\$	1,545,276
Deferred Inflows		<u>1,278,456</u>
Net Outflows (Inflows)	\$	<u>266,820</u>



**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 9 PENSION PLAN (continued)**

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:

	<u>PERS</u>
Measurement date	6/30/2017
Actuarial valuation date	7/1/2016
Investment rate of return	7.00%
Salary increases	1.65 - 4.15%
	Based on Age
Thereafter	2.65 - 5.15%
	Based on Age
Inflation Rate	2.25%

Preretirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. 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).

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.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 and 2016**

**NOTE 9 PENSION PLAN (continued)**

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2017) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute return/risk mitigation	5.00%	5.51%
Cash 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 orientated 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. dev. markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%
Total	<u>100.00%</u>	

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 9 PENSION PLAN (continued)**

Discount Rate

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. The single blended discount rate was based on long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.58% as of June 30, 2017, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipals bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The local employees contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate as disclosed above, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.00%) or 1-percentage-point higher (6.00%) than the current rate:

	<u>Decrease</u> <u>(4.00%)</u>	<u>Discount</u> <u>(5.00%)</u>	<u>Increase</u> <u>(6.00%)</u>
Authority's proportionate share of the net pension liability	\$ 6,681,773	\$ 5,386,060	\$ 4,306,571

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial statements.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 and 2016**

**NOTE 10 POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (“OPEB”)**

A. Plan Description

In addition to the pension benefits described in Note 9, the Authority contributes to the New Jersey 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. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq., 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. Local employers must adopt a resolution to participate in the SHBP. The Authority provides post-employment health care benefits to employees and their spouses upon retirement after twenty-five years of service to the Authority and remains in effect until the employee becomes Medicare eligible. The plan can be amended by the Authority subject to applicable and employment agreements and resolutions.

The State Health Benefits Commission is the executive body established by 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 the 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.

B. Funding Policy

Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-employment health 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.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 10 POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (“OPEB”) (continued)**

**B. Funding Policy (continued)**

Contributions to pay for health premiums of participating retirees in the SHBP are billed to the Authority on a monthly basis. The Authority currently contributes on a pay-as-you-go basis based upon monthly invoices from the State of New Jersey Division of Pensions. Retired employees are not required to contribute. Contributions to the plan including Medicare reimbursement for the last three years and the number of former employees eligible for and participating in the post-employment health care benefits program as of the respective year ended December 31 was as follows:

<u>Year</u>	<u>Contribution</u>	<u>Number of Employees</u>
2017	\$ 111,031	9
2016	129,093	9
2015	129,218	9

All contributions were equal to the required contributions for each of the three years respectively.

The Authority provides post-employment medical and prescription drug coverage to eligible retired employees and their dependents. Once Medicare age is attained by either the retired employee or their spouse in the case of spousal coverage, Medicare is primary and the Authority provides supplementary medical insurance. The Authority pays 100% of the insurance cost for the retiree.

The Authority’s annual Other Post-Employment Benefit cost is calculated based on the Annual Required Contribution. The cost method used to determine the Plan’s funding requirements is the “Simplified” method. Under this method, an actuarial accrued liability is determined as the present value of the earned benefits, which is allocated to service before the current plan year. The Plan is currently unfunded. The unfunded actuarial liability is amortized over thirty years.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2017 and 2016**

**NOTE 10 POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS (“OPEB”) (continued)**

Annual OPEB Cost - The Authority uses the alternative simplified method to calculate its OPEB obligation. The authority assumed a 7.5% increase in health insurance premiums and a 5% discount rate when computing present value in its determination of the net OPEB obligation as follows:

	2017	2016
Annual OPEB costs	\$ 722,037	\$ 797,030
Benefit payment	(111,031)	(129,093)
Increase in Net OPEB obligation	611,006	667,937
Net OPEB obligation, beginning of year	11,574,278	10,906,341
Net OPEB obligation, end of year	\$ 12,185,284	\$ 11,574,278

The Authority’s annual OPEB Cost Summary is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
12/31/2017	\$ 722,037	15.38%	\$ 12,185,284
12/31/2016	797,030	16.20%	11,574,278

**NOTE 11 RISK MANAGEMENT**

Health insurance coverage for the Authority’s employees is obtained through the New Jersey State Health Benefits Program (“SHBP”). SHBP provides the following basic benefit coverage to all participants: hospital, surgical, group major medical, prescription drug coverage for active and qualified retired Authority employees and their families. Worker’s compensation is obtained through the Statewide Joint Insurance Fund, a public entity risk pool. General liability and property coverage is provided by Zurick American Insurance Company; general liability coverage is in the amount of \$1,000,000 per occurrence and property coverage is in the amount of \$1,000,000 combined single limit. A commercial umbrella policy from American Alternative Insurance Company increases the limits to \$10,000,000 for each occurrence and in the aggregate for general liability and property coverage.

There have been no reductions in insurance coverage from the prior year. Additionally, the amount of settlements has not exceeded insurance coverage in the past three years.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2017 and 2016**

**NOTE 12 CONTINGENCIES**

The Authority is subject to extensive federal and state environmental regulations. The Authority's management is not aware of any violations that may have a material effect on the financial statements.

**NOTE 13 LITIGATION**

The Authority is party to various lawsuits, none of which the Authority believes to have merit.

**NOTE 14 SUBSEQUENT EVENTS**

Management has evaluated subsequent events through July 9, 2018, the date the financial statements were issued.

The Authority has no reportable subsequent events.

**SUPPLEMENTARY INFORMATION**



TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY  
NEPTUNE, NEW JERSEY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY  
OPERATING REVENUES

Year Ended December 31, 2017

(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017 <u>Budget</u>	2017 <u>Actual</u>	Variance	2016 <u>Actual</u>
Operating Revenues:				
Service Charges	\$ 6,727,300	\$ 6,727,300	\$ -	\$ 6,729,900
Interest Income	20,000	75,547	55,547	35,629
Miscellaneous Income		9,159	9,159	1,119
Total Budget	<u>\$ 6,747,300</u>	<u>\$ 6,812,006</u>	<u>\$ 64,706</u>	<u>\$ 6,766,648</u>
Operating Expenses:				
Personnel Costs and Benefits:				
Administrative Salaries and Wages	\$ 147,500	\$ 149,393	\$ (1,893)	\$ 139,781
Operational Salaries and Wages	1,600,000	1,636,990	(36,990)	1,579,113
Pension	204,000	553,536	(349,536)	402,152
Hospitalization & Dental	426,000	389,996	36,004	431,550
Prescription Plan	94,000	89,015	4,985	91,273
Payroll Taxes	149,000	132,947	16,053	128,508
Total Personnel Costs and Benefits	<u>2,620,500</u>	<u>2,951,877</u>	<u>(331,377)</u>	<u>2,772,377</u>
Administrative and General Expenses				
Insurance	203,000	199,826	3,174	193,884
Travel	4,000	1,017	2,983	901
Training	10,000	3,301	6,699	4,405
Postage	2,000	887	1,113	871
Telephone	14,000	13,788	212	15,278
Office Supplies and Equipment	27,000	23,508	3,492	13,982
Maintenance Agreements	20,000	20,202	(202)	21,644
Books and Publications	1,000	493	507	362
Advertising	2,500	2,733	(233)	3,511
Licensing Fees	60,000	60,022	(22)	55,563
Affiliation Fees	7,000	5,704	1,296	5,770
Administrative	8,900	10,727	(1,827)	5,801
Auditing and Financial Consulting	38,000	28,250	9,750	28,042
Legal and Legal Consulting	53,000	98,954	(45,954)	25,187
Trustee Fees	5,000	4,500	500	4,500
Total Administrative and General Expenses	<u>455,400</u>	<u>473,912</u>	<u>(18,512)</u>	<u>379,701</u>

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY  
NEPTUNE, NEW JERSEY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY  
OPERATING REVENUES  
Year Ended December 31, 2017  
(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017 Budget	2017 Actual	Variance	2016 Actual
Plant, System and Maintenance Expenses				
Electric	650,000	516,089	133,911	494,445
Fuel Oil	12,000	4,624	7,376	4,485
Water	7,000	7,279	(279)	6,567
Chemical/Odor Control	275,000	59,246	215,754	61,406
Janitorial Supplies	9,000	3,860	5,140	3,515
Equipment and Maintenance	480,000	178,269	301,731	188,999
Natural Gas	160,000	91,118	68,882	80,974
Uniforms	8,000	10,620	(2,620)	8,199
Lab Supplies	40,000	38,636	1,364	22,976
Lubricants	13,000	7,589	5,411	6,892
Sodium Hypochlorite	115,000	96,777	18,223	98,514
Sludge Processing	275,000	223,023	51,977	173,668
Ocean Outfall Inspection	40,000	28,300	11,700	13,600
Gasoline	12,000	6,636	5,364	5,195
Vehicle Maintenance	10,000	7,955	2,045	5,740
Engineering and Engineering Consulting	125,000	134,783	(9,783)	42,730
Total Plant, System and Maintenance Expenses	<u>2,231,000</u>	<u>1,414,804</u>	<u>816,196</u>	<u>1,217,905</u>
Total Operating Expenses	5,306,900	4,840,593	466,307	4,369,983
Other Costs Funded by Operating Revenues:				
Capital Outlay:				
Plant Improvements and Equipment	<u>2,612,000</u>	<u>1,820,773</u>	<u>791,227</u>	<u>198,871</u>
Total Capital Outlay	<u>2,612,000</u>	<u>1,820,773</u>	<u>791,227</u>	<u>198,871</u>
Debt Service:				
Bond Interest	205,400	180,700	24,700	229,200
Other Interest	-	4,151	(4,151)	4,222
Bond Principal	<u>1,235,000</u>	<u>1,235,000</u>	<u>-</u>	<u>1,190,000</u>
Total Debt Service	<u>1,440,400</u>	<u>1,419,851</u>	<u>20,549</u>	<u>1,423,422</u>
Total Other Costs Funded by Operating Revenues	<u>4,052,400</u>	<u>3,240,624</u>	<u>811,776</u>	<u>1,622,293</u>
Total Costs Funded by Operating Revenues	<u>9,359,300</u>	<u>8,081,217</u>	<u>1,278,083</u>	<u>5,992,276</u>
Excess (Deficit) of Revenues over Costs	<u>(2,612,000)</u>	<u>(1,269,211)</u>	<u>1,342,789</u>	<u>774,372</u>
Total Budget	<u>\$ 6,747,300</u>	<u>\$ 6,812,006</u>	<u>\$ 64,706</u>	<u>\$ 6,766,648</u>

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY  
NEPTUNE, NEW JERSEY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY  
OPERATING REVENUES

Year Ended December 31, 2017

(With Comparative Actual Amounts for the Year Ended December 31, 2016)

	2017 <u>Budget</u>	2017 <u>Actual</u>	<u>Variance</u>	2016 <u>Actual</u>
Reconciliation of Budgetary Basis to Net Income				
Excess (Deficit) of Revenues over Costs		\$ (1,269,211)		\$ 774,372
Capitalized Plant Improvements		1,820,773		198,871
Gain on sale of fixed assets		-		2,472
Depreciation Expense		(1,115,466)		(1,221,564)
Amortization of Bond Premium		62,960		78,461
Amortization of Deferred Charges		(17,308)		(22,709)
Changes in OPEB Obligation		(611,006)		(667,937)
Debt Service - Bond Principal		<u>1,235,000</u>		<u>1,190,000</u>
Net Income		<u>\$ 105,742</u>		<u>\$ 331,966</u>

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY  
NEPTUNE, NEW JERSEY**

**SCHEDULE OF THE PROPORTIONATE SHARE OF  
NET PENSION LIABILITY  
Years Ended December 31, 2017, 2016 and 2015  
(Last 10 Years)\***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Proportion of the net pension liability	0.0231375835%	0.0221332915%	0.0231464044%
Proportionate share of the net pension liability	\$ 5,386,060	\$ 6,555,246	\$ 5,195,904
Covered - employee payroll	\$ 1,786,383	\$ 1,718,894	\$ 1,657,203
Proportionate Share of the net pension liability as percentage of employee payroll	301.51%	381.36%	313.53%
Proportionate share of plan's fiduciary net position	\$ 4,991,694	\$ 4,395,133	\$ 4,782,414
Plan fiduciary net position as a percentage of the total pension liability	48.10%	40.14%	47.93%

**Notes to Schedule:**

\* - 2015 was the first year of implementation, therefore only three years are shown.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY  
NEPTUNE, NEW JERSEY**

**SCHEDULE OF CONTRIBUTIONS  
Years Ended December 31, 2017, 2016 and 2015  
(Last 10 Years)\***

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution (actuarially determined)	\$ 214,345.00	\$ 195,997.00	\$ 180,288.00
Contributions in relation to the actuarially determined contributions	<u>214,345.00</u>	<u>195,997.00</u>	<u>180,288.00</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
 Covered - employee payroll	 \$ 1,786,383.00	 \$ 1,718,894.00	 \$ 1,657,203.00
 Contributions as a percentage of covered-employee payroll	 12.00%	 11.40%	 10.88%
 <b>Notes to Schedule:</b>			
Valuation date:	June 30, 2017	June 30, 2016	June 30, 2015
Inflation rate	2.25%	3.08%	3.04%
Salary Increases	1.65 - 4.15% based on age	1.65 - 4.15% based on age	2.15 - 4.40% based on age
Thereafter	2.65 - 5.15% based on age	2.65 - 5.15% based on age	3.15 - 5.40% based on age
Investment rate of return	7.00%	7.65%	7.90%

\* - 2015 was the first year of implementation, therefore only three years are shown.

**COMMENTS AND RECOMMENDATIONS**

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY  
NEPTUNE, NEW JERSEY**

**COMMENTS AND RECOMMENDATIONS  
YEAR ENDED DECEMBER 31, 2017 and 2016**

None.

Respectfully submitted,

*Charles J. Fallon CPA RMA*

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