

EWING-LAWRENCE SEWERAGE AUTHORITY

FINANCIAL STATEMENTS

December 31, 2015

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") as of and for the years ended December 31, 2015 and 2014, 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.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibility (Continued)

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

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, 2015 and 2014, 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.

Emphasis of a Matter

As discussed in Note A to the financial statements, in 2015, the Authority adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinion is not modified with respect to this matter.

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 and the schedule of proportionate share of net pension liability and the schedule of contributions on pages 24 and 25, 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, schedule of operating revenues and costs funded by operating revenues compared to budget, and the roster of officials 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 Policy Circular 15-08-OMB, Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid* and are also not a required part of the basic financial statements.

These schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. 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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Matters (Continued)

Other Supplementary Information

States of America. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it. 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated September 20, 2016, and August 18, 2015, 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.

Mercedien, P.C.

Certified Public Accountants

September 20, 2016

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, 2015 and 2014. 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 2015 and 2014.

FINANCIAL HIGHLIGHTS

Income from operations for the Authority was \$1,349,712 and \$1,464,225 for the years ended December 31, 2015 and 2014, respectively. The Authority's net position was \$35,022,191 and \$29,884,411 at the close of 2015 and 2014, respectively.

The Authority implemented GASB 68, Accounting and Financial Reporting for Pensions, which required the Authority to record a net pension liability at December 31, 2014. Net position decreased to \$29,371,439, as compared to \$39,068,036, at the end of 2014, due to this cumulative change in accounting principle. This change included a restatement of net position at the beginning of the year of \$9,696,597.

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 \$14,045,072 and \$13,277,427 at December 31, 2015 and 2014, 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 2015 of \$11,365,671 and in 2014 of \$3,011,120 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 \$34,323,116 and \$32,362,834 in bonds and NJEIT loans as of December 31, 2015 and 2014, 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, 2015 and 2014, financial statements of the Authority:

Condensed Statement of Net Position

	December 31,			Change 2015-2014
	2015	2014	2013	
Current assets	\$ 26,328,335	\$ 33,724,109	\$ 13,631,375	(7,395,774)
Capital assets	57,209,321	45,843,650	42,832,530	11,365,671
Total assets	<u>\$ 83,537,656</u>	<u>\$ 79,567,759</u>	<u>\$ 56,463,905</u>	3,969,897
Deferred outflows of resources	<u>\$ 1,823,365</u>	<u>\$ 607,924</u>	<u>\$ 64,956</u>	1,215,441
Current liabilities, net of bonds and loans payable	\$ 3,141,790	\$ 3,625,862	\$ 2,818,486	(484,072)
Bonds and loans payable	34,323,116	32,362,834	10,768,650	1,960,282
Net OPEB obligation	47,743	3,870,765	3,194,594	(3,823,022)
Net pension liability	11,840,469	9,845,097	-	1,995,372
Unearned principal loan forgiveness	795,340	-	679,095	795,340
Total liabilities	<u>\$ 50,148,458</u>	<u>\$ 49,704,558</u>	<u>\$ 17,460,825</u>	443,900
Deferred inflows of resources	<u>\$ 190,372</u>	<u>\$ 586,714</u>	<u>\$ -</u>	(396,342)
Net position:				
Net investment in capital assets	\$ 33,048,270	\$ 33,830,680	\$ 34,845,216	(782,410)
Restricted	3,298,561	3,240,538	3,692,676	58,023
Unrestricted	(1,324,640)	(7,186,807)	530,144	5,862,167
Total net position	<u>\$ 35,022,191</u>	<u>\$ 29,884,411</u>	<u>\$ 39,068,036</u>	5,137,780

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 2015-2014
	2015	2014	2013	
Operating revenues	\$ 14,608,876	\$ 14,093,930	\$ 14,171,396	\$ 514,946
Operating expenses	11,490,021	10,501,226	10,546,405	988,795
Depreciation and amortization	1,769,143	2,128,479	2,269,337	(359,336)
Income from operations	<u>1,349,712</u>	<u>1,464,225</u>	<u>1,355,654</u>	(114,513)
Non-operating revenues	3,975,854	529	894,849	3,975,325
Non-operating expenses	(187,786)	951,782	510,338	(1,139,568)
Change in net position	<u>5,137,780</u>	<u>512,972</u>	<u>1,740,165</u>	4,624,808
Net position, beginning of year	29,884,411	39,068,036	37,327,871	(9,183,625)
Cumulative change in accounting principle	-	(9,696,597)	-	9,696,597
Net position, beginning of year, restated	<u>29,884,411</u>	<u>29,371,439</u>	<u>37,327,871</u>	512,972
Net position, end of year	<u>\$ 35,022,191</u>	<u>\$ 29,884,411</u>	<u>\$ 39,068,036</u>	5,137,780

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

STATEMENT OF NET POSITION

		December 31,	
		2015	2014
ASSETS			
Current Assets			
Unrestricted			
Cash and equivalents	\$	10,746,511	\$ 10,036,889
Interest receivable		7,857	6,667
Other receivables		3,445	5,853
Service charge receivable		2,109,896	-
Total Unrestricted		<u>12,867,709</u>	<u>10,049,409</u>
Restricted			
Cash and equivalents- debt service reserve		2,508,561	2,308,538
Cash and equivalents- succeeding year budget		790,000	932,000
Funds held by trustee		10,162,065	20,434,162
Total Restricted		<u>13,460,626</u>	<u>23,674,700</u>
Total Current Assets		<u>26,328,335</u>	<u>33,724,109</u>
Capital assets, net		<u>57,209,321</u>	<u>45,843,650</u>
Total Assets	\$	<u>\$ 83,537,656</u>	<u>\$ 79,567,759</u>
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	\$	<u>1,823,365</u>	<u>\$ 607,924</u>
LIABILITIES			
Current Liabilities			
Accounts payable	\$	1,059,890	\$ 1,713,178
Developers' performance bonds		247,913	242,913
Loan payable		526,678	2,047,252
Accrued interest payable		40,836	136,490
Accrued liability for compensated absences		547,703	556,626
Engineering deposits		1,087,750	824,238
Other liabilities		157,698	152,417
Total Current Liabilities		<u>3,668,468</u>	<u>5,673,114</u>
Non-Current Liabilities			
Loans payable		33,796,438	30,315,582
Net OPEB liability		47,743	3,870,765
Net pension liability		11,840,469	9,845,097
Unearned principal loan forgiveness		795,340	-
Total Non-Current Liabilities		<u>46,479,990</u>	<u>44,031,444</u>
Total Liabilities	\$	<u>\$ 50,148,458</u>	<u>\$ 49,704,558</u>
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	\$	<u>190,372</u>	<u>\$ 586,714</u>
NET POSITION			
Net investment in capital assets	\$	33,048,270	\$ 33,830,680
Restricted			
Future debt service		2,508,561	2,308,538
Succeeding year budget		790,000	932,000
Unrestricted		<u>(1,324,640)</u>	<u>(7,186,807)</u>
Total Net Position	\$	<u>\$ 35,022,191</u>	<u>\$ 29,884,411</u>

See notes to financial statements.

EWING-LAWRENCE SEWERAGE AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended December 31,	
	2015	2014
Operating revenues		
Service agreements	\$ 13,624,261	\$ 13,619,336
Contributions for system improvements	-	11,100
Connection fees	859,835	304,032
Capacity revenue	16,875	101,250
Inspection fees	700	200
Developer applications	25,300	28,560
Interest	1,085	777
Miscellaneous	80,820	28,675
Total operating revenues	<u>14,608,876</u>	<u>14,093,930</u>
Operating expenses		
Costs of providing services	8,968,224	7,919,511
Administrative and general	1,524,237	1,585,110
County sludge facility	997,560	996,605
Depreciation	1,769,143	1,601,555
Amortization of OPEB	-	526,924
Total operating expenses	<u>13,259,164</u>	<u>12,629,705</u>
Income from operations	<u>1,349,712</u>	<u>1,464,225</u>
Non-operating revenues (expenses)		
Interest income	705	529
Interest expense	(187,786)	(416,554)
Amortization loss on defeasance	-	(62,753)
Amortization of original issue discount	-	(2,202)
Reversal of OPEB liability	3,823,022	-
Principal loan forgiveness/(deobligations)	152,127	(470,273)
Non-operating expenses, net	<u>3,788,068</u>	<u>(951,253)</u>
Change in net position	<u>5,137,780</u>	<u>512,972</u>
Net position, beginning of year	29,884,411	39,068,036
Cumulative change in accounting principle	-	(9,696,597)
Net Position, beginning of year, restated	<u>29,884,411</u>	<u>29,371,439</u>
Net position, end of year	<u>\$ 35,022,191</u>	<u>\$ 29,884,411</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2015	2014
Cash Flows from Operating Activities		
Cash received from		
Service agreements	\$ 11,515,583	\$ 13,618,654
Contributions from system improvements	-	11,100
Connection fees	859,835	304,033
Inspection fees	700	200
Interest income	1,085	777
Miscellaneous revenue	122,994	158,485
Cash used for		
Cost of providing services	(9,339,955)	(6,896,242)
Administrative and general	(1,157,333)	(1,562,206)
County sludge facilities	(997,560)	(996,605)
Net cash from operating activities	<u>1,005,349</u>	<u>4,638,196</u>
Cash Flows from Investing Activities		
Interest income	704	529
Purchases of capital assets, net	(13,134,814)	(4,612,673)
Net cash from investing activities	<u>(13,134,110)</u>	<u>(4,612,144)</u>
Cash Flows from Financing Activities		
Repayments of loans	(510,251)	(2,675,354)
Repayments of bonds	-	(1,155,000)
Proceeds from loans	3,418,090	25,424,538
Funds held by trustees	10,272,097	(18,867,148)
Payment of bond interest	(283,530)	(378,815)
Net cash from financing activities	<u>12,896,406</u>	<u>2,348,221</u>
Net increase in cash and equivalents	767,645	2,374,273
Cash and equivalents, beginning of year	13,277,427	10,903,154
Cash and equivalents, end of year	<u>\$ 14,045,072</u>	<u>\$ 13,277,427</u>
The following is a summary of the Authority's cash and equivalents:		
Cash -unrestricted	\$ 10,746,511	\$ 10,036,889
Cash- restricted	3,298,561	3,240,538
Total cash and cash equivalents	<u>\$ 14,045,072</u>	<u>\$ 13,277,427</u>
Reconciliation of Income from Operations to Net Cash from Operating Activities		
Income from operations	\$ 1,349,712	\$ 1,464,225
Adjustments to reconcile income from operations to net cash from operating activities		
Depreciation	1,769,143	1,601,555
Net OPEB liability	-	676,171
Net pension expense	383,589	127,290
Changes in assets and liabilities		
Other receivables	(2,108,678)	(682)
Accounts payable	(653,288)	1,358,845
Developer deposits	5,000	(15,132)
Other liabilities	5,282	5,138
Engineering fee deposits	263,512	135,739
Accrued compensated absences	(8,923)	(714,953)
Net cash from operating activities	<u>\$ 1,005,349</u>	<u>\$ 4,638,196</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.

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, 2015 and 2014, 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, 2015 and 2014, were covered by the Federal Deposit Insurance Corporation (the "FDIC") and by the New Jersey Governmental Unit Deposit Protection Act.

In accordance with the 2002 Bond Resolution, the Authority has established the following cash accounts for deposit, in the priority order listed, of all revenues received by the Authority.

<u>Account</u>	<u>Amount</u>	<u>Use for Which Restricted</u>
Revenue	Deposit of all revenue received by the Authority. Balance to equal at least one quarter's operating expenses.	Transfers to various funds described below and also includes succeeding year budget amount.
Debt service reserve	Amount needed to equal the greatest amount of debt service due in any year.	Transfers to meet minimum bond and debt service levels.
Improvement fund	Amount transferred from the revenue fund.	Amounts required for payments of principal and interest on bonds and for improvements to the system.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funds Held by Trustee

The net proceeds from the Series 2014 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 cost equal to the annual required contribution and recognizes the unfunded accrued actuarial liability over an amortization period of thirty years.

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.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 the bond resolution), grantors, or laws or regulations of other governments, or b) imposed by law.

Presently, the Authority has two items of restricted net position which is required by the bond resolution. These restrictions are for future debt service and succeeding year budget.

- 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.

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.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restatement of Net Position

In fiscal year 2015, the Authority implemented Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions*. The 2013 net position was restated as follows:

Net position at December 31, 2013 - reported	\$ 39,068,036
Cumulative change in accounting principle	<u>(9,696,597)</u>
Net position at December 31, 2013 - restated	<u>\$ 29,371,439</u>

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, 2015 and 2014, were \$14,207,661 and \$14,044,788, 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 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:

	Year Ended December 31,	
	2015	2014
Land	\$ 461,112	\$ 461,112
Land improvements	2,171,499	2,171,499
Buildings and building improvements	24,917,946	24,917,946
Machinery and equipment	48,149,597	47,915,067
Construction in progress	26,076,780	13,176,497
Subtotal	101,776,934	88,642,121
Less accumulated depreciation	44,567,613	42,798,471
Total	<u>\$ 57,209,321</u>	<u>\$ 45,843,650</u>

Capital asset activities were as follows:

	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	88,642,121	20,186,071	7,051,257	101,776,935
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>
	December 31, 2013	Additions	Retirements/ Transfers	December 31, 2014
Non-Depreciable Assets				
Land	\$ 461,112	\$ -	\$ -	\$ 461,112
Construction in progress	8,892,935	4,283,562	-	13,176,497
Depreciable Assets				
Land improvements	2,171,499	-	-	2,171,499
Buildings and building improvements	24,827,230	160,617	69,901	24,917,946
Machinery and equipment	47,619,250	295,817	-	47,915,067
Total at historical cost	83,972,026	4,739,996	69,901	88,642,121
Less accumulated depreciation	41,139,496	1,601,555	57,420	42,798,471
Total capital assets	<u>\$ 42,832,530</u>	<u>\$ 3,138,441</u>	<u>\$ 12,481</u>	<u>\$ 45,843,650</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

C. CAPITAL ASSETS (CONTINUED)

Depreciation expense was as follows:

	Year Ended December 31,	
	2015	2014
Land improvements	\$ 37,806	\$ 40,240
Buildings and building improvements	598,981	467,632
Machinery and equipment	1,132,356	1,093,683
Total depreciation expense	<u>\$ 1,769,143</u>	<u>\$ 1,601,555</u>

D. BONDS AND LOANS PAYABLE

Bonds Payable

Bond resolutions have been adopted by the Authority for the purpose of acquiring, constructing and making improvements to the sewer systems in the Townships of Ewing and Lawrence.

As a result of refundings in 2002 and 1998, the Authority recorded losses on defeasance of \$428,593 and \$268,347, respectively, representing the differences between the new debt issued and the carrying amount of the debt refunded. The loss on defeasance has been deferred and is being amortized over the life of the new debt. The unamortized deferred loss on defeasance was fully amortized as of December 31, 2014.

All revenues generated by the Authority are pledged to secure payment of principal and interest on the bonds.

The bonds payable were paid off at December 31, 2014.

Loans Payable

As of December 31, 2015 and 2014, the Authority maintained a loan balance of \$34,323,116 and \$32,362,834, 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 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, 2015, the Authority recognized \$152,127 in principal loan forgiveness. The amount of available funds through the program at December 31, 2015 and 2014, was \$10,162,065 and \$20,434,162, respectively, and is recorded as funds held by trustee on the statement of net position.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

D. BONDS AND LOANS PAYABLE (CONTINUED)

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

Bonds and Loans Payable	Interest Rate	Maturity Date	2015	2014
2004 NJEIT Trust and Fund Loan	3.00%-4.375%	2024	\$ 1,016,921	\$ 1,172,471
2010 NJEIT Trust and Fund Loan	5.00%	2030	4,310,354	4,603,445
2012 NJEIT Trust and Fund Loan	2.00%-5.00%	2031	1,100,770	1,162,381
2014 NJEIT Trust and Fund Loan	3.250%-5.00%	2033	23,887,538	23,887,537
2014 NJEIT Interim Financing Program Trust and Fund Loan		2015	-	1,537,000
2015 NJEIT Trust and Fund Loan	4.00%-5.00%	2034	4,007,533	-
Total loans payable			<u>\$ 34,323,116</u>	<u>\$ 32,362,834</u>

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

	Principal	Interest	Total
2016	\$ 526,678	\$ 437,451	\$ 964,129
2017	2,022,681	484,601	2,507,282
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
2021-2025	10,520,210	1,405,209	11,925,419
2026-2030	9,403,312	603,388	10,006,700
2031-2034	5,625,409	129,064	5,754,473
Total	<u>\$ 34,323,116</u>	<u>\$ 4,327,522</u>	<u>\$ 38,650,638</u>

E. AMOUNTS REQUIRED BY BOND RESOLUTION

The following debt service reserve cash and equivalent amounts are required by the resolution of the Authority adopted October 13, 1961, entitled "Resolution Authorizing and Providing for the Issuance of Sewer Revenue Bonds of the Ewing-Lawrence Sewerage Authority."

	December 31,	
	2015	2014
Cash and equivalent balance	\$ 2,508,561	\$ 2,308,538
Debt service required balance	2,508,094	2,256,053
Excess	<u>\$ 467</u>	<u>\$ 52,485</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

F. LONG-TERM LIABILITIES

Long-term liability activity for the years ended December 31, 2015 and 2014 was as follows:

	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

	December 31, 2013	Additions	(Reductions)	December 31, 2014	Amounts Due within One Year
Revenue bonds	\$ 1,155,000	\$ -	\$ 1,155,000	\$ -	\$ -
NJEIT loans payable	9,613,650	25,424,538	2,675,354	32,362,834	2,047,252
Net OPEB liability	3,194,594	676,171	-	3,870,765	-
Net pension liability	9,696,597	148,500	-	9,845,097	-
Total	\$ 23,659,841	\$ 26,249,209	\$ 3,830,354	\$ 46,078,696	\$ 2,047,252

G. PENSION PLAN

Plan Description

The Authority participates in the Public Employees' Retirement System ("PERS") Plan of New Jersey, which is a part of the Division of Pensions, Department of the Treasury, State of New Jersey. The plan has a board of trustees that is primarily responsible for its administration. The division issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

State of New Jersey
 Division of Pensions and Benefits
 P.O. Box 295
 Trenton, New Jersey 08625-0295

PERS is a cost-sharing multiple-employer defined benefit pension plan which was established as of January 1, 1955. The PERS plan provides retirement, death and disability, and medical benefits to qualified members. Vesting and benefit provisions are established by N.J.S.A. 43:15A and 43:38.

Benefits Provided

The PERS plan provides retirement, death and disability, and medical benefits to qualified members. Vesting and benefit provisions are established by N.J.S.A. 43:15A and 43:38. 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.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

G. PENSION PLAN (CONTINUED)

Contributions

The contribution requirements of plan members are determined by state statute. In accordance with Chapter 62, P.L. 1994, plan members enrolled in the PERS were required to contribute 5.00% of their annual covered salary. Effective July 1, 2008, however, in accordance with Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, plan members are required to contribute 5.50% of their annual covered salary. For employees enrolled in the retirement system prior to July 1, 2008, the increase is effective with the payroll period that begins immediately after July 1, 2008. Pursuant to the provisions of Chapter 78, P.L. 2011, the active member contribution rate increased to 6.5% plus an additional 1.00% phased-in over seven years. The phase-in of the additional incremental member contribution amount began July 1, 2012, and increases each subsequent July 1. The active member effective contribution rates were July 1, 2014, 6.92%; July 1, 2013, 6.78%, and July 1, 2012, 6.64%. The State Treasurer has the right under the current law to make temporary reductions in member rates based on the existence of surplus pension assets in the retirement system; however, the statute also requires the return to the normal rate when such surplus pension assets no longer exist.

The Authority is billed annually for its normal contribution plus any accrued liability. Contributions to PERS from the Authority were \$450,146 and \$398,452 for the years ended December 31, 2015 and 2014, respectively.

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

At December 31, 2015 and 2014, the Authority reported a liability of \$11,840,469 and \$9,845,097 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, 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, 2015, and 2014 the Authority's proportionate share was 0.0525836468% and 0.0527462167%, which was a decrease of 0.000163. For the year ended December 31, 2015 and 2014, the Authority recognized pension expense of \$833,735 and \$525,742, respectively. At December 31, 2015, the Authority reported deferred outflows of resources as follows.

	December 31,			
	2015		2014	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 282,472	\$ -	\$ -	\$ -
Changes in assumptions	1,271,572	-	309,583	-
Net difference between projected and actual earnings on pension plan investments	-	190,372	-	586,714
Changes in proportion and differences between Authority contributions and proportionate share of contributions	269,321	-	298,341	-
	<u>\$ 1,823,365</u>	<u>\$ 190,372</u>	<u>\$ 607,924</u>	<u>\$ 586,714</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

G. PENSION PLAN (CONTINUED)

Actuarial Assumptions

The total pension liability in the June 30, 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.41%
Salary increases: 2012-2021	2.15%- 4.40%
Salary increases: Thereafter	3.15%- 5.40%
Investment rate of return	7.90%

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

The actuarial assumptions used in the July 1, 2013, valuation were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011.

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

	Target Allocation	Long-term Expected Rate of Return
Cash	5.00%	1.04%
U.S. Treasuries	1.75%	1.64%
Investment Grade Credit	10.00%	1.79%
Mortgages	2.10%	1.62%
High Yield Bonds	2.00%	4.03%
Inflation-Indexed Bonds	1.50%	3.25%
Broad U.S. Equities	27.25%	8.52%
Developed Foreign Equities	12.00%	6.88%
Emerging Market Equities	6.40%	10.00%
Private Equities	9.25%	12.41%
Hedge Fund/Absolute Return	12.00%	4.72%
Real Estate (Property)	2.00%	6.83%
Commodities	1.00%	5.32%
Global Debt Ex U.S.	3.50%	-0.40%
REIT	4.25%	5.12%

The discount rate used to measure the total pension liability was 5.39% and 5.55% as of December 31, 2014 and 2013, respectively. The single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 4.29% and 4.63% as of December 31, 2014 and 2013, respectively, based on the Bond

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

G. PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

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 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

H. 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 15 and 17, at December 31, 2015 and 2014, respectively.

The total cost included in health insurance expense for these post-retirement benefits was \$248,331 and \$240,000 for the years ended December 31, 2015 and 2014, 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. At December 31, 2015, the accrued post-employment benefit for dental was \$47,743, and at December 31, 2014, the accrued post-employment benefit for dental and prescription was \$ 3,870,765.

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 activities, under non-operating revenues (expenses) for the accrued prescription plan benefit that was terminated.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

H. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

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 prescription drug (only in 2014) and 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, 2015 and 2014.

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 2014 was \$1,230,885, for prescription and dental, and in 2015 the contribution decreased to \$78,820, for dental only, assuming a 30-year amortization of the actuarial accrued liability.
- During 2015 and 2014, the Authority paid \$31,077, for dental only and \$554,714, for dental and prescription, respectively, 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 2015 and \$17,528,010, for 2014.

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 9.00% for 2014.
 - Dental ranged from 4.00% 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%.

I. 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, 2015 and 2014.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

J. 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.

As of December 31, 2015 and 2014, the total outstanding bonds of MCIA in connection with the regional sludge facilities amounted to \$0 and \$3,500,000, respectively.

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 2015 and 2014 amounted to \$997,560 and \$996,605, respectively. The bonds matured in 2015.

K. 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.

L. CAPITAL PROGRAM

Expected capital program expenditures budgeted from 2015 through 2020 approximate \$38.6 million.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

M. PENDING PRONOUNCEMENTS

The GASB issued Statement No. 72, "Fair Value Measurement and Application" effective for financial statements for periods beginning after June 15, 2015. This standard describes how fair value should be defined and measured, the use of various valuation techniques, and which information about fair value should be disclosed in the notes to the financial statements.

The GASB issued Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" provides guidance for reporting by state and local governments that provide OPEB, such as retiree health insurance, to their employees and for governments that finance OPEB for employees of other governments. This standard requires governments to report a liability on the face of their financial statements for the OPEB they provide. Statement 75 is effective for financial statements for periods beginning after June 15, 2017.

REQUIRED SUPPLEMENTARY INFORMATION

EWING-LAWRENCE SEWERAGE AUTHORITY
 REQUIRED SUPPLEMENTARY INFORMATION

Schedule of the Proportionate Share of the Net Pension Liability

	<u>2015</u>	<u>2014</u>
Proportion of the net pension liability	0.0525836%	0.05274622%
Proportionate share of the net pension liability	\$ 11,840,469	\$ 9,845,097
Covered-employee payroll	\$ 4,094,825	\$ 3,903,104
Proportionate share of the net pension liability as a percentage of payroll	289.16%	252.24%
Plan fiduciary net position as a percentage of the total pension liability	47.93%	40.71%

EWING-LAWRENCE SEWERAGE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION

	2015	2014
Contractually required contribution	\$ 450,146	\$ 398,452
Contribution in relation to the contractually required contribution	450,146	398,452
	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 4,094,825	\$ 3,903,104
Contributions as a Percentage of Covered-Employee Payroll	10.99%	10.21%

SUPPLEMENTARY INFORMATION

EWING-LAWRENCE SEWERAGE AUTHORITY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended December 31, 2015
(With Comparative Totals for 2014)

	2015					2014	
	Unrestricted	Future Debt Service	Current Debt Service	Improvement Fund	Succeeding Year Budget	Investment in Property, Plant and Equipment	Total
Operating revenues							
Service agreements	\$ 13,624,261	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,619,336
Contributions for system improvements	-	-	-	-	-	-	11,100
Connection fees	859,835	-	-	-	-	-	304,032
Capacity fees	16,875	-	-	-	-	-	101,250
Inspection fees	700	-	-	-	-	-	200
Developer applications	25,300	-	-	-	-	-	28,560
Interest	1,085	-	-	-	-	-	777
Miscellaneous	80,820	-	-	-	-	-	80,820
Total operating revenues	14,608,876	-	-	-	-	-	14,608,876
Operating expenses							
Costs of providing services	8,968,224	-	-	-	-	-	8,968,224
Administrative and general	1,524,237	-	-	-	-	-	1,524,237
County sludge facilities	997,560	-	-	-	-	-	997,560
Depreciation and amortization	-	-	-	-	-	1,769,143	1,769,143
Total operating expenses	11,490,021	-	-	-	-	1,769,143	13,259,164
Income from operations	3,118,855	-	-	-	-	(1,769,143)	1,349,712
Non-operating revenues (expenses)							
Interest income	-	705	-	-	-	-	705
Interest expense	-	-	(187,786)	-	-	-	(187,786)
Amortization loss on defeasance	-	-	-	-	-	-	-
Amortization of original issue discount	-	-	-	-	-	-	-
Reversal of OPEB liability	-	-	-	-	-	-	-
Principal loan forgiveness	3,823,022	-	-	-	-	-	3,823,022
Total non-operating revenues (expenses), net	152,127	-	-	-	-	-	152,127
Income (loss) before transfers	3,975,149	705	(187,786)	-	-	-	3,788,068
Transfers	7,094,004	705	(187,786)	-	(142,000)	(1,769,143)	5,137,780
Change in net position	(1,231,837)	199,318	187,786	-	(142,000)	986,733	512,972
Net position, beginning of year	5,862,167	200,023	-	-	(142,000)	-	5,137,780
Cumulative change in accounting principle	(7,186,807)	2,308,538	-	-	932,000	33,830,680	29,884,411
Net position, beginning of year, restated	(7,186,807)	2,308,538	-	-	932,000	33,830,680	29,884,411
Net position, end of year	\$ (1,324,640)	\$ 2,508,561	\$ -	\$ -	\$ 790,000	\$ 33,048,270	\$ 29,884,411

EWING-LAWRENCE SEWERAGE AUTHORITY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES
 COMPARED TO BUDGET

Year Ended December 31, 2015

	2015 Budget Unaudited	2015 Actual
Revenues		
Service agreements	\$ 13,624,261	\$ 13,624,261
Contributions from system improvements	-	-
Connection fees	100,000	859,835
Capacity revenue	-	16,875
Inspection fees	300	700
Developer applications	1,000	25,300
Interest	1,000	1,790
Miscellaneous	30,000	80,820
Total operating revenues	<u>\$ 13,756,561</u>	<u>\$ 14,609,581</u>
Expenses		
Cost of providing services		
Labor	\$ 3,503,700	\$ 3,585,578
Employee benefits	2,080,956	2,191,108
Material and supplies	1,021,500	702,678
Contracted services	100,000	57,617
Repairs and maintenance	650,000	477,741
Sludge disposal	715,000	606,140
Utilities	1,352,850	1,163,713
Transportation	88,000	60,932
Remediation	200,000	41,597
Compliance	40,000	7,201
County sludge facility	998,000	997,560
Permits	180,000	74,012
Total cost of providing services	<u>10,930,006</u>	<u>9,965,877</u>
Administrative and general		
Labor	586,000	600,434
Employee benefits	348,044	366,904
Materials and supplies	35,000	31,825
Contracted services	313,500	205,014
Insurance	446,000	320,060
Total administrative and general	<u>1,728,544</u>	<u>1,524,237</u>
Interest expense	<u>208,215</u>	<u>187,786</u>
Other costs funded by operating revenues		
Principal maturity	510,251	510,251
Capital outlays	271,847	234,531
Total other costs funded by operating revenues	<u>782,098</u>	<u>744,782</u>
Total costs funded by operating revenues	<u>13,648,863</u>	<u>12,422,682</u>
Excess	107,698	2,186,899
Total	<u>\$ 13,756,561</u>	<u>\$ 14,609,581</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

ROSTER OF OFFICIALS (UNAUDITED)

Year Ended December 31, 2015

<u>Board Members</u>	<u>Position</u>
Harold Vereen	Chair
Raymond J. DiFrancesco	Vice Chair
Joseph Cermele	Treasurer
Charles Geter	Assistant Treasurer
Pasquale "Pat" Colavita	Secretary
Anne Zamonski	Assistant Secretary

<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 EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2015

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	\$ 9,093,582	\$ 12,346,635
2014 Interim Financing Program- Clean Water	66.468	Unknown	S340391-11	6/30/14-Completion	1,537,000	455,878	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	600,499	600,499
Total					<u>\$ 22,664,538</u>	<u>\$ 10,149,959</u>	<u>\$ 13,584,341</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, 2015

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	\$ 3,219,681	\$ 4,371,482
2014 Interim Financing Program- Clean Water	S340391-11	6/30/14-Completion	1,537,000	151,958	212,401
2015 Disaster Relief Appropriations Act Trust Loan	S340391-11	5/28/15-Completion	1,246,666	200,165	200,165
Total			<u>\$ 8,939,993</u>	<u>\$ 3,571,804</u>	<u>\$ 4,784,048</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, 2015

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, 2015. 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 Policy Circular 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 assets, 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.

EWING-LAWRENCE SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended December 31, 2015

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 Policy Circular 15-08-OMB?

_____ Yes X No

Major programs:

<u>CFDA/ State Loan Number</u>
<u>66.468/ S340391-10</u>
<u>66.468/ S340391-11</u>
<u>66.468/ S340391-11</u>

<u>Name of Federal/State Loan Program</u>
<u>2014 Wastewater Treatment Plan Upgrade Loan</u>
<u>2014 Interim Financing Program- Clean Water</u>
<u>2015 Disaster Relief Appropriations Act Trust Loan</u>

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

\$750,000

Auditee qualified as low-risk auditee?

_____ Yes X No

Section II – Financial Statement Findings

None

Section III – Federal and State Award Findings and Questioned Costs

None

**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, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated September 20, 2016.

Internal Control Over Financial Reporting

In planning and performing our audits 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.

Mercedien, P.C.
Certified Public Accountants

September 20, 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 EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE REQUIRED BY UNIFORM GUIDANCE AND STATE OF NEW JERSEY POLICY CIRCULAR 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, 2015. 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 Policy Circular 15-08-OMB, Single Audit Policy for Recipients of Federal Grants and State Aid. Those standards and Uniform Guidance and circulars 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.

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 POLICY CIRCULAR 15-08-OMB (CONTINUED)

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, 2015.

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 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 Policy Circular 15-08-OMB. Accordingly, this report is not suitable for any other purposes.

Mercadion, P.C.
Certified Public Accountants

September 20, 2016