

EWING-LAWRENCE SEWERAGE AUTHORITY

FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

December 31, 2016

EWING-LAWRENCE SEWERAGE AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To the Honorable Chairperson and Board Members of
Ewing-Lawrence Sewerage Authority

Report on the Financial Statements

We have audited the accompanying basic financial statements of Ewing-Lawrence Sewerage Authority (the "Authority"), which comprise the statements of net position as of and for the years ended December 31, 2016 and 2015, and the related statements of revenues, expenses and changes in net position for the years then ended, and the related notes to 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 audit requirements 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 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 auditors' 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2016 and 2015, and the changes in its financial position and its 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 on pages four through six be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB 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 Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedule of revenues, expenses and changes in net position and schedule of operating revenues and costs funded by operating revenues compared to budget, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of expenditures of federal awards and state financial assistance are presented for the purpose of additional analysis as required by Title 2 U.S. Code of Federal Regulations ("CFR") Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards and New Jersey Circular Letter 15-08-OMB, Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information, except for the part marked "unaudited," 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, except for that portion marked "unaudited," the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated, August 11, 2017, 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, grant agreements and other matters. The purpose of those reports 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. Those reports are 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.

Mercadien, P.C.

Certified Public Accountants

August 11, 2017

EWING-LAWRENCE SEWERAGE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As financial management of the Ewing-Lawrence Sewerage Authority (the "Authority"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Authority for the years ended December 31, 2016 and 2015. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole. A comparative analysis of the financial statements data has been presented for 2016 and 2015.

FINANCIAL HIGHLIGHTS

Income from operations for the Authority was \$2,311,604 and \$1,349,712 for the years ended December 31, 2016 and 2015, respectively. The Authority's net position was \$37,401,374 and \$35,022,191 at the close of 2016 and 2015, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which are comprised of the basic financial statements and the notes to the financial statements. This report also contains other supplementary information, including a schedule of revenues, expenses and changes in net position.

Basic financial statements. The basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to that employed by private-sector businesses.

The statement of net position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether the financial position of the Authority is improving or deteriorating. Net position increases when revenues exceed expenses. Increases to assets without corresponding increases to liabilities also result in increased net position, which indicates an improved financial position.

The statement of revenues, expenses and changes in net position presents information showing how net position changed during the fiscal year. All changes in net position are reported as soon as the underlying events occur, regardless of timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will not result in cash flows until future fiscal periods.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning operating revenues, expenses and net position, as well as comparisons to budget.

EWING-LAWRENCE SEWERAGE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

FINANCIAL ANALYSIS OF THE AUTHORITY

Cash balances were \$19,896,564 and \$14,045,072 at December 31, 2016 and 2015, respectively, and comprise the largest portion of the Authority's current assets and consist of unrestricted and restricted portions.

The increase in capital assets in 2016 of \$8,500,485 and in 2015 of \$11,365,671 was related primarily to expenditures for the wastewater facilities upgrade project, as well as, the Scotch Road relief sewer and the Jacob's Creek project.

The Authority had \$38,454,128 and \$34,323,116 in bonds and NJEIT loans as of December 31, 2016 and 2015, respectively, relating to the acquisition, construction and improvement of sewer systems in Ewing and Lawrence Townships.

The following tables contain condensed financial information derived from the December 31, 2016 2015, and 2014 financial statements of the Authority:

Condensed Statement of Net Position

	December 31,			Change 2016-2015
	2016	2015	2014	
Current assets	\$ 25,586,751	\$ 26,328,335	\$ 33,724,109	(741,584)
Capital assets	65,709,806	57,209,321	45,843,650	8,500,485
Total assets	<u>\$ 91,296,557</u>	<u>\$ 83,537,656</u>	<u>\$ 79,567,759</u>	7,758,901
Deferred outflows of resources	<u>\$ 4,570,270</u>	<u>\$ 1,823,365</u>	<u>\$ 607,924</u>	2,746,905
Current liabilities, net of bonds and loans payable	\$ 3,537,562	\$ 3,141,790	\$ 3,625,862	395,772
Bonds and loans payable	38,454,128	34,323,116	32,362,834	4,131,012
Net OPEB obligation	93,196	47,743	3,870,765	45,453
Net pension liability	15,915,530	11,840,469	9,845,097	4,075,061
Unearned principal loan forgiveness	465,038	795,340	-	(330,302)
Total liabilities	<u>\$ 58,465,454</u>	<u>\$ 50,148,458</u>	<u>\$ 49,704,558</u>	8,316,996
Deferred inflows of resources	<u>\$ -</u>	<u>\$ 190,372</u>	<u>\$ 586,714</u>	(190,372)
Net position:				
Net investment in capital assets	\$ 32,771,669	\$ 33,048,270	\$ 33,830,680	(276,601)
Restricted	2,512,922	2,508,561	3,240,538	4,361
Unrestricted	2,116,782	(534,640)	(7,186,807)	2,651,422
Total net position	<u>\$ 37,401,373</u>	<u>\$ 35,022,191</u>	<u>\$ 29,884,411</u>	2,379,182

EWING-LAWRENCE SEWERAGE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

Condensed Statement of Revenues, Expenses and Changes in Net Position

	Year Ended December 31,			Change 2016-2015
	2016	2015	2014	
Operating revenues	\$ 15,319,926	\$ 14,608,876	\$ 14,093,930	\$ 711,050
Operating expenses	11,323,730	11,490,021	10,501,226	(166,291)
Depreciation and amortization	1,684,592	1,769,143	2,128,479	(84,551)
Income from operations	<u>2,311,604</u>	<u>1,349,712</u>	<u>1,464,225</u>	961,892
Non-operating revenues	341,539	3,975,854	529	(3,634,315)
Non-operating expenses	<u>(273,960)</u>	<u>(187,786)</u>	<u>951,782</u>	(86,174)
Change in net position	<u>2,379,183</u>	<u>5,137,780</u>	<u>512,972</u>	(2,758,597)
Net position, beginning of year	35,022,191	29,884,411	39,068,036	5,137,780
Cumulative change in accounting principle	-	-	<u>(9,696,597)</u>	-
Net position, beginning of year, restated	<u>35,022,191</u>	<u>29,884,411</u>	<u>29,371,439</u>	5,137,780
Net position, end of year	<u>\$ 37,401,374</u>	<u>\$ 35,022,191</u>	<u>\$ 29,884,411</u>	2,379,183

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide taxpayers and our creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the revenues that it receives. If you have questions about this report or need additional information, contact the Authority's financial management at 600 Whitehead Road, Lawrenceville, New Jersey, 08648 or (609) 587-4061.

EWING-LAWRENCE SEWERAGE AUTHORITY

STATEMENTS OF NET POSITION

		December 31,	
		2016	2015*
ASSETS			
Current Assets			
Unrestricted			
Cash and equivalents		\$ 17,383,642	\$ 11,536,511
Interest receivable		10,327	7,857
Other receivables		163,304	3,445
Service charge receivable		-	2,109,896
Total Unrestricted		<u>17,557,273</u>	<u>13,657,709</u>
Restricted			
Cash and equivalents- debt service reserve		2,512,922	2,508,561
Funds held by trustee		5,516,556	10,162,065
Total Restricted		<u>8,029,478</u>	<u>12,670,626</u>
Total Current Assets		<u>25,586,751</u>	<u>26,328,335</u>
Capital assets, net		65,709,806	57,209,321
Total Assets		<u>\$ 91,296,557</u>	<u>\$ 83,537,656</u>
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions		<u>\$ 4,570,270</u>	<u>\$ 1,823,365</u>
LIABILITIES			
Current Liabilities			
Accounts payable		\$ 1,551,564	\$ 1,059,890
Developers' performance bonds		247,913	247,913
Loan payable		6,680,371	526,678
Accrued interest payable		38,128	40,836
Accrued liability for compensated absences		530,192	547,703
Engineering deposits		919,552	1,087,750
Other liabilities		250,213	157,698
Total Current Liabilities		<u>10,217,933</u>	<u>3,668,468</u>
Non-Current Liabilities			
Loans payable		31,773,757	33,796,438
Net OPEB liability		93,196	47,743
Net pension liability		15,915,530	11,840,469
Unearned principal loan forgiveness		465,038	795,340
Total Non-Current Liabilities		<u>48,247,521</u>	<u>46,479,990</u>
Total Liabilities		<u>\$ 58,465,454</u>	<u>\$ 50,148,458</u>
DEFERRED INFLOWS OF RESOURCES			
Related to pensions		<u>\$ -</u>	<u>\$ 190,372</u>
NET POSITION			
Net investment in capital assets		\$ 32,771,669	\$ 33,048,270
Restricted			
Future debt service		2,512,922	2,508,561
Unrestricted		2,116,782	(534,640)
Total Net Position		<u>\$ 37,401,373</u>	<u>\$ 35,022,191</u>

*Reclassified

See notes to financial statements.

EWING-LAWRENCE SEWERAGE AUTHORITY**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

	Year Ended December 31,	
	2016	2015
Operating revenues		
Service agreements	\$ 13,474,803	\$ 13,624,261
Contributions for system improvements	14,840	-
Connection fees	1,682,430	859,835
Capacity revenue	13,500	16,875
Inspection fees	1,550	700
Developer applications	22,500	25,300
Interest	12,458	1,085
Miscellaneous	97,845	80,820
Total operating revenues	<u>15,319,926</u>	<u>14,608,876</u>
Operating expenses		
Costs of providing services	9,606,402	8,968,224
Administrative and general	1,717,328	1,524,237
County sludge facility	-	997,560
Depreciation	1,684,592	1,769,143
Total operating expenses	<u>13,008,322</u>	<u>13,259,164</u>
Income from operations	<u>2,311,604</u>	<u>1,349,712</u>
Non-operating revenues (expenses)		
Interest income	6,737	705
Interest expense	(273,960)	(187,786)
Miscellaneous income	4,500	-
Reversal of OPEB liability	-	3,823,022
Principal loan forgiveness	330,302	152,127
Non-operating expenses, net	<u>67,579</u>	<u>3,788,068</u>
Change in net position	<u>2,379,183</u>	<u>5,137,780</u>
Net position, beginning of year	<u>35,022,191</u>	<u>29,884,411</u>
Net position, end of year	<u>\$ 37,401,374</u>	<u>\$ 35,022,191</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2016	2015
Cash Flows from Operating Activities		
Cash received from		
Service agreements	\$ 15,422,370	\$ 11,515,583
Contributions from system improvements	14,840	-
Connection fees	1,682,430	859,835
Inspection fees	1,550	700
Interest income	12,458	1,085
Miscellaneous revenue	133,845	122,994
Cash used for		
Cost of providing services	(8,521,592)	(9,339,955)
Administrative and general	(1,220,422)	(1,157,333)
County sludge facilities	-	(997,560)
Net cash from operating activities	<u>7,525,479</u>	<u>1,005,349</u>
Cash Flows from Investing Activities		
Interest income	6,737	704
Purchases of capital assets, net	(10,185,077)	(13,134,814)
Net cash from investing activities	<u>(10,178,340)</u>	<u>(13,134,110)</u>
Cash Flows from Financing Activities		
Repayments of loans	(513,286)	(510,251)
Proceeds from loans	4,640,823	3,418,090
Funds held by trustees	4,645,509	10,272,097
Payment of bond interest	(268,693)	(283,530)
Net cash from financing activities	<u>8,504,353</u>	<u>12,896,406</u>
Net increase in cash and equivalents	5,851,492	767,645
Cash and equivalents, beginning of year	14,045,072	13,277,427
Cash and equivalents, end of year	<u>\$ 19,896,564</u>	<u>\$ 14,045,072</u>
The following is a summary of the Authority's cash and equivalents:		
Cash-unrestricted	\$ 17,383,642	\$ 11,536,511
Cash-restricted	2,512,922	2,508,561
Total cash and cash equivalents	<u>\$ 19,896,564</u>	<u>\$ 14,045,072</u>
Reconciliation of Income from Operations to Net Cash		
from Operating Activities		
Income from operations	\$ 2,311,604	\$ 1,349,712
Adjustments to reconcile income from operations to net cash		
from operating activities		
Depreciation	1,684,592	1,769,143
Net OPEB liability	45,453	-
Net pension expense	1,137,784	383,589
Changes in assets and liabilities		
Other receivables	1,947,567	(2,108,678)
Accounts payable	491,673	(653,288)
Developer deposits	-	5,000
Other liabilities	92,515	5,282
Engineering fee deposits	(168,198)	263,512
Accrued compensated absences	(17,511)	(8,923)
Net cash from operating activities	<u>\$ 7,525,479</u>	<u>\$ 1,005,349</u>

See notes to financial statements.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity

Ewing-Lawrence Sewerage Authority (the "Authority"), is a special purpose local government located in Lawrenceville, New Jersey, created to construct and operate a wastewater collection and treatment system to service the Townships of Ewing and Lawrence, New Jersey (the "Townships"). The Authority entered into a contract with the Townships, dated October 18, 1951, as amended on October 9, 1961, obligating each Township to guarantee its proportionate share of service charges to operate the system, debt service costs, and an amount to be set aside for renewals, replacements and extensions to the system.

Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") applicable to governmental proprietary type funds.

In its accounting and financial reporting, the Authority follows the pronouncements of the Governmental Accounting Standards Board ("GASB") and other entities that promulgate accounting principles. GASB Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. Per the Statement, the sources of authoritative generally accepted accounting principles ("GAAP") are categorized in descending order of authority as follows: GASB Statements and Interpretations, GASB Technical Bulletins, GASB Implementation Guides, and literature of the American Institute of Certified Public Accountants ("AICPA") cleared by the GASB. Authoritative GAAP is incorporated periodically into the *Codification of Governmental Accounting and Financial Reporting Standards* (Codification), and when presented in the Codification, it retains its authoritative status. If the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP described above, a governmental entity should first consider accounting principles for similar transactions or other events within a source of authoritative GAAP described above and then may consider nonauthoritative accounting literature from other sources. These include GASB Concepts Statements; pronouncements and other literature of the Financial Accounting Standards Board ("FASB"), Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, and International Accounting Standards Board, and AICPA literature not cleared by the GASB; practices that are widely recognized and prevalent in state and local government; literature of other professional associations or regulatory agencies; and accounting textbooks, handbooks and articles.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents

Cash equivalents include certificates of deposit and highly liquid debt instruments with original maturities of ninety days or less.

At December 31, 2016 and 2015, bank trust accounts consisted of repurchase agreements of a bank approved under the New Jersey Governmental Unit Deposit Protection Act and are collateralized by U.S. Government Agency securities on deposit at the Federal Reserve Bank of New York.

All other deposits at December 31, 2016 and 2015, were covered by the Federal Deposit Insurance Corporation (the "FDIC") and by the New Jersey Governmental Unit Deposit Protection Act.

The Authority maintains a debt service reserve to meet minimum debt service levels in accordance with their 2016 bond resolution.

Reclassification

Certain prior year numbers have been reclassified to conform with the current year presentation. There was no impact to net position as a result of these reclassifications.

Funds Held by Trustee

The net proceeds from the Series 2014, 2015 and 2016 New Jersey Environmental Infrastructure Trust loans were placed with the Bank of New York. These funds are being held by the trustee and will be released to the Authority upon requisitions for the payment of expenditures on the projects for which the loans were authorized.

Capital Assets

Capital assets include land and land improvements, buildings and building improvements, and machinery and equipment over \$10,000 which are capitalized and recorded at cost. System construction costs are charged to construction in progress until such time as given segments of the system are completed and placed in operation. Depreciation and amortization is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Land improvements	50 years
Building and building improvements	7-50 years
Machinery and equipment	3-75 years

Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

Post-Employment Benefits Other than Pensions ("OPEB")

The Authority recognizes annual OPEB dental cost equal to the annual required contribution and recognizes the unfunded accrued actuarial liability over an amortization period of thirty years.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows and Inflows of Resources

The Statement of Net Position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources, represents a reduction of net position that applies to a future period(s) and will be recognized as an outflow of resources (expense) at that time. Deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will be recognized as an inflow of resources (revenue) at that time.

The Authority is required to report the following as deferred outflows and inflows of resources:

Defined Benefit Pension Plans - The difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension plan investments, changes in the Authority's proportion of expenses and liabilities to the pension as a whole, differences between the Authority's pension contribution and its proportionate share of contributions, and the Authority's pension contributions subsequent to the pension valuation measurement date.

Net Position

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

- 1) Net Investment in Capital Assets - consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt that are attributable to the acquisition, construction, or improvement of those assets.
- 2) Restricted - when constraints placed on net position are either a) externally imposed by creditors (such as loan agreements), grantors, or laws or regulations of other governments, or b) imposed by law.
- 3) Unrestricted - any other net position that does not meet the definition of "restricted" or "net investment in capital assets." During 2015, the cumulative change in accounting principle for the Authority's net pension liability that was required to be recorded under GASB Statement No. 68, Accounting and Financial Reporting for Pensions, was also included as a component of unrestricted net assets.

Revenues

The primary source of revenues is from service charges. Service charges are recognized as revenue upon billing the budgeted agreed upon amounts to the Townships of Ewing and Lawrence. The Townships pay the Authority their shares of the operating costs and debt service. No fees are collected from the residents by the Authority.

Connection fees are recognized as revenue upon sewerage collection services being provided to the property.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions for System Improvements and Developer Contributions

Developer contributions for system improvements and other developer contributions are recorded as operating revenues in the periods when earned under the terms of developer agreements. Developer-financed construction is recorded in the period in which applicable costs are incurred and is recorded at fair market value at the time of the contribution.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

As a public body, the Authority is exempt from both federal and state taxes under existing statute.

B. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of various accounts held by financial institutions in New Jersey that are insured by the FDIC or the New Jersey Governmental Unit Deposit Protection Act. New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the FDIC or by any other agencies of the United States that insure deposits.

The Authority's bank balances at December 31, 2016 and 2015, were \$20,247,050 and \$14,207,661, respectively, all of which was covered by federal depository insurance or the New Jersey Governmental Unit Deposit Protection Act.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the counter party, the Authority will not be able to recover the value of its cash and equivalents that are in the possession of an outside party.

Since the Authority's cash and equivalents are all government securities or are protected under the New Jersey Governmental Unit Deposit Protection Act, they are not subject to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Because the Authority maintains only cash and cash equivalents, it is not subject to interest rate risk if interest rates fluctuate.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

C. CAPITAL ASSETS

Capital assets consist of the following:

	December 31,	
	2016	2015
Land	\$ 461,112	\$ 461,112
Land improvements	2,171,499	9,222,756
Buildings and building improvements	31,969,203	24,917,946
Machinery and equipment	48,236,930	48,149,597
Construction in progress	28,881,458	19,025,523
Subtotal	<u>111,720,202</u>	<u>101,776,934</u>
Less accumulated depreciation	46,010,396	44,567,613
Total	<u>\$ 65,709,806</u>	<u>\$ 57,209,321</u>

Capital asset activities were as follows:

	December 31, 2015	Additions	Retirements/ Transfers	December 31, 2016
Non-Depreciable Assets				
Land	\$ 461,112	\$ -	\$ -	\$ 461,112
Construction in progress	19,025,523	9,855,935	-	28,881,458
Depreciable Assets				
Land improvements	9,222,756	-	-	9,222,756
Buildings and building improvements	24,917,946	-	-	24,917,946
Machinery and equipment	48,149,598	329,142	241,810	48,236,930
Total at historical cost	<u>101,776,935</u>	<u>10,185,077</u>	<u>241,810</u>	<u>111,720,202</u>
Less accumulated depreciation	44,567,614	1,684,592	241,810	46,010,396
Total capital assets	<u>\$ 57,209,321</u>	<u>\$ 8,500,485</u>	<u>\$ -</u>	<u>\$ 65,709,806</u>

	December 31, 2014	Additions	Retirements/ Transfers	December 31, 2015
Non-Depreciable Assets				
Land	\$ 461,112	\$ -	\$ -	\$ 461,112
Construction in progress	13,176,497	12,900,283	7,051,257	19,025,523
Depreciable Assets				
Land improvements	2,171,499	7,051,257	-	9,222,756
Buildings and building improvements	24,917,946	-	-	24,917,946
Machinery and equipment	47,915,067	234,531	-	48,149,598
Total at historical cost	<u>88,642,121</u>	<u>20,186,071</u>	<u>7,051,257</u>	<u>101,776,935</u>
Less accumulated depreciation	42,798,471	1,769,143	-	44,567,614
Total capital assets	<u>\$ 45,843,650</u>	<u>\$ 18,416,928</u>	<u>\$ 7,051,257</u>	<u>\$ 57,209,321</u>

Depreciation expense was as follows:

	Year Ended December 31,	
	2016	2015
Land improvements	\$ 37,806	\$ 37,806
Buildings and building improvements	598,867	598,981
Machinery and equipment	1,047,919	1,132,356
Total depreciation expense	<u>\$ 1,684,592</u>	<u>\$ 1,769,143</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

D. LOANS PAYABLE

As of December 31, 2016 and 2015, the Authority maintained a loan balance of \$38,454,128 and \$34,323,116, respectively, through the New Jersey Environmental Infrastructure Trust ("NJEIT") financing program. Under the NJEIT financing program the Authority received \$947,467 in principal loan forgiveness during 2015 which represents a reduction in the principal loan amount that must be repaid by the Authority. The loan forgiveness is recorded as unearned principal loan forgiveness on the statement of net position and forgiveness is recognized as revenue based on a percentage of funds spent under the loan program. For the year ended December 31, 2016 and 2015, the Authority recognized \$330,302 and \$152,127, respectively, in principal loan forgiveness. The amount of available funds through the program at December 31, 2016 and 2015, was \$5,516,556 and \$10,162,065, respectively, and is recorded as funds held by trustee on the statement of net position.

The following is a summary of revenue bonds and NJEIT loans outstanding at December 31:

Bonds and Loans Payable	Interest Rate	Maturity Date	2016	2015
2004 NJEIT Trust and Fund Loan	3.00%-4.375%	2024	\$ 881,729	\$ 1,016,921
2010 NJEIT Trust and Fund Loan	5.00%	2030	3,993,870	4,310,354
2012 NJEIT Trust and Fund Loan	2.00%-5.00%	2031	1,039,159	1,100,770
2014 NJEIT Trust and Fund Loan	3.250%-5.00%	2033	23,887,538	23,887,538
2015 NJEIT Trust and Fund Loan	4.00%-5.00%	2034	4,007,533	4,007,533
2016 NJEIT Trust and Fund Loan	N/A	2017*	4,644,299	-
Total loans payable			<u>\$ 38,454,128</u>	<u>\$ 34,323,116</u>

*Loan was converted to long-term in May 2017.

Approximately \$22,015,000 of the loan balance above, represents the Fund portion of the loan, which bears 0% interest.

Total maturities, including interest for the years ending December 31, are as follows:

	Principal	Interest	Total
2017	\$ 6,680,371	\$ 484,601	\$ 7,164,972
2018	2,053,491	454,603	2,508,094
2019	2,084,140	423,103	2,507,243
2020	2,087,195	390,103	2,477,298
2021	2,076,042	355,603	2,431,645
2022-2026	10,484,246	1,225,359	11,709,605
2027-2031	9,157,793	487,523	9,645,316
2032-2034	3,830,850	69,176	3,900,026
Total	<u>\$ 38,454,128</u>	<u>\$ 3,890,071</u>	<u>\$ 42,344,199</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

E. LONG-TERM LIABILITIES

Long-term liability activity for the years ended December 31, 2016 and 2015 was as follows:

	December 31, 2015	Additions	(Reductions)	December 31, 2016	Amounts Due within One Year
NJEIT loans payable	\$ 34,323,116	\$ 4,644,299	\$ 513,286	\$ 38,454,128	\$ 6,680,371
Net OPEB liability	47,743	45,453	-	93,196	-
Net pension liability	11,840,469	4,075,061	-	15,915,530	-
Unearned principal loan forgiveness	795,340	-	330,302	465,038	-
Total	\$ 47,006,668	\$ 8,764,813	\$ 843,588	\$ 54,927,892	\$ 6,680,371

	December 31, 2014	Additions	(Reductions)	December 31, 2015	Amounts Due within One Year
NJEIT loans payable	\$ 32,362,834	\$ 4,007,533	\$ 2,047,251	\$ 34,323,116	\$ 526,678
Net OPEB liability	3,870,765	47,743	3,870,765	47,743	-
Net pension liability	9,845,097	1,995,372	-	11,840,469	-
Unearned principal loan forgiveness	-	947,467	152,127	795,340	-
Total	\$ 46,078,696	\$ 6,998,115	\$ 6,070,143	\$ 47,006,668	\$ 526,678

F. PENSION PLAN

Description and Benefits

The Authority contributes to a cost-sharing multiple-employer defined benefit pension plan administered by Public Employees' Retirement System ("PERS") of New Jersey, which is part of the Division of Pensions in the Department of the Treasury, State of New Jersey. The state-administered funds were established by an Act of the State Legislature that assigns the authority to establish and amend benefit provisions to the plan's board of trustees. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERS and is also available on the State of New Jersey website.

Plan Description and Benefits

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:

Tier	Definition
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

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

F. PENSION PLAN (CONTINUED)

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

Contributions

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. The Authority did not elect to defer any payments pursuant to Chapter 19, P.L. 2009.

Schedule of Authority's Contributions

PERS - Last 10 Fiscal Years

	2016	2015	2014
Contractually required contribution	\$ 470,629	\$ 450,146	\$ 398,452
Contributions in relation to the contractually required contribution	\$ 470,629	\$ 450,146	\$ 398,452
Authority's covered employee payroll	4,138,447	4,094,825	3,903,104
Contributions as a % of covered employee payroll	11.37%	10.99%	10.21%

Pension Liabilities, Pension Expense, and Deferred Outflows or Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2016 and 2015, the Authority reported a liability of \$15,915,530 and \$11,840,469 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members of the plan, actuarial determined. At December 31, 2016, and 2015 the Authority's proportionate share was 0.05373758% and 0.05258365%, which was an increase of 0.001154.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

F. PENSION PLAN (CONTINUED)

	2016	2015	2014
Authority's proportion of the net pension liability	0.05373758%	0.05258365%	0.05274622%
Authority's proportionate share of net pension liability	\$ 15,915,530	\$ 11,840,469	\$ 9,845,097
Authority's covered-employee payroll	\$ 4,138,447	\$ 4,094,825	\$ 3,903,104
Authority's proportionate share of net pension liability as a % of payroll	384.58%	289.16%	252.24%
Total pension liability	26,586,506	22,668,589	20,608,724
Plan fiduciary net position	10,670,976	10,864,614	10,733,189
Plan fiduciary net position as a % of total pension liability	40.14%	47.93%	52.08%

In accordance with the Governmental Accounting Standards Board, the Authority is required to present ten years of detail in the above Schedule of Authority's Contributions and Schedule of Authority's Proportionate Share of Net Pension Liability, however, only three years of data are available at this time.

For the year ended December 31, 2016 and 2015, the Authority recognized pension expense of \$1,608,413 and \$833,735, respectively. At December 31, 2016, the Authority reported deferred outflows of resources as follows.

	December 31,			
	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 295,981	\$ -	\$ 282,472	\$ -
Changes in assumptions	3,296,848	-	1,271,572	-
Net difference between projected and actual earnings on pension plan investments	606,874	-	-	190,372
Changes in proportion and differences between Authority contributions and proportionate share of contributions	370,567	-	269,321	-
	<u>\$ 4,570,270</u>	<u>\$ -</u>	<u>\$ 1,823,365</u>	<u>\$ 190,372</u>

Actuarial Assumptions

The total pension liability in the June 30, 2016, measurement was determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016, using actuarial valuation used the following actuarial assumptions:

Inflation	3.08%
Salary increases: through 2026 (based on age)	1.65%-4.15%
Salary increases: thereafter (based on age)	2.65%-5.15%
Investment rate of return	7.65%

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

F. PENSION PLAN (CONTINUED)

Components of Net Pension Liability

The components of the collective net pension liability of the Authority as of June 30, 2016 were as follows:

Total pension liability	<u>Local</u> \$ 26,586,505
Plan fiduciary net position	<u>10,670,976</u>
Net pension liability	<u>\$ 15,915,530</u>

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality 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 June 1, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016) is determined by the State Treasurer, after consultation with the Directors of the Division of 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 rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2016 are summarized in the following table:

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

F. PENSION PLAN (CONTINUED)

	Target Allocation	Long-term Expected Rate of Return
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad U.S. Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equities	9.00%	12.40%
Hedge Fund/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global Debt Ex U.S.	5.00%	-0.25%
REIT	5.25%	5.63%

Discount Rate

The discount rate used to measure the total pension liability was 3.98% as of June 30, 2016. The single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projected cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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

The following presents the collective net pension liability of the Authority as of June 30, 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-percentage point lower or 1-percentage-point higher than the current rate:

	At 1% decrease (2.98%)	At current discount rate (3.98%)	At 1% increase (4.98%)
Local	<u>19,502,624</u>	<u>15,915,530</u>	<u>12,954,072</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

G. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Authority is a member of the State of New Jersey's cost sharing multiple-employer plan (the "State Plan") for health and post-retirement medical benefits. Thus, the Authority's portion of this liability is included in the State of New Jersey's Comprehensive Annual Financial Report ("CAFR"), as such, the liability of Authority employees is covered under the State Plan on an annual basis.

The total number of retired participants in the plan was 21 and 15, at December 31, 2016 and 2015, respectively.

The total cost included in health insurance expense for these post-retirement benefits was \$315,847 and \$248,331 for the years ended December 31, 2016 and 2015, respectively.

Please refer to State website www.state.nj.us for more information regarding the PERS Plan.

At December 31, 2014, the Authority had a single employer post-retirement benefit plan for dental and prescription benefits. During 2015, the Authority decided to terminate the single employer plan for prescription benefits to create cost savings. As of August 1, 2015, the only single employer benefit plan the Authority sponsors for active and retired employees is a dental plan.

The Authority has an actuarial valuation performed under the alternative measurement method to calculate the cost and liabilities attributable to these benefits. The accrued post-employment benefit for dental was \$93,196 and \$47,743, at December 31, 2016 and 2015, respectively.

In order to reduce the net, OPEB liability in 2015 to reflect only the accrued dental benefit, a reversal of OPEB liability was recorded for \$3,823,022 on the statement of revenues, expenses and changes in net position, under non-operating revenues (expenses) for the accrued prescription plan benefit that was terminated.

Plan Description

- The Authority currently maintains an unfunded single-employer post-employment benefits plan (the "Plan") other than for pensions.
- The Plan provides eligible retirees with dental coverage after retirement.
- The Plan does not issue stand-alone financial statements and is not included in the report of another entity.
- The actuarial valuation date was December 31, 2016 and 2015.

Funding Policy

- It is the Authority's policy at this time to fund the Plan on a pay as you go basis.

Other Required Disclosures

- The annual required contribution in 2015 and 2016 was \$78,820, for dental only, assuming a 30-year amortization of the actuarial accrued liability.
- During 2016 and 2015, the Authority paid \$33,367 and \$31,077, respectively, for dental only which represents the premium amount of benefits paid during the year.
- The unfunded actuarial accrued liability, which includes retirees and active employees, totaled \$1,352,723, for 2016 and 2015.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

G. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Actuarial Assumptions and Methods

- An assumed discount rate of 1% was used for purposes of developing the liabilities and annual required contribution on the basis that the Plan would not be funded.
- Health care cost trend rates were as follows:
 - The prescription trend rate was 8.00% and 7.00% for 2016 and 2015, respectively.
 - Dental ranged from 3.50% in 2015 to 3.00% in years 2022 and later.
- These actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities.
- These calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation.
- The actuarial cost method used was the entry age method.
- The unfunded actuarial accrued liability was amortized as a level percentage of payroll using projected salary increases of 2.65%.

H. DEFERRED COMPENSATION

The Authority has a deferred compensation plan whereby eligible participating employees may choose to contribute amounts determined by plan and Internal Revenue Code guidelines. All employer contributions are made at the sole discretion of the Authority. There were no contributions made by the Authority for the years ended December 31, 2016 and 2015.

I. COMMITMENTS AND CONTINGENCIES

The Authority entered into a regional sludge management project service agreement with Mercer County Improvement Authority ("MCIA") and is a participant in such agreement with the Township of Hamilton and the City of Trenton.

Pursuant to such agreement, MCIA is the lead agency and is responsible for the design, financing, construction and operation of the regional sludge management facilities.

The Authority was obligated to pay for its share of the cost of sludge treatment service provided by the regional sludge management facilities. The agreement provides that the annual charges to be paid by the participants will be sufficient to pay for the operating costs, capital expansions, improvements and debt service on MCIA obligations relating to the regional facilities.

The agreement also provides that, in the event the regional facilities are not placed in operation, all costs incurred by MCIA for regional facilities shall be apportioned among the participants on a basis as described in the agreement.

During 1993, construction of the regional sludge facilities was completed. The project was declared a failure by the Federal Environmental Protection Agency and MCIA was released from further obligation.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

I. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Authority's proportionate share of the debt service relating to the outstanding bonds of MCIA and other expenses for the regional sludge facility for 2016 and 2015 amounted to \$0 and \$997,560, respectively. The bonds matured in 2015.

J. CONCENTRATION OF LABOR FORCE

Approximately 66% of the labor force is covered by a collective bargaining agreement with Construction and General Labor Union Local 172. The contract expires December 31, 2017.

K. CAPITAL PROGRAM

Expected capital program expenditures budgeted from 2017 through 2022 approximate \$7.8 million.

L. ROUNDING

Some amounts in the financial statements may have dollar differences due to rounding.

SUPPLEMENTARY INFORMATION

EWING-LAWRENCE SEWERAGE AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 Year Ended December 31, 2016

Federal Grant/Program Title	Federal CFDA Number	State Account Number	Loan Number	Grant Period	Loan Award Amount	Current Year's Expenditures	Cumulative Expenditures
U.S. Department of Environmental Protection:							
Pass-through from New Jersey Department of Environmental Protection:							
2014 Wastewater Treatment Plant Upgrade Fund Loan	66.468	042-4860-510/558/575-009	S340391-10	5/21/14-Completion	\$ 17,387,538	\$ 5,040,826	\$ 17,387,461
2014 Interim Financing Program- Clean Water	66.468	Unknown	S340391-11	6/30/14-Completion	1,537,000	-	637,207
2015 Disaster Relief Appropriations Act Fund Loan	66.468	042-4860-510/558/575-009	S340391-11	5/28/15-Completion	3,740,000	1,303,812	1,904,311
Total					<u>\$ 22,664,538</u>	<u>\$ 6,344,638</u>	<u>\$ 19,928,979</u>

See note to schedules of expenditures of federal and state awards.

EWING-LAWRENCE SEWERAGE AUTHORITY

SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
 Year Ended December 31, 2016

State Grant/Program Title	State Account/Loan Number	Grant Period	Loan Award Amount	Current Year's Expenditures	Cumulative Expenditures
New Jersey Environmental Infrastructure Loan Financing Program:					
2014 Wastewater Treatment Plan Upgrade Trust Loan	S340391-10	5/21/14-Completion	\$ 6,156,327	\$ 1,784,845	6,156,327
2014 Interim Financing Program- Clean Water	S340391-11	6/30/14-Completion	1,537,000	-	212,401
2015 Disaster Relief Appropriations Act Trust Loan	S340391-11	5/28/15-Completion	1,246,666	434,605	634,770
2016 Interim Financing Program-Wastewater Treatment Plant Upgrade	S340391-10-1	11/30/2016- Completion	4,598,316	725,723	-
Total			<u>\$ 13,538,309</u>	<u>\$ 2,945,173</u>	<u>\$ 7,003,498</u>

See note to schedules of expenditures of federal and state awards.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE

Year Ended December 31, 2016

Note 1. Basis of Presentation

The accompanying schedules of expenditures of federal awards and state financial assistance (the "Schedules") include the federal and state activity of the Authority under programs of the federal and state government for the year ended December 31, 2016. The information in the Schedules is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and *New Jersey Circular Letter 15-08-OMB Single Audit Policy for Recipients of Federal Grants State Grants and State Aid*. Because the Schedules present only a selected portion of the operations of the Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Authority.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedules are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3. Indirect Cost Rate

The Authority does not have an indirect cost allocation plan nor does it use the default rate of 10%.

OTHER SUPPLEMENTARY INFORMATION

EWING-LAWRENCE SEWERAGE AUTHORITY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended December 31, 2016

(With Comparative Totals for 2015)

	2016				2015
	Unrestricted	Future Debt Service	Current Debt Service	Investment in Property, Plant and Equipment	Total
Operating revenues					
Service agreements	\$ 13,474,803	\$ -	\$ -	\$ -	\$ 13,474,803
Contributions for system improvements	14,840	-	-	-	14,840
Connection fees	1,682,430	-	-	-	1,682,430
Capacity fees	13,500	-	-	-	13,500
Inspection fees	1,550	-	-	-	1,550
Developer applications	22,500	-	-	-	22,500
Interest	12,458	-	-	-	12,458
Miscellaneous	97,845	-	-	-	97,845
Total operating revenues	<u>15,319,926</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,319,926</u>
Operating expenses					
Costs of providing services	9,606,402	-	-	-	9,606,402
Administrative and general	1,717,328	-	-	-	1,717,328
County sludge facilities	-	-	-	-	-
Depreciation and amortization	-	-	-	1,684,592	1,684,592
Total operating expenses	<u>11,323,730</u>	<u>-</u>	<u>-</u>	<u>1,684,592</u>	<u>13,008,322</u>
Income from operations	<u>3,996,196</u>	<u>-</u>	<u>-</u>	<u>(1,684,592)</u>	<u>2,311,604</u>
Non-operating revenues (expenses)					
Interest income	-	6,737	-	-	6,737
Interest expense	-	-	(273,960)	-	(273,960)
Miscellaneous expense	4,500	-	-	-	4,500
Reversal of OPEB liability	-	-	-	-	-
Principal loan forgiveness	330,302	-	-	-	330,302
Total non-operating revenues (expenses), net	<u>334,802</u>	<u>6,737</u>	<u>(273,960)</u>	<u>-</u>	<u>67,579</u>
Income (loss) before transfers	<u>4,330,998</u>	<u>6,737</u>	<u>(273,960)</u>	<u>(1,684,592)</u>	<u>2,379,183</u>
Transfers	<u>(1,679,575)</u>	<u>(2,376)</u>	<u>273,960</u>	<u>1,407,991</u>	<u>-</u>
Change in net position	<u>2,651,423</u>	<u>4,361</u>	<u>-</u>	<u>(276,601)</u>	<u>2,379,183</u>
Net position, beginning of year	<u>(534,640)</u>	<u>2,508,561</u>	<u>-</u>	<u>33,048,270</u>	<u>35,022,191</u>
Cumulative change in accounting principle	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net position, beginning of year, restated	<u>(534,640)</u>	<u>2,508,561</u>	<u>-</u>	<u>33,048,270</u>	<u>35,022,191</u>
Net position, end of year	<u>\$ 2,116,783</u>	<u>\$ 2,512,922</u>	<u>\$ -</u>	<u>\$ 32,771,669</u>	<u>\$ 37,401,374</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES COMPARED TO BUDGET Year Ended December 31, 2016

	2016 Budget Unaudited	2016 Actual
Revenues		
Service agreements	\$ 13,624,803	\$ 13,474,803
Contributions from system improvements	-	14,840
Connection fees	100,000	1,682,430
Capacity revenue	-	13,500
Inspection fees	2,000	1,550
Developer applications	2,000	22,500
Interest	1,000	12,458
Miscellaneous	25,000	97,845
Total operating revenues	<u>\$ 13,754,803</u>	<u>\$ 15,319,926</u>
Expenses		
Cost of providing services		
Labor	\$ 3,618,000	\$ 3,574,218
Employee benefits	2,185,795	2,820,899
Material and supplies	1,107,500	704,968
Contracted services	125,000	67,819
Repairs and maintenance	634,500	610,712
Sludge disposal	763,500	627,485
Utilities	1,303,350	921,981
Transportation	108,000	62,359
Remediation	200,000	127,172
Compliance	40,000	12,714
Permits	194,000	76,075
Total cost of providing services	<u>10,279,645</u>	<u>9,606,402</u>
Administrative and general		
Labor	617,700	629,605
Employee Benefits	321,205	496,907
Materials and Supplies	12,000	7,757
Contracted Services	178,000	168,701
Insurance	125,000	316,637
Repairs and maintenance	50,000	26,793
Utilities	50,000	40,726
Miscellaneous	35,500	6,728
Loan fees	110,791	23,475
Total administrative and general	<u>1,500,196</u>	<u>1,717,328</u>
Interest expense	<u>196,015</u>	<u>145,563</u>
Other costs funded by operating revenues		
Principal maturity	526,678	513,286
Capital outlays	790,000	329,142
Total other costs funded by operating revenues	<u>1,316,678</u>	<u>842,428</u>
Total costs funded by operating revenues	13,292,534	12,311,722
Excess	462,269	3,008,204
Total	<u>\$ 13,754,803</u>	<u>\$ 15,319,926</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

ROSTER OF OFFICIALS (*UNAUDITED*)
Year Ended December 31, 2016

<u>Board Members</u>	<u>Position</u>
Harold Vereen	Treasurer
Raymond J. DiFrancesco	Chair
Joseph Cermele	Assistant Secretary
Charles Geter	Secretary
Pasquale "Pat" Colavita	Vice Chair
W. Allen Lee, III	Assistant Treasurer

<u>Other Officials</u>	<u>Position</u>
S. Robert Filler	Executive Director
W. Barry Rank	Counsel
Jacobs Environmental Consulting	Consulting Engineer

All employees of the Ewing-Lawrence Sewerage Authority are covered by a Public Employee's Blanket Bond, which is included in the Commercial Protection Policy issued by Zurich Insurance and provides "Employee Dishonesty Coverage" in the amount of \$500,000.

EWING-LAWRENCE SEWERAGE AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2016

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____

Yes X No

Federal Awards and State Financial Assistance

Internal control over major programs:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified? _____ Yes X None Reported

Type of auditors' report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a) or State of New Jersey Circular Letter 15-08-OMB? _____

Yes X No

Major programs:

CFDA/ State Loan Number
66.468/ S340391-10
66.468/ S340391-11
66.468/ S340391-10-1

Name of Federal/State Loan Program
2014 Wastewater Treatment Plan Upgrade Loan
2015 Disaster Relief Appropriations Act Trust Loan
2016 Interim Financing Program-Wastewater Treatment Plant Upgrade

Dollar threshold used to distinguish between type A and type B programs:

 \$750,000
 X Yes _____ No

EWING-LAWRENCE SEWERAGE AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
Year Ended December 31, 2016

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Awards and State Financial Assistance Findings and Questioned Costs

No matters were reported.

EWING-LAWRENCE SEWERAGE AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2016

None Reported.

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

To the Honorable Chairperson and Board Members of
Ewing-Lawrence Sewerage Authority

We have audited, 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 audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of Ewing-Lawrence Sewerage Authority (the "Authority") as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 11, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic 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 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. 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.

**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
(CONTINUED)**

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

Mercadieu, P.C.

Certified Public Accountants

August 11, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE REQUIRED BY UNIFORM GUIDANCE AND STATE OF NEW JERSEY CIRCULAR LETTER 15-08-OMB

To the Honorable Chairperson and Board Members of
Ewing-Lawrence Sewerage Authority

Report on Compliance for Each Major Federal and State Program

We have audited the Ewing-Lawrence Sewerage Authority's (the "Authority") compliance with the types of compliance requirements described in *OMB Compliance Supplement* and New Jersey State Compliance Supplement that could have a direct and material effect on each of the Authority's major federal and state programs for the year ended December 31, 2016. The Authority's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with 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 of Title 2 U.S. CFR Part 200, Uniform Administration Requirements, Cost Principles and Audit Requirements for Federal Awards ("Uniform Guidance") and State of New Jersey Circular Letter 15-08-OMB ("Circular Letter"), Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid. Those standards and Uniform Guidance and the Circular Letter require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal and State Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended December 31, 2016.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL AND STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE REQUIRED BY UNIFORM GUIDANCE AND STATE OF NEW JERSEY CIRCULAR LETTER 15-08-OMB (CONTINUED)

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and state program and to test and report on internal control over compliance in accordance with the Uniform Guidance and Circular Letter 15-08-OMB, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance and State of New Jersey Circular Letter 15-08-OMB. Accordingly, this report is not suitable for any other purposes.

Mercedien, P.C.
Certified Public Accountants

August 11, 2017