



STONY BROOK REGIONAL SEWERAGE AUTHORITY

*HOPEWELL BOROUGH • HOPEWELL TOWNSHIP • PENNINGTON BOROUGH
PRINCETON • SOUTH BRUNSWICK TOWNSHIP • WEST WINDSOR TOWNSHIP*

**Financial Statements
November 30, 2017 and 2016
With Independent Auditors' Reports**

Stony Brook Regional Sewerage Authority
November 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Authority Members
Stony Brook Regional Sewerage Authority

Report on the Financial Statements

We have audited the accompanying financial statements of Stony Brook Regional Sewerage Authority (the "Authority") which comprise the statements of net position as of November 30, 2017 and 2016 and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and in compliance with the 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of November 30, 2017 and 2016 and the respective changes in its net position and its cash flows for the years then ended in conformity 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 Management's Discussion and Analysis and the Required Supplementary Information identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. Schedules 3 through 9 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2018 on our consideration of Stony Brook Regional Sewerage Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Stony Brook Regional Sewerage Authority's internal control over financial reporting and compliance.



May 13, 2018



STONY BROOK REGIONAL SEWERAGE AUTHORITY

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MANAGEMENT'S DISCUSSION AND ANALYSIS



STONY BROOK REGIONAL SEWERAGE AUTHORITY

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of the Authority's financial condition and activities for the year ending November 30, 2017. Management's Discussion and Analysis serves as an introduction to the financial statements and should be read in conjunction with the financial statements and the accompanying notes.

Management believes the Authority's financial condition is strong. Internal controls are in place to provide reasonable assurance that all financial transactions are properly recorded and the financial statements are prepared in accordance with Generally Accepted Accounting Principles.

AUDIT ASSURANCE

The unmodified opinion of our independent auditors, WithumSmith+Brown, PC, is included in this report.

FINANCIAL HIGHLIGHTS

Total assets and deferred outflows of resources at year-end net of accumulated depreciation and amortization totaled \$69.29 million and exceeded liabilities in the amount of \$36.19 million. Net position totals \$33.99 million versus \$33.85 million for the prior year. The increase from the prior year net position was the result of GAAP basis net income of \$142,497. On a budgetary basis, revenues for the year ended November 30, 2017 exceeded expenditures by \$1.68 million. Schedule 5 of the audited financial statements includes a reconciliation of budgetary net income to GAAP basis net income. Working capital balances are adequate to meet the operational needs of the Authority including small capital projects provided in the budget.

Actual revenues on a budgetary basis totaled \$15,771,827 which is \$466,413 or 3.0% greater than the budget amount.

Actual expenditures on a budgetary basis totaled \$14,089,610 which is \$ 1,215,804 under budget. A significant portion of this saving came from lower than anticipated electricity costs and minor improvements and maintenance tools and supplies.

The design of the Pennington WWTP (Contract 17-1) was completed in 2017. The outstanding items for this project are the Delaware and Raritan Canal Commission (DRCC) permit and the New Jersey Department of Environmental Protection (NJDEP) Wetlands Waiver. It is anticipated that this project will be bid and construction will start in 2018. This project will be funded in part from the 2004 bonds and unrestricted retained earnings.

Contract 14-1 Emergency Generator Project (awarded in December 2014) is in the final stages of completion. It is expected that this project will be closed-out in 2018. This project is funded under the 2015 New Jersey Environmental Infrastructure Financing Program (NJEIFP).

Contract 16-1 Dewatered Sludge Handling Pump Replacement Project was bid in 2017 and is currently under construction. This project is being funded under the NJEIFP.

The condition assessment of the Millstone Force Main was completed in 2017. The Millstone Force Main is a prestressed concrete cylinder pipe (PCCP) manufactured by Interpace Corporation. The condition assessment was conducted based on the history PCCP failures manufactured by Interpace Corporation in the early 1970's.

The Small Capital Projects completed in 2017 included:

- Contract 16-2 MA Effluent Channel Mixer Project was substantially complete and in operation in 2017.
- Contract 17-2 Odor Control Systems Carbon Replacement Project
- Contract 17-3 Server Room and IT Office Improvements.

Contract 16-4 Center Shaft Drive Replacement Project was initialed in 2017 and will be completed in 2018.

An evaluation of the River Road Wastewater Treatment Plant (RRWWTP) filtration system (due to the condition of the filter components, piping and valves) and evaluation of the disinfection system for compliance with the NJDEP discharge permit disinfection byproducts requirements was completed in 2017. It is anticipated that the design of this project for new filters and an ultraviolet (UV) disinfection system will begin in 2018.

Our plan is to primarily fund large capital projects over the next three to four years with the proceeds of the 2004 bond issue, unrestricted retained earnings, and the New Jersey Environmental Infrastructure Financing Program. Some of the capital projects identified are the result of NJDEP mandates for phosphorous removal, new permit discharge limits, improvements due to condition associated with age, redundancy, and resiliency. Projects include the expansion of the Pennington WWTP, upgrade/improvements to the Hopewell WWTP, and the improvements to the River Road WWTP filtration system and disinfection system.

OVERVIEW OF ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis ("MD&A") serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplementary information. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's strategic plan, budget, bond resolutions and other management tools were used for this analysis.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The financial statements include: a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements.

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

While the Statement of Net Position provides information about the nature and amount of resources and obligations at year-end, the Statement of Revenues, Expenses and Changes in Net Position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

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

The Notes to the Financial Statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. Supplementary information includes the comparison of the budget to actual revenues and expenses, as well as the schedule of amounts refundable to or receivable from individual participants.

SUMMARY OF ORGANIZATION AND BUSINESS

The Authority is a public body corporate and politic of the State and was created pursuant to the Sewerage Authorities Act by ordinances passed during 1971 by the Borough of Princeton, the Township of Princeton, the Township of West Windsor, the Borough of Pennington, the Borough of Hopewell and the Township of Hopewell, all of which are municipal corporations of the State located in the County of Mercer. By ordinance adopted on May 4, 1976, the Township of South Brunswick in the County of Middlesex, was empowered to become a voting member of the Authority and subsequently became part of the Authority's statutory district. On January 1, 2013 the Township of Princeton and the Borough of Princeton consolidated into one municipality known as Princeton.

The Authority has broad powers under the Act, including among others, the following: to sue and be sued; to enter into leases and contracts; to acquire property by any lawful means, including the exercise of the power of eminent domain; to hold, operate and administer its property; to issue its negotiable bonds and to secure their payment and rights of holders thereof under a bond resolution; to enter into contracts with municipalities for the treatment and disposal of sewage originating in such municipalities; to charge and collect Service Charges for the use of its facilities and to revise such Service Charges which the act requires to be such that the revenues of the Authority will at all times be adequate to pay all operating and maintenance expenses, including reserves, insurance, extensions and replacements, and to pay punctually the principal of and interest on any bonds and to maintain reserves and sinking funds therefore as may be required by the terms of any contract with bondholders; and to make and enforce rules and regulations for the management of its business affairs.

The Authority is made up of one representative from each member municipality. Each representative is appointed by the Member municipality to a five-year term. Authority officers are elected by its Members for one-year terms on or after each February 1.

The River Road Wastewater Treatment Plant ("WWTP") began operation in 1978 while the upstream treatment facilities became operational in 1984. Upon completion of the River Road Plant, the Authority commenced operations and began diverting flows from existing facilities located in Princeton Township to the Authority's new facilities. The River Road Plant utilizes a two-stage activated sludge process for the treatment of wastewater. The facilities for wastewater treatment consist of screens, aerated grit chambers, two stages of aeration and clarification, filtration, chlorination and dechlorination and reaeration facilities. The River Road Plant's effluent discharges to the Millstone River, and is in accordance with New Jersey Department of Environmental Protection (NJDEP) agency approved plans and discharge permits.

The Hopewell and Pennington WWTPs, also known as the upstream facilities, have identical treatment processes. The facilities for wastewater treatment consist of an influent bar screen, primary settling, aeration, secondary settling, filtration, chlorination, dechlorination and post aeration.

The Hopewell and Pennington WWTPs discharge to the Beden Brook and the Stony Brook, respectively and are in accordance with NJDEP approved plans and discharge permits. Sludge from all three of the Authority wastewater treatment plants is incinerated at the River Road Plant.

The Authority also owns several miles of interceptor sewers, three pumping stations and associated force mains. Each Participant Municipality is responsible for the maintenance of its own wastewater collection and distribution system.

The River Road WWTP currently provides service to Princeton, West Windsor Township, a portion of South Brunswick Township, and through South Brunswick, the western part of Plainsboro Township. (Plainsboro Township is neither a Participant nor a Member). The existing upstream facilities currently provide service to Hopewell Borough, Pennington Borough, and a limited portion of Hopewell Township through Pennington Borough. A Member customer service contract has been executed between the Authority and Hopewell Township for another limited area in Hopewell Township served by the Authority's Hopewell WWTP.

FINANCIAL ANALYSIS

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring and planning.

CONDENSED STATEMENTS OF NET POSITION

	November 30,		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Assets and Deferred Outflows of Resources:			
Current Assets	\$ 20,343,085	\$ 21,247,606	\$ 25,299,235
Property, Plant and Equipment - Net	46,317,621	46,860,564	45,142,840
Deferred Outflows of Resources	<u>2,630,072</u>	<u>3,816,138</u>	<u>1,615,594</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 69,290,778</u>	<u>\$ 71,924,308</u>	<u>\$ 72,057,669</u>
Liabilities and Deferred Inflows of Resources:			
Current Liabilities	\$ 2,526,483	\$ 2,829,283	\$ 4,121,616
Non-Current Liabilities	30,566,958	35,233,147	34,012,942
Deferred Inflows of Resources	<u>2,202,541</u>	<u>9,579</u>	<u>172,678</u>
Total Liabilities and Deferred Inflows of Resources	<u>35,295,982</u>	<u>38,072,009</u>	<u>38,307,236</u>
Net Position:			
Restricted and Net Investment in Capital Assets	\$ 32,073,447	\$ 33,250,159	\$ 31,553,483
Unrestricted	<u>1,921,349</u>	<u>602,140</u>	<u>2,196,950</u>
Total Net Position	<u>33,994,796</u>	<u>33,852,299</u>	<u>33,750,433</u>
Total Liabilities and Net Position	<u>\$ 69,290,778</u>	<u>\$ 71,924,308</u>	<u>\$ 72,057,669</u>

CONDENSED STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION

	November 30,		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues:			
Service Charges	\$ 12,735,414	\$ 12,371,101	\$ 12,225,402
Septage, Sludge and Leachate	2,918,729	3,131,089	2,847,892
Other	<u>35,157</u>	<u>109,472</u>	<u>85,594</u>
Total Operating Revenues	<u>15,689,300</u>	<u>15,611,662</u>	<u>15,158,888</u>
Operating Expenses:			
Operations and Maintenance	11,598,318	11,459,589	11,105,315
Depreciation	<u>3,160,867</u>	<u>3,158,048</u>	<u>3,155,080</u>
Total Operating Expenses	<u>14,759,185</u>	<u>14,617,637</u>	<u>14,260,395</u>
Operating Income	<u>930,115</u>	<u>994,025</u>	<u>898,493</u>
Non-Operating Revenues/(Expenses)	<u>(787,618)</u>	<u>(892,159)</u>	<u>(753,760)</u>
Changes in Net Position	<u>142,497</u>	<u>101,866</u>	<u>144,733</u>
Net Position - Beginning of Year	<u>33,852,299</u>	<u>33,750,433</u>	<u>33,605,700</u>
Net Position - End of Year	<u>\$ 33,994,796</u>	<u>\$ 33,852,299</u>	<u>\$ 33,750,433</u>

OTHER SELECTED INFORMATION

	Year		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Ratio of Operating Revenue To:			
Operating Expenses	1.06	1.07	1.06
Operating Expenses Net of Depreciation	1.35	1.36	1.37
Total Assets	0.24	0.23	0.22
Total Net Position	0.46	0.46	0.45
Debt Related Ratios			
Equity To Long-Term Debt	1.65	1.50	1.36
Current Ratio	8.05	7.51	6.14
Operating Revenues to Debt Service	8.34	7.45	7.24
Other			
Employees at year-end	48	44	44
Annual flow in million gallons	3,464.83	3,259.71	3,412.36
Cost to participants per million gallons	\$ 3,676	\$ 3,795	\$ 3,583



STONY BROOK REGIONAL SEWERAGE AUTHORITY

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FINANCIAL STATEMENTS

Stony Brook Regional Sewerage Authority
Statements of Net Position
November 30, 2017 and 2016

Assets and Deferred Outflows of Resources	2017	2016
Unrestricted current assets		
Cash - held by Authority	\$ 6,510,594	\$ 3,786,283
Cash equivalents - held by Authority	4,063,093	5,046,916
Trustee	1,260,448	2,440,338
Accrued interest receivable	-	5,913
Accounts receivable	426,304	558,028
Prepaid expenses	27,728	27,007
Total unrestricted current assets	<u>12,288,167</u>	<u>11,864,485</u>
Restricted current assets		
Cash equivalents - held by trustee	7,078,261	7,679,638
Investment - held by trustee	599,263	-
NJEIT / DEP funds receivable	377,394	1,703,483
Total restricted current assets	<u>8,054,918</u>	<u>9,383,121</u>
Total current assets	<u>20,343,085</u>	<u>21,247,606</u>
Property, plant and equipment	136,439,954	133,822,030
Less accumulated depreciation	<u>(90,122,333)</u>	<u>(86,961,466)</u>
Net property, plant and equipment	<u>46,317,621</u>	<u>46,860,564</u>
Total assets	<u>66,660,706</u>	<u>68,108,170</u>
Deferred outflows of resources		
Pension related	<u>2,630,072</u>	<u>3,816,138</u>
Total assets and deferred outflows of resources	<u>\$ 69,290,778</u>	<u>\$ 71,924,308</u>

The Notes to Financial Statements are an integral part of these statements.

Stony Brook Regional Sewerage Authority
Statements of Net Position (continued)
November 30, 2017 and 2016

Liabilities, Deferred Inflows of Resources and Net Position	2017	2016
Current liabilities		
Payable from unrestricted assets		
Accounts payable and accrued expenses	\$ 855,236	\$ 841,890
Payable from restricted assets		
Construction accounts payable	127,031	38,556
Debt payable - current	1,301,238	1,662,646
Unearned principal forgiveness	71,706	113,053
Interest payable	141,783	143,649
Contractor hauler deposits	29,489	29,489
Total current liabilities payable from restricted assets	<u>1,671,247</u>	<u>1,987,393</u>
Total current liabilities	<u>2,526,483</u>	<u>2,829,283</u>
Long-term liabilities		
Accrued compensated absences	354,640	388,783
Post-retirement health benefits payable	206,082	171,349
Net pension liability	10,722,893	13,714,179
Debt payable, net of current	19,283,343	20,958,836
Total long-term liabilities	<u>30,566,958</u>	<u>35,233,147</u>
Total liabilities	<u>33,093,441</u>	<u>38,062,430</u>
Deferred inflows of resources		
Pension related	<u>2,202,541</u>	<u>9,579</u>
Net position		
Net investment in capital assets	26,110,434	25,942,565
Restricted	5,963,013	7,307,594
Unrestricted	1,921,349	602,140
Total net position	<u>33,994,796</u>	<u>33,852,299</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 69,290,778</u>	<u>\$ 71,924,308</u>

The Notes to Financial Statements are an integral part of these statements.

Stony Brook Regional Sewerage Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended November 30, 2017 and 2016

	2017	2016
Operating revenues		
Participants' service charges	\$ 12,735,414	\$ 12,371,101
Septage, sludge and leachate	2,918,729	3,131,089
Other	35,157	109,472
	<hr/>	<hr/>
Total operating revenues	15,689,300	15,611,662
Operating expenses exclusive of depreciation	<hr/> 11,598,318	<hr/> 11,459,589
Operating income before depreciation	4,090,982	4,152,073
Depreciation	<hr/> 3,160,867	<hr/> 3,158,048
Operating income	<hr/> 930,115	<hr/> 994,025
Non-operating revenues (expenses)		
Interest earned on investments	82,527	25,984
Interest expense - debt service	(613,647)	(615,536)
Amortization of bond premium	131,991	110,864
Principal forgiveness earned	41,347	577,246
Post-retirement health benefits expense	(42,094)	(42,094)
Pension expense, net	<hr/> (387,742)	<hr/> (948,623)
Total non-operating revenues (expenses), net	<hr/> (787,618)	<hr/> (892,159)
Changes in net position	142,497	101,866
Net position - beginning of year	<hr/> 33,852,299	<hr/> 33,750,433
Net position - end of year	<hr/> <u>\$ 33,994,796</u>	<hr/> <u>\$ 33,852,299</u>

The Notes to Financial Statements are an integral part of these statements.

Stony Brook Regional Sewerage Authority
Statements of Cash Flows
Years Ended November 30, 2017 and 2016

	2017	2016
Cash Flows from Operating Activities		
Receipts from customers and users	\$ 12,811,772	\$ 12,294,743
Receipts for septage, sludge and leachate	2,974,095	2,919,530
Other operating receipts	35,157	109,472
Payments to suppliers of goods and services	(6,152,057)	(7,019,936)
Payments to employees for services and related expense	(5,467,779)	(5,149,308)
Net cash provided by operating activities	<u>4,201,188</u>	<u>3,154,501</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	(2,529,449)	(4,875,772)
NJEIT/DEP loan funds received	1,083,825	2,463,015
Debt issue costs	-	(7,339)
Principal payments on long-term debt	(1,662,646)	(1,639,897)
Interest paid on bonds	(615,513)	(630,355)
Net cash used by capital and related financing activities	<u>(3,723,783)</u>	<u>(4,690,348)</u>
Cash Flows from Investing Activities		
Purchase of investment	(600,765)	-
Interest received	82,581	32,215
Net cash (used) provided by investing activities	<u>(518,184)</u>	<u>32,215</u>
Net decrease in cash and cash equivalents	(40,779)	(1,503,632)
Cash and cash equivalents - beginning of year	<u>18,953,175</u>	<u>20,456,807</u>
Cash and cash equivalents - end of year	<u>\$ 18,912,396</u>	<u>\$ 18,953,175</u>
Cash and Cash Equivalents Per Financial Statements		
Unrestricted cash - held by authority	\$ 6,510,594	\$ 3,786,283
Unrestricted cash equivalents - held by		
Authority	4,063,093	5,046,916
Trustee	1,260,448	2,440,338
Restricted cash equivalents - held by trustee	7,078,261	7,679,638
	<u>\$ 18,912,396</u>	<u>\$ 18,953,175</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 930,115	\$ 994,025
Adjustments to reconcile operating income to net cash		
Provided by operating activities:		
Depreciation	3,160,867	3,158,048
Changes in operating assets and liabilities:		
Accounts receivable	131,724	(287,917)
Prepaid expenses	(721)	-
Accounts payable and accrued expenses	13,346	(722,316)
Accrued compensated absences	(34,143)	12,661
Net cash provided by operating activities	<u>\$ 4,201,188</u>	<u>\$ 3,154,501</u>

The Notes to Financial Statements are an integral part of these statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Stony Brook Regional Sewerage Authority (“Authority”) was created to operate a wastewater collection and treatment system to serve five municipalities in the Stony Brook watershed area of Mercer and Middlesex Counties, New Jersey. The Authority has entered into a service contract agreement with its member municipalities, obligating each participating municipality to the Authority for its proportionate share of the Authority’s operating expenses, debt service and required reserve additions to the extent not met by other resources.

The Authority’s financial statements include all the accounts of all the Authority’s operations. The primary criterion for including activities within a reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board (“GASB”) Codification of Governmental Accounting and Financial Reporting Standards, is whether:

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

GASB Statement No. 14, The Financial Reporting Entity, establishes standards to determine whether a government component unit should be included in the financial reporting entity. The basic criterion for inclusion or exclusion from the financial reporting entity is the exercise of oversight responsibility for agencies, boards and commissions by the primary government. The exercise of oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The Authority has determined that there were no additional entities required to be included in the reporting entity under the criteria as described above, in the current or prior years.

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles in the United States of America (“GAAP”) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the GASB’s accounting policies are described below.

In June 1999, the GASB unanimously approved Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Significant changes in the Statement which directly affect the Authority include the following:

- a. Financial statements include a Management Discussion and Analysis (“MD&A”) section providing an analysis of the Authority’s overall financial position and results of operations.
- b. Required supplemental information, which consists of schedules of budgeted and actual revenue and expenses.

Reporting Entity

The Authority's financial statements include the operations of the wastewater collection and wastewater treatment system for which the Board members of the Authority exercise financial accountability. The Board members are appointed to five-year terms by their respective municipalities. The Authority is considered a joint venture of the participating governments. There are no additional entities required to be included in the reporting entity and the Authority is not included in any other reporting entity.

Basis of Accounting

The financial statements of the Authority have been prepared in accordance with accounting principles generally accepted in the United States applicable to enterprise funds of state and local governments. The focus of enterprise funds is the measurement of economic resources, that is, the determination of operating income, changes in net position (or cost recovery), financial position and cash flows.

The Authority is a single enterprise fund and maintains its records on the accrual basis of accounting. Enterprise funds account for activities (i) that are financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity; or (ii) that are required by law or regulations that the activity's cost of providing services, including capital cost (such as depreciation or debt service), be recovered with fees and charges, rather than with taxes or similar revenues; or (iii) that the pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs (such as depreciation or debt service). Under this method, revenues are recorded when earned and expenses are recorded when the related liability is incurred. It is the Authority's policy to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Authority considers investments with original maturities of three months or less to be cash equivalents. Non-negotiable certificates of deposit are not considered investments.

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Restricted Assets

In accordance with the Bond Resolution and supplemental resolutions, the Authority has established various cash and cash equivalent accounts with a trustee. In addition, the Bond Resolution provides for certain restrictions on the use of funds in these accounts.

ACCOUNT	AMOUNT	USE FOR WHICH RESTRICTED
Revenue	All revenue except grants-in-aid and interest on investments.	Authorized operating expenses and, as of the first day of each month, transfers to the various accounts described below.
Bond Service	Amount needed to pay matured principal and interest plus principal and interest due on or before the following December 1st.	Principal and interest on the bonds.
Bond Reserve	Amount needed to equal the greatest amount of debt service due in any fiscal year.	Transfers to meet minimum levels required in the Bond Service or Sinking Accounts. Any excess may be transferred into the Renewal and Replacement Account.
Renewal & Replacement	Amount needed to increase the balance to equal the Renewal and Replacement Reserve Requirement as defined by the resolutions.	Transfers to meet minimum levels required in the Bond Service, Sinking or Bond Reserve Accounts or major repairs, renewals, and extensions of the system.
General	Any amount determined by the Authority after meeting requirements of the Bond requirements of the Bond Service Fund, the Sinking Fund, the Bond Reserve Fund and the Renewal and Replacement Fund.	Transfers to meet minimum levels required in the Bond Service, Bond Reserve, Sinking Fund or Renewal and Replacement Accounts; if all accounts meet minimum requirements, then for any lawful purpose.
Sinking Fund	Beginning in 2004, the amount needed to increase the balance so that it equals the amount of Sinking Fund installments payable on the following December 1st.	Principal and interest on bonds due on various dates.
Construction	Proceeds from bonds and grants-in-aid for construction projects.	Construction costs.

In accordance with the terms of the bond resolutions, cash and cash equivalents of the bond service, bond reserve, renewal and replacement, and construction accounts are classified as restricted assets.

Interest Income on Construction Account

Interest income on deposits in the construction account is classified as a non-operating revenue and the related accrued interest receivable as a restricted asset, as the use of this income has been designated by resolution of the Authority to pay future construction costs.

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Investments

Investments are stated at fair value. At November 30, 2017 and 2016, the Authority had outstanding a United States Treasury Note with a fair value of \$599,263 and \$0, respectively. The note bears interest at a rate of 0.875%, matures on May 31, 2018 and has a Moody's credit rating of AAA.

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted process in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. U.S. Treasury Notes are valued using quoted market prices (Level 1 inputs).

Accounts Receivable

The Authority's billing practices for service charges include billing its participants quarterly based on the amount of flow received by the authority in the previous year. The service charge includes a base charge for each participant adjusted by the projected debt service. An annual billing adjustment between participants is made in the first quarter of the following year and is based upon actual flow. Septage, sludge and leachate are billed monthly based upon usage. Management considers all amounts fully collectible, therefore, an allowance for doubtful accounts has not been established.

Inventory

Inventory of supplies, estimated to be immaterial at both the current and prior year-end, are recorded as expenses when purchased and, accordingly, are not included on the statements of net position.

Property, Plant and Equipment

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

System construction costs are charged to construction in progress until such time as given segments of the system are completed and put into operation.

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

Treatment plant	25 - 40 years
Pumping stations	15 - 40 years
Collection system	40 years
Office furniture and equipment	5 - 15 years
Automotive equipment	5 years

Compensated Absences

The Authority provides compensated absences benefits to its employees. As of November 30, 2017 and 2016, the vested amounts were \$453,824 and \$506,803 respectively. These amounts are comprised of a long-term liability of \$354,640 and \$388,783, respectively, and \$99,184 and \$118,020, respectively, which are included in current liabilities as accounts payable and accrued expenses.

Unamortized Bond Premium

Deferred bond premiums are being amortized over the life of the bond issue based on the effective interest method and are included in debt payable, net of current on the statements of net position.

Principal Forgiveness

The Authority entered into several loan agreements under the New Jersey Environmental Infrastructure Trust Financing Program that entitle the Authority to grants in the form of principal forgiveness. The principal forgiveness is being recognized as revenue as funds are expended and reimbursed under this category. For the years ended November 30, 2017 and 2016, \$41,347 and \$577,246, respectively, in principal forgiveness was earned and reported as revenue. As of November 30, 2017 and 2016, \$71,706 and \$113,053, respectively, is remaining as unearned principal forgiveness on the statements of net position.

Income Taxes

No provision for income taxes has been made as the Authority is exempt from federal and state income taxes.

Use of Estimates

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

Budgetary Procedures

The Authority follows these procedures in establishing the operating fund budget:

The annual budget for each fiscal year of the Authority is introduced by resolution passed by not less than a majority of the governing body. Copies are submitted to the Director of the Division of Local Government Services prior to the beginning of the Authority's fiscal year for approval prior to its adoption.

The budget must comply with the terms and provisions of any security agreements and is to be in such form and detail as to items of revenue, expenses and other contents as required by law or by rules and regulations of the Local Finance Board.

No authority budget can be finally adopted until the Director has approved the budget.

Public hearings are conducted to obtain citizen comments on the proposed budget.

Operating expense appropriations lapse at the close of the fiscal year to the extent that they have not been expended. The level at which expenditures cannot exceed the budget is at the total budget level.

The budget may be increased after adoption when an item of revenue has been made available after the adoption date.

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Deferred Outflows/Inflows of Resources

GASB Statement Number 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position.

Deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense / expenditure) until then. Deferred inflow of resources represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Authority's deferred outflows and deferred inflows are a result of its participation in the pension plan (see Note 12).

2. CASH AND CASH EQUIVALENTS

The Authority considers petty cash, cash in banks, certificates of deposit and deposits with the New Jersey Cash Management Fund to be cash and cash equivalents.

Deposits

The Authority's deposits are insured through either the Federal Deposit Insurance Corporation ("FDIC") or New Jersey's Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA requires all banks doing business in the State of New Jersey to maintain additional collateral in the amount of 5% of the average public deposits and to deposit these amounts with the Federal Reserve Bank for all deposits not covered by FDIC.

Bank balances at November 30, 2017 and 2016 are insured up to \$250,000 in the aggregate by the FDIC for each bank. At November 30, 2017 and 2016 the book value of the Authority's deposits was \$19,511,659 and \$18,953,175, respectively.

Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. Although the Authority does not have a formal policy for custodial credit risk, NJSA 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of GUDPA. Under the Act, the first \$250,000 of governmental deposits in each insured depository is protected by the FDIC. Public funds owned by the Authority in excess of FDIC insured amounts are protected by GUDPA.

However, GUDPA does not protect intermingled trust funds such as salary withholdings and funds that may pass to the authority relative to the happening of a future condition. Such funds are shown as uninsured and uncollateralized in the schedule below. At November 30, 2017 and 2016, the Authority's bank balances were insured and collateralized as follows:

	11/30/17	11/30/16
Insured/Collateralized	\$ 19,844,132	\$ 18,942,282
Uninsured and Uncollateralized	-	-
	<u>\$ 19,844,132</u>	<u>\$ 18,942,282</u>

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New Jersey Cash Management Fund

All investments in the New Jersey Cash Management Fund (the "Fund") are governed by the regulations of the Investment Council which prescribes standards designed to insure the quality of investments and to minimize the risks related to investments. To date, the Fund has never defaulted on principal or interest on any short term security held by its participants. Further, a reserve is being accumulated as additional protection for other than State participants. Finally, the Authority monitors eligible securities on a regular basis. As of November 30, 2017 and 2016, the Authority had \$6,793,190 and \$7,914,101 respectively on deposit with the New Jersey Cash Management Fund.

3. ACCOUNTS RECEIVABLE

Accounts receivable at November 30 consisted of the following:

	2017	2016
Accounts receivable – participants	\$ -	\$ 76,358
Accounts receivable – septage, sludge and leachate	426,304	481,670
Total	<u>\$ 426,304</u>	<u>\$ 558,028</u>

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4. PROPERTY, PLANT AND EQUIPMENT

The following summarizes property, plant and equipment activity for the years ended November 30, 2017 and 2016:

	Balance 12/1/2016	Increase	Decrease	Balance 11/30/2017
Land	\$ 911,690	\$ -	\$ -	\$ 911,690
Treatment plant	96,603,247	236,938	-	96,840,185
Pumping stations	10,453,799	-	-	10,453,799
Collection system	11,150,036	-	-	11,150,036
Office furniture and equipment	3,931,249	77,062	-	4,008,311
Automotive equipment	809,868	-	-	809,868
Construction in progress	9,962,141	2,303,924	-	12,266,065
	<u>133,822,030</u>	<u>2,617,924</u>	<u>-</u>	<u>136,439,954</u>
Less: accumulated depreciation	<u>86,961,466</u>	<u>3,160,867</u>	<u>-</u>	<u>90,122,333</u>
	<u>\$ 46,860,564</u>	<u>\$ (542,943)</u>	<u>\$ -</u>	<u>\$ 46,317,621</u>
	Balance 12/1/2015	Increase	Decrease	Balance 11/30/2016
Land	\$ 911,690	\$ -	\$ -	\$ 911,690
Treatment plant	96,442,140	161,107	-	96,603,247
Pumping stations	10,453,799	-	-	10,453,799
Collection system	11,150,036	-	-	11,150,036
Office furniture and equipment	3,752,982	178,267	-	3,931,249
Automotive equipment	783,667	26,201	-	809,868
Construction in progress	5,451,944	4,510,197	-	9,962,141
	<u>128,946,258</u>	<u>4,875,772</u>	<u>-</u>	<u>133,822,030</u>
Less: accumulated depreciation	<u>83,803,418</u>	<u>3,158,048</u>	<u>-</u>	<u>86,961,466</u>
	<u>\$ 45,142,840</u>	<u>\$ 1,717,724</u>	<u>\$ -</u>	<u>\$ 46,860,564</u>

Construction in progress includes various ongoing capital projects, the majority of which will be funded through the New Jersey Environmental Trust Financing program.

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5. LONG-TERM DEBT

The following summarizes activity in long-term debt for the years ending November 30, 2017 and 2016:

	<u>Balance 12/01/16</u>	<u>Debt Issued</u>	<u>Repayments</u>	<u>Non-Cash Project Adjustments</u>	<u>Balance 11/30/17</u>
Revenue bonds	\$ 7,320,000	\$ -	\$ (665,000)	\$ -	\$ 6,655,000
NJEIT loans	<u>13,687,958</u>	<u>-</u>	<u>(997,646)</u>	<u>(28,000)</u>	<u>12,662,312</u>
Total long-term debt	<u>\$ 21,007,958</u>	<u>\$ -</u>	<u>\$ (1,662,646)</u>	<u>\$ (28,000)</u>	<u>\$ 19,317,312</u>

	<u>Balance 12/01/15</u>	<u>Debt Issued</u>	<u>Repayments</u>	<u>Non-Cash Project Adjustments</u>	<u>Balance 11/30/16</u>
Revenue bonds	\$ 7,965,000	\$ -	\$ (645,000)	\$ -	\$ 7,320,000
NJEIT loans	<u>15,432,523</u>	<u>-</u>	<u>(994,897)</u>	<u>(749,668)</u>	<u>13,687,958</u>
Total long-term debt	<u>\$ 23,397,523</u>	<u>\$ -</u>	<u>\$ (1,639,897)</u>	<u>\$ (749,668)</u>	<u>\$ 21,007,958</u>

Debt payable consisted of the following at November 30:

	2017	2016
2002 Series revenue refunding bonds	\$ -	\$ 395,000
2012 Series revenue refunding bonds	6,655,000	6,925,000
2007 NJEIT financing	2,922,053	3,193,582
2009 NJEIT/ARRA financing	1,072,500	1,177,625
2010 NJEIT financing	5,363,249	5,836,682
2015 NJEIT financing	<u>3,304,510</u>	<u>3,480,069</u>
	19,317,312	21,007,958
Less: current portion	(1,301,238)	(1,662,646)
Unamortized bond premiums/discounts	614,000	635,000
Unamortized principal savings credits	<u>653,269</u>	<u>978,524</u>
Long-term debt	<u>\$ 19,283,343</u>	<u>\$ 20,958,836</u>

Revenue Bonds

2002 Refunding Bonds

On October 15, 2002, the Authority issued \$10,275,000 in Revenue Refunding Bonds (2002 Series) with an average interest rate of 3.94% to: (a) currently refund \$6,870,000 aggregate principal amount of Revenue Refunding Bonds, 1993 Series A (b) advance refund \$3,420,000 aggregate principal amount of the Revenue Bonds (1996 Series).

The net proceeds of \$10,275,000 (2002 Series) plus an additional \$339,318 of prior-issued funds were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1993 Series A and the

Revenue Bonds (Series 1996). As a result, these refunded bonds are considered to be defeased, and the liability for these bonds has been removed from long-term debt.

The Series 2002 refundings resulted in a difference between reacquisition price and the net carrying amount of old debt of \$76,252. This difference (net deferred charge on refunding) is being charged to operations through the year 2017, using the interest method of amortization. The Authority completed the refunding to reduce total debt service payments over the next fifteen (15) years by \$868,047 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$665,242. The series 2002 Revenue Refunding Bonds are due in the amounts and at interest rates shown in the supplementary schedule of revenue bonds payable.

2004 Revenue Bonds

In 2004, the Authority issued \$8,865,000 of Revenue Bonds for the purpose of funding various projects and plant improvements. \$6,695,000 of the outstanding bonds was refunded at a lower rate on August 9, 2012. See note on 2012 Refunding Bonds.

2012 Refunding Bonds

On August 9, 2012, the Authority issued \$7,000,000 in Revenue Refunding Bonds with an average interest rate of 3.03 percent to advance refund \$6,695,000 of outstanding 2004 Series Revenue Bonds with an average interest rate of 4.84 percent. The gross debt service savings totaled \$503,412 after payment of all issuance costs. On a present value basis the debt service savings was \$317,965 or 4.75 percent of the refunded bonds. The refunding resulted in a net carrying amount difference of \$923,322 which is being amortized over a 27 month period and corresponds to the final maturity of the old bonds final payment which was made on December 1, 2015.

New Jersey Environmental Infrastructure Trust (“NJEIT”) Loans

2007 New Jersey Environmental Infrastructure Trust Fund Loan

In 2007, the Authority participated in the New Jersey Environmental Infrastructure Trust Financing Program in the amount of \$5,515,000 to finance energy efficiencies to the sludge incineration facilities. The financing is made up of two parts: the Trust Loan bears interest at 3.40% to 5.00%; the Fund Loan is principal only.

2009 New Jersey Environmental Infrastructure Trust Fund Loan

In 2009, the Authority participated in the New Jersey Environmental Infrastructure Trust Financing Program in the amount of \$3,310,373 to finance the replacement of eight mechanical surface aerators located in the existing nitrification tanks. In addition, the project included replacement of the polymer and caustic chemical storage and feed systems for sludge processing and various appurtenance work.

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The financing is made up of three parts: the Trust Loan in the amount of \$825,000 which bears interest at 2.00% to 5.00%; the Fund Loan in the amount of \$828,458 is principal only; and the American Recovery and Reinvestment Act (ARRA) provides for principal forgiveness in the amount of \$1,656,915. The principal forgiveness revenue is being recognized as funds are expended and reimbursed under this category. For the years ended November 30, 2017 and 2016 \$41,347 and \$577,246, respectively, was recorded as non-operating revenue. Additionally, at November 30, 2017 and 2016, \$71,706 and \$113,053 respectively, is reported as unearned principal forgiveness on the comparative statements of net position.

2010 New Jersey Environmental Infrastructure Trust Fund Loan

In 2010, the Authority participated in the New Jersey Environmental Infrastructure Trust Financing Program in the amount of \$12,917,500 to finance the Headworks project. The project includes the construction of four new grit chambers and the installation of influent screens.

The financing is made up of three parts: the Trust Loan in the amount of \$6,220,000 (net of bond premium) which bears interest at 5.00%; the Fund Loan in the amount of \$4,197,500 is principal only; and principal forgiveness in the amount of \$2,500,000. The Fund Loan principal amortization reflects the principal forgiveness on a pro-rata basis over the life of the loan. On July 18, 2014, \$810,000 of bonds were defeased by the Trust. This included \$320,000 of year 2029 and \$490,000 of year 2030 bonds. The interest savings from this defeasance is \$637,022.

2015 New Jersey Environmental Infrastructure Trust Fund Loan

In 2015, the Authority participated in the New Jersey Environmental Infrastructure Trust Financing Program in the amount of \$3,650,628 to finance the Emergency Generator project. This project includes the installation of a natural gas emergency generator at the River Road Wastewater Treatment plant and the replacement of existing turbine emergency generators with new diesel emergency generators at both the Millstone and South Brunswick Pump Stations. The financing is made up of three parts: the Trust Loan in the amount of \$1,075,000 (net of bond premium) which bears interest between 4.00- 5.00%; the Fund Loan in the amount of \$2,575,628 is principal only; and principal forgiveness in the amount of \$873,874. The Fund Loan principal amortization reflects the principal forgiveness on a pro-rata basis over the life of the loan.

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Annual Debt Service

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

<u>Year Ending November 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,301,238	\$ 585,730	\$ 1,886,968
2019	1,323,802	551,630	1,875,432
2020	1,340,926	515,210	1,856,136
2021	1,367,925	478,340	1,846,265
2022	1,406,864	440,170	1,847,034
2023	1,454,489	400,100	1,854,589
2024	1,497,694	357,880	1,855,574
2025	1,533,191	313,700	1,846,891
2026	1,358,332	267,770	1,626,102
2027	1,268,684	219,390	1,488,074
2028	1,108,684	171,550	1,280,234
2029	857,684	132,040	989,724
2030	655,560	103,800	759,360
2031	675,560	82,600	758,160
2032	700,560	60,600	761,160
2033	720,560	37,600	758,160
2034	745,559	13,800	759,359
	<u>\$ 19,317,312</u>	<u>\$ 4,731,910</u>	<u>\$ 24,049,222</u>

6. RISK MANAGEMENT

The Authority is a member of the New Jersey Utility Authorities Joint Insurance Fund (the "Fund"). The Fund was created on September 15, 1991, in accordance with P.L. 1983, C.372, entitled "An Act concerning joint insurance funds for local units of government, and supplementing Chapter 10 of Title 40A of the New Jersey statutes." The Fund is both an insured and self-administered group of utility authorities established for the purpose of providing low cost insurance coverage and safety programs for the member utility authorities in order to keep insurance premiums, claims and administrative costs at a minimum.

The following coverage's are offered by the Fund to its members:

- a. Worker's Compensation and Employer's Liability
- b. Liability other than Motor Vehicles
- c. Property Damage other than Motor Vehicles
- d. Motor Vehicle
- e. Environmental Liability
- f. Public Officials and Employment Practices Liability

The Joint Insurance Fund is also a member of the Municipal Excess Liability Joint Insurance Fund which provides excess insurance for worker's compensation and employer's liability.

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A participating utility authority must remain in the Fund for the full term of membership unless earlier terminated by a majority vote of the Fund Commissioners or a two-thirds vote of the Executive Committee for non-payment of assessments or continued non-compliance after written notice to comply with the by-laws or other obligations. Termination may occur only after proper notice has been given, in accordance with the Fund's by-laws.

7. AMOUNTS REQUIRED BY BOND RESOLUTION

The following cash and cash equivalent accounts, held by the trustee, were required by bond resolution as of November 30, 2017 and 2016:

	November 30, 2017		
	Amount Required	Balance On Hand	Excess or (Deficiency)
Bond service account	\$ 411,700	\$ 411,967	\$ 267
Bond reserve account	\$ 543,400	\$ 967,266	\$ 423,866
Renewal and replacement account	\$ 600,000	\$ 609,813	\$ 9,813

	November 30, 2016		
	Amount Required	Balance On Hand	Excess or (Deficiency)
Bond service account	\$ 808,650	\$ 808,650	\$ -
Bond reserve account	\$ 952,300	\$ 963,834	\$ 11,534
Renewal and replacement account	\$ 600,000	\$ 604,534	\$ 4,534

8. NET POSITION

Net Position consists of the net investment in capital assets and restricted and unrestricted balances as required by the bond resolution as follows:

	11/30/17	11/30/16
Net position:		
Net investment in capital assets	\$26,110,434	\$25,942,565
Restricted:		
Bond service	411,700	808,650
Bond reserve	543,400	952,300
Renewal and replacement	600,000	600,000
Capital projects	4,407,913	4,946,644
Total restricted	<u>5,963,013</u>	<u>7,307,594</u>
Unrestricted:		
Designated for emergencies	1,000,000	1,000,000
Designated for capital projects	9,371,521	8,571,222
Designated for OPEB	206,082	171,349
Net pension liability	10,722,893	13,714,179
Undesignated	<u>(19,379,147)</u>	<u>(22,854,610)</u>
Total unrestricted	<u>1,921,349</u>	<u>602,140</u>
Total net position	<u>\$ 33,994,796</u>	<u>\$ 33,852,299</u>

9. LITIGATION, CLAIMS AND CONTINGENT LIABILITIES

In the ordinary conduct of its business, the Authority may be a party to litigation. At November 30, 2017, in the opinion of management based upon consultation with legal counsel, there were no matters pending or threatened which would have a material adverse effect on the financial position of the Authority.

10. DEFERRED COMPENSATION

The Authority offers its employees a Deferred Compensation Plan ("Plan") created in accordance with Internal Revenue Code Section 457. The Plan is available to all eligible employees. The Plan permits them to defer a portion of their salary before federal income tax. The deferred compensation is available to employees or their beneficiaries upon termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights, have been removed from the books and accounts of the Authority as they are not the property or rights of the Authority.

11. RETIREE HEALTH BENEFIT COVERAGE

Plan Description: In the year ended November 30, 2013, the Authority adopted a single-employer defined benefit healthcare plan (the "Plan"). In order to be eligible to receive retirement benefits under the Plan the following conditions must be met:

- A. Retire with 25 or more years of service with the Authority for pension purposes.
- B. Retiree must be 55 years or older at the time of retirement.

Retiree health benefits terminate when the retired employee is eligible for Medicare or dies. The maximum contribution by the Authority for retiree health benefits is \$7,000 per year, which serves as a reimbursement for insurance purchased by the retiree directly. As a result of implementing GASB statement No. 45, Accounting and Financial Reporting for Post-Employment Benefit Plans Other than Pension Plans ("OPEB") the Authority has hired an independent financial firm to calculate their annual OPEB costs and unfunded accrued liability as required by GASB Statement 45.

Annual OPEB Cost and Net OPEB Obligation: The Authority's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Authority has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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The following table shows the components of the Authority's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation to the Plan:

	11/30/17	11/30/16
Annual required contribution	\$ 42,094	\$ 42,094
Payments to retirees	<u>(7,361)</u>	<u>(6,639)</u>
Net other post-employment benefit obligation	34,733	35,455
Net other post-employment benefit, beginning of year	<u>171,349</u>	<u>135,894</u>
Net other post-employment benefit, end of year	<u>\$ 206,082</u>	<u>\$ 171,349</u>

Methods and Assumptions:

The following simplifying assumptions were made:

- The only postemployment benefit offered by the SBRSA other than pensions is Retiree Health Benefit Coverage;
- All employees who meet the Retiree Health Benefit Coverage requirements will receive an annual payment of \$7,000 per year until the Employee is eligible for Medicare;
- Medicare eligibility begins at age 65;
- All employees will remain employed with SBRSA until they turn 55 years of age and complete 25 years of service;
- Annual earnings on funds deposited into an OPEB account would earn 4% per year (4% is the average of the 20-Year Treasury over the last 15 years);
- All eligible employees would receive the maximum Retiree Health Benefit Coverage;
- Employees are not covered by any other insurance.

The Authority had an actuarial valuation performed during the fiscal year ended November 30, 2016. In accordance with State requirements, the Authority will need to update their net other post-employment benefit obligation every three years. The Authority currently has one retired employees receiving retirement benefits. The net OPEB obligation of the Authority to provide benefits to retirees for the years ended November 30, 2017 and 2016 was \$42,094 each year. The Authority has funds set aside in unrestricted net assets equal to the OPEB obligation.

12. PENSION PLAN

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

Stony Brook Regional Sewerage Authority
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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

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

Employer and Employee Contributions

The contribution policy for PERS is set by N.J.S.A. 15A and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. The local employer's contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability.

During the years ended November 30, 2017 and 2016, the PERS received employer and employee contributions as follows:

	2017	2016
Employer contributions	\$ 411,366	\$ 398,381
Employee contributions	\$ 243,410	\$ 220,863
Salary basis for contributions	\$ 3,347,769	\$ 3,105,794
Percent of base wages	7.20% - 7.34%	7.06% - 7.20%

Stony Brook Regional Sewerage Authority
Notes to Financial Statements
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Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the PERS and contrition's to/deductions from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee deductions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

The net pension liability was measured as of June 30, 2017 and 2016, and the total pension liability to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 and 2016. In accordance with GASB 68, the measure date shall not be earlier than 1 year from the statement of net position date, therefore, the Authority has elected to utilize June 30, 2017 and 2016 as the measurement dates, respectively.

The Authority's proportion of the net pension liability is based on the ratio of the contributions as an individual employer to total contributions to the PERS during the years ended June 30, 2017 and 2016. At November 30, the Authority's proportionate share and net pension liability was as follows:

	<u>2017</u>	<u>2016</u>
PERS net pension liability - local	\$ 23,278,401,588	\$ 29,617,131,759
Authority net pension liability	\$ 10,722,893	\$ 13,714,179
Authority's proportion	0.046063700%	0.046304886%

Total pension expense is comprised of the following at November 30:

	<u>2017</u>	<u>2016</u>
Proportionate share of allocable plan pension expense	\$ 773,423	\$ 1,309,322
Pension expense related to specific liabilities of individual employers	4,592	--
Net amortization of deferral amounts from changes in proportion	<u>41,047</u>	<u>50,643</u>
Total employer pension expense excluding that attributable to employer-paid member contributions	<u>\$ 819,062</u>	<u>\$ 1,359,965</u>

Stony Brook Regional Sewerage Authority
Notes to Financial Statements
November 30, 2017 and 2016

At November 30, 2017 and 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS as follows:

	<u>2017</u>		<u>2016</u>	
	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Changes of assumptions	\$ 2,160,294	\$ 2,152,373	\$ 2,840,845	\$ --
Differences between expected and actual experience	252,487	--	255,042	--
Net difference between projected and actual earnings on pension plan investments	73,016	--	522,934	--
Changes in proportion and differences between Authority contributions and proportionate share of contributions	144,275	50,168	197,317	9,579
Authority contributions subsequent to the measurement date	--	--	--	--
	<u>\$ 2,630,072</u>	<u>\$ 2,202,541</u>	<u>\$ 3,816,138</u>	<u>\$ 9,579</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions will be recognized in pension expense as follows:

	PERS (local)	Authority Share
2018	\$ 547,996,144	\$ 323,675
2019	826,939,464	488,433
2020	501,083,041	295,965
2021	(666,441,734)	(393,635)
2022	(485,747,054)	(286,907)
	<u>\$ 723,829,861</u>	<u>\$ 427,531</u>

Stony Brook Regional Sewerage Authority
Notes to Financial Statements
November 30, 2017 and 2016

Actuarial Assumptions

The total pension liability in the June 30, 2017 and 2016 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

	<u>2017</u>	<u>2016</u>
Inflation rate	2.25%	3.08%
Salary increases through 2026	1.65-4.15% based on age	1.65-4.15% based on age
Thereafter	2.65-5.15% based on age	2.65-5.15% based on age
Investment rate of return	7.00%	7.65%

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. 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 July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Stony Brook Regional Sewerage Authority
Notes to Financial Statements
November 30, 2017 and 2016

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute return/risk mitigation	5.00%	5.51%
Cash	5.50%	1.00%
U.S Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public high yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real asset	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. equity	30.00%	8.19%
Non-U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

Discount Rate

The discount rate used to measure the total pension liability was 5.00% and 3.98% as of June 30, 2017 and 2016, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.58% and 2.85% as of June 30, 2017 and 2016, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 40% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Stony Brook Regional Sewerage Authority
Notes to Financial Statements
November 30, 2017 and 2016

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability measured as of June 30, 2017 and 2016, calculated using the discount rate as disclosed above as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	2017		
	At 1 % decrease (4.00%)	At current discount rate (5.00%)	At 1% increase (6.00%)
PERS as a whole (local only)	<u>\$ 28,878,437,027</u>	<u>\$ 23,278,401,588</u>	<u>\$ 18,612,878,069</u>
Authority's proportionate share of the net pension liability	<u>\$ 13,302,477</u>	<u>\$ 10,722,893</u>	<u>\$ 8,573,780</u>
	2016		
	At 1 % decrease (2.98%)	At current discount rate (3.98%)	At 1% increase (4.98%)
PERS as a whole (local only)	<u>\$ 36,292,338,055</u>	<u>\$ 29,617,131,759</u>	<u>\$ 24,106,170,190</u>
Authority's proportionate share of the net pension liability	<u>\$ 16,805,126</u>	<u>\$ 13,714,179</u>	<u>\$ 11,162,335</u>

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued State of New Jersey Divisions of Pensions and Benefits financial report at <http://www.nj.gov/treasury/pensions/financial-rprts-home.shtml>.

13. COMMITMENTS AND CONTINGENCIES

The Authority has commitments outstanding at November 30 as follows:

	2017	2016
Construction	\$ 3,471,193	\$ 656,526
Engineering	<u>121,625</u>	<u>199,826</u>
	<u>\$ 3,592,818</u>	<u>\$ 856,352</u>

14. SUBSEQUENT EVENTS

Management has evaluated events occurring after November 30, 2017 for possible adjustment to or disclosure in the financial statements through May 13, 2018 the date on which the financial statements were available to be issued.

On February 26, 2018, the Authority Board authorized Stony Brook Regional Sewerage Authority to enter into a contract with Kleinfelder to design a UV Disinfection System and the new Filtration System for the River Road Waste Water Treatment Plant for an amount not to exceed \$828,320. The Authority intends to fund the project through the New Jersey Environmental Infrastructure Financing Program (NJEIFP).

Based on this evaluation, the Authority has determined that other than the transactions mentioned above, no additional subsequent events have occurred that require recognition or disclosure in the financial statements.



STONY BROOK REGIONAL SEWERAGE AUTHORITY

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REQUIRED SUPPLEMENTARY INFORMATION

Stony Brook Regional Sewerage Authority
Schedule of the Authority's Proportionate Share of the Net Pension Liability –
Public Employees' Retirement System (PERS)
Years Ended November 30, 2017 through 2013

Schedule 1

	2017	2016	2015	2014	2013
Authority's proportion (percentage) of the collective net pension liability	0.046063700%	0.046304886%	0.046337824%	0.044761697%	0.044802940%
Authority's proportionate share (amount) of the collective net pension liability	\$ 10,722,893	\$ 13,714,179	\$ 10,401,913	\$ 8,380,614	\$ 8,562,732
Authority's covered-employee payroll	\$ 3,347,769	\$ 3,105,794	\$ 3,154,616	\$ 3,199,381	\$ 3,109,936
The Authority's proportionate share (amount) of the collective net pension liability as a percentage of it's covered-employee payroll	320.30%	441.57%	329.74%	261.94%	275.33%
Plan fiduciary net position as a percentage of the total collective pension liability (local only)	48.10%	40.14%	47.93%	52.08%	48.72%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

Notes to Required Supplementary Information:

Benefit Changes

None.

Changes of Assumptions

The discount rate changed from 3.98% as of June 30, 2016 to 5.00% as of June 30, 2017.

[See Independent Auditors' Report.](#)

Stony Brook Regional Sewerage Authority
Schedule of the Authority's Contribution – Public Employees' Retirement System (PERS)
Years Ended November 30, 2017 through 2008

Schedule 2

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 411,366	\$ 398,381	\$ 369,009	\$ 337,581	n/a	n/a	n/a	n/a	n/a	n/a
Contributions in relation to the contractually required contribution	<u>(411,366)</u>	<u>(398,381)</u>	<u>(369,009)</u>	<u>(337,581)</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>
Contribution deficiency (excess)	\$ --	\$ --	\$ --	\$ --	\$ --	\$--	\$--	\$--	\$--	\$--
Percent of base wages	7.20% - 7.34%	7.06% - 7.20%	6.92% - 7.06%	6.78% - 6.92%	6.64% - 6.78%	n/a	n/a	n/a	n/a	n/a
Authority's covered-employee payroll	\$ 3,347,769	\$ 3,105,794	\$ 3,154,616	\$ 3,199,381	\$ 3,109,936	n/a	n/a	n/a	n/a	n/a
Contributions as a percentage of Authority's covered-employee payroll	12.29%	12.83%	11.70%	10.55%	0.00%	n/a	n/a	n/a	n/a	n/a

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

See Independent Auditors' Report.



STONY BROOK REGIONAL SEWERAGE AUTHORITY

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OTHER SUPPLEMENTARY INFORMATION

Stony Brook Regional Sewerage Authority
Schedules of Changes in Unrestricted Cash and Cash Equivalents
Year Ended November 30, 2017 (with Comparative Totals for 2016)

Schedule 3

	Held By	Held By Trustee		2017	2016
	Authority	Revenue	General		
	Operating				
	Accounts	Account	Account	Totals	Totals
Sources:					
Participants' service charges	\$ 12,735,414	\$ -	\$ -	\$ 12,735,414	\$ 12,294,743
Participants' service charges - prior year	357,707	-	-	357,707	-
Interest	32,186	12	14,075	46,273	23,687
Receipts from septage, sludge and leachate services	2,976,821	-	-	2,976,821	2,919,530
Miscellaneous receipts	83,907	-	-	83,907	109,472
Transfers within other Unrestricted accounts	-	-	-	-	-
Transfers from restricted accounts	-	-	(1,193,977)	(1,193,977)	2,751,168
Bond Refunding	-	-	-	-	-
Total sources	16,186,035	12	(1,179,902)	15,006,145	18,098,600
Uses:					
Operations/capital expenditures	14,445,547	-	-	14,445,547	17,008,150
Transfers to restricted accounts	-	-	-	-	2,411,579
Total uses	14,445,547	-	-	14,445,547	19,419,729
Increase/(decrease)	1,740,488	12	(1,179,902)	560,598	(1,321,129)
Balance, beginning of year	8,833,199	3,338	2,437,000	11,273,537	12,594,666
Balance, end of year	<u>\$ 10,573,687</u>	<u>\$ 3,350</u>	<u>\$ 1,257,098</u>	<u>\$ 11,834,135</u>	<u>\$ 11,273,537</u>
Balance comprised of:					
Cash	\$ 6,510,594	\$ -	\$ -	\$ 6,510,594	\$ 3,786,283
Cash equivalents	4,063,093	3,350	1,257,098	5,323,541	7,487,254
Total	<u>\$ 10,573,687</u>	<u>\$ 3,350</u>	<u>\$ 1,257,098</u>	<u>\$ 11,834,135</u>	<u>\$ 11,273,537</u>

See Independent Auditors' Report.

Stony Brook Regional Sewerage Authority
Schedules of Changes in Restricted Cash and Cash Equivalents
Years Ended November 30, 2017 (with Comparative Totals for 2016)

Schedule 4

	Held By Trustee							2017 Totals	2016 Totals
	Debt Service Accounts		Replacement Account	2004 Construction Account	2007 NJEIT Construction Account	2010 NJEIT Construction Account	2015 NJEIT Construction Account		
	Bond Service Accounts	Bond Reserve Account							
Sources:									
Interest received on investments credited to income	\$ 267	\$ 3,432	\$ 5,279	\$ 30,813	\$ -	\$ 1	\$ 2,905	\$ 42,697	\$ 8,776
Transfers from unrestricted accounts	1,925,662	-	-	-	-	-	-	1,925,662	2,411,579
NJEIT trust loan	-	-	-	-	-	-	270,956	270,956	624,766
DEP fund loan	-	-	-	-	-	-	606,943	606,943	1,372,438
Principal forgiveness	-	-	-	-	-	-	205,926	205,926	465,811
Total sources	1,925,929	3,432	5,279	30,813	-	1	1,086,730	3,052,184	4,883,370
Uses:									
Payment of bond interest charged to expenses	682,763	-	-	-	-	-	-	682,763	630,354
Payment of bond/loan principal	1,595,396	-	-	-	-	-	-	1,595,396	1,639,897
Payment of trustee fees	44,453	-	-	-	-	-	-	44,453	44,454
Transfer to unrestricted accounts	-	-	-	524,283	-	-	207,403	731,686	2,751,168
Total uses	2,322,612	-	-	524,283	-	-	207,403	3,054,298	5,065,873
Increase/(decrease)	(396,683)	3,432	5,279	(493,470)	-	1	879,327	(2,114)	(182,503)
Cash equivalents, beginning of year	808,650	963,834	604,534	5,271,392	-	483	30,745	7,679,638	7,862,141
Cash equivalents, end of year	\$ 411,967	\$ 967,266	\$ 609,813	\$ 4,777,922	\$ -	\$ 484	\$ 910,072	\$ 7,677,524	\$ 7,679,638

See Independent Auditors' Report.

Stony Brook Regional Sewerage Authority
Schedules of Operating Revenues and Costs Funded
By Operating Revenues (Budget vs. Actual)
Years Ended November 30, 2017 and 2016

Schedule 5

	Original/Final 2017 Budget	2017 Actual	2016 Budget	2016 Actual
Operating revenues:				
Participant charges:				
Gross	\$ 12,735,414	\$ 12,735,414	\$ 12,371,101	\$ 12,371,101
Net participant charges	12,735,414	12,735,414	12,371,101	12,371,101
Septage, sludge and leachate	2,500,000	2,918,729	2,500,000	3,131,089
Interest income	20,000	82,527	20,000	25,984
Other	50,000	35,157	50,000	109,472
Total operating revenues	15,305,414	15,771,827	14,941,101	15,637,646
Costs funded by operating revenues:				
Salaries and wages				
Employees:				
Administrative	507,061	478,413	501,705	514,824
Operations and maintenance	3,380,465	3,508,416	3,319,381	3,248,891
Benefits	1,486,827	1,446,807	1,494,442	1,398,254
Total salary and benefits	5,374,353	5,433,636	5,315,528	5,161,969
Administrative expenses:				
Insurance	329,490	292,019	329,791	333,830
Seminars	12,888	7,233	12,240	3,833
Meetings and travel	9,705	5,589	9,417	3,149
Telephone	51,122	57,119	44,933	49,445
Computer payroll service	9,859	10,367	9,862	9,228
Office supplies	19,346	7,664	15,624	11,178
Data processing supplies	19,225	17,556	22,775	15,297
Service contracts	121,367	96,218	106,117	96,044
Dues	16,211	15,642	16,131	13,784
Magazines, books, etc.	5,752	1,774	5,571	1,529
Postage	6,000	4,541	6,000	4,777
Advertising and printing	3,600	4,962	3,600	3,392
Rental and easements	13,524	18,337	11,724	15,726
Regulatory fees and permits	78,768	49,899	176,133	49,971
Miscellaneous	10,554	12,389	10,554	11,210
Total administrative expenses	707,411	601,309	780,472	622,393
Operating and maintenance expenses:				
Fuel oil and natural gas	722,013	778,234	718,739	851,471
Water	58,099	51,877	58,099	55,088
Electricity	2,056,794	1,519,029	2,053,042	1,589,292
Operating chemicals	758,185	705,777	768,121	689,809
Maintenance tools and supplies	307,400	194,336	300,900	255,423
Janitorial supplies	13,500	10,882	12,000	11,514
Laboratory chemicals and supplies	18,758	14,341	18,758	14,962
Uniforms	20,773	15,761	20,388	15,567
Training	41,385	27,437	34,730	9,345
Safety equipment	60,197	36,141	57,015	50,284
Outside lab testing	28,542	21,307	31,342	23,633
Pretreatment supplies	300	135	300	225
Ash and sludge hauling	446,585	358,118	382,919	359,927
Maintenance and repairs	475,875	617,981	460,509	525,677
Operations supplies	96,810	66,560	82,432	109,381
Buildings and grounds	96,000	66,999	93,500	95,549
Spare parts	292,250	289,745	286,140	278,731
Hazardous waste disposal	16,050	3,034	14,600	10,712
Medical testing	5,005	5,428	4,930	4,063
Contingency for fines	20,000	-	20,000	3,000
Minor operational improvements	191,588	149,447	204,937	63,683
Total operating and maintenance expenses	5,726,109	4,932,569	5,623,401	5,017,336

See Independent Auditors' Report.

Stony Brook Regional Sewerage Authority
Schedules of Operating Revenues and Costs Funded
By Operating Revenues (Budget vs. Actual) (continued)
Years Ended November 30, 2017 and 2016

Schedule 5

	Original/Final 2017 <u>Budget</u>	2017 <u>Actual</u>	Original/Final 2016 <u>Budget</u>	2016 <u>Actual</u>
Vehicle maintenance:				
Gas, oil and tires	34,875	21,368	34,875	32,743
Parts and service	25,400	32,442	27,800	15,513
Vehicle registration	2,800	2,464	2,800	2,881
Total vehicle maintenance	<u>63,075</u>	<u>56,274</u>	<u>65,475</u>	<u>51,137</u>
Professional services:				
Legal and audit	84,000	80,216	81,500	112,716
Trustee services	32,955	35,455	43,740	35,455
Consultants - other	494,700	458,859	259,000	458,583
Total professional services	<u>611,655</u>	<u>574,530</u>	<u>384,240</u>	<u>606,754</u>
Total operating expenses	<u>12,482,603</u>	<u>11,598,318</u>	<u>12,169,116</u>	<u>11,459,589</u>
Capital purchase fund contribution	600,000	600,000	425,000	425,000
Equipment recorded as				
Property, plant and equipment	-	-	-	-
	<u>600,000</u>	<u>600,000</u>	<u>425,000</u>	<u>425,000</u>
Total operating expenses and capital related	13,082,603	12,198,318	12,594,116	11,884,589
Debt service funded by participants	<u>2,222,811</u>	<u>1,891,292</u>	<u>2,346,985</u>	<u>2,323,233</u>
Costs funded by operating revenues	<u>15,305,414</u>	<u>14,089,610</u>	<u>14,941,101</u>	<u>14,207,822</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ 1,682,217</u>	<u>\$ -</u>	<u>\$ 1,429,824</u>
<u>Reconciliation of budgetary basis to net income</u>				
Budgetary revenues over expenses		<u>\$ 1,682,217</u>		<u>\$ 1,429,824</u>
Adjustments to budgetary basis:				
Depreciation expense		(3,160,867)		(3,158,048)
Debt service funded by participants		1,891,292		2,323,233
Interest expense - debt service		(613,647)		(615,536)
Capital purchase fund contribution		600,000		425,000
Amortization of bond premium		131,991		110,864
Principal forgiveness		41,347		577,246
Post retirement health benefits payable		(42,094)		(42,094)
Pension expense, net		(387,742)		(948,623)
Total adjustments		<u>(1,539,720)</u>		<u>(1,327,958)</u>
Net income GAAP basis		<u>\$ 142,497</u>		<u>\$ 101,866</u>

Stony Brook Regional Sewerage Authority
Schedule of Amounts Refundable to or Receivable from Individual Participants
Year Ended November 30, 2017

Schedule 6

Actual:	Princeton	South Brunswick Township	West Windsor Township	Hopewell Borough	Pennington Borough	Total
Operating Expenses	\$ 3,670,271.78	\$ 4,927,039.01	\$ 2,520,152.95	\$ 183,272.23	\$ 297,582.14	\$ 11,598,318.11
Capital Purchase Fund Contribution	189,869.12	254,883.81	130,371.66	9,480.99	15,394.42	600,000.00
Revenues - Septage Sludge and Leachate Receipts	(923,627.74)	(1,239,894.53)	(634,199.13)	(46,120.65)	(74,886.86)	(2,918,728.91)
Interest	(26,115.56)	(35,057.99)	(17,931.97)	(1,304.06)	(2,117.42)	(82,527.00)
Miscellaneous Revenue	(11,125.37)	(14,934.92)	(7,639.13)	(555.54)	(902.04)	(35,157.00)
Budget Balance To Retained Earnings	532,335.20	714,616.35	365,522.27	26,581.75	43,161.23	1,682,216.80
Debt Service Apportioned to Members	598,496.75	803,432.82	410,951.40	29,885.48	48,525.55	1,891,292.00
Total Base Charges (Dollar Amount)	\$ 4,030,104.18	\$ 5,410,084.55	\$ 2,767,228.05	\$ 201,240.20	\$ 326,757.02	\$ 12,735,414.00
Gallons Treated (Actual)	1,096,442,050	1,471,883,575	752,860,233	54,750,000	88,898,477	3,464,834,335
Total Base Charges (Percentage)	31.645%	42.481%	21.729%	1.580%	2.566%	100.000%
Debt Service Adjustment - Increase (Decrease)	(391,566.49)	189,961.19	198,581.36	12,308.41	(9,284.47)	-
Net Participant Charges - Actual	\$ 3,638,537.69	\$ 5,600,045.74	\$ 2,965,809.41	\$ 213,548.61	\$ 317,472.55	\$ 12,735,414.00
Budget:						
Operating Expenses	\$ 4,052,002.04	\$ 5,003,217.22	\$ 2,906,248.83	\$ 199,748.92	\$ 321,385.99	\$ 12,482,603.00
Capital Purchase Fund Contribution	194,767.17	240,489.13	139,694.36	9,601.31	15,448.03	600,000.00
Revenues - Septage Sludge and Leachate Receipts	(811,529.86)	(1,002,038.04)	(582,059.85)	(40,005.46)	(64,366.78)	(2,499,999.99)
Interest	(6,492.24)	(8,016.30)	(4,656.48)	(320.04)	(514.93)	(19,999.99)
Miscellaneous Revenue	(16,230.61)	(20,040.76)	(11,641.20)	(800.11)	(1,287.34)	(50,000.02)
Budget Balance From Retained Earnings	-	-	-	-	-	-
Debt Service	721,551.00	890,936.47	517,523.62	35,569.83	57,230.08	2,222,811.00
Total Base Charges (Dollar Amount)	\$ 4,134,067.50	\$ 5,104,547.72	\$ 2,965,109.28	\$ 203,794.45	\$ 327,895.05	\$ 12,735,414.00
Gallons Treated (budget)	1,110,629,868	1,371,352,336	796,585,667	54,750,000	88,090,004	3,421,407,875
Total Base Charges (Percentage)	32.4612%	40.0815%	23.2824%	1.6002%	2.5747%	100.0000%
Debt Service Adjustment - Increase (Decrease)	(391,566.49)	189,961.19	198,581.36	12,308.41	(9,284.47)	-
Net Participant Charges - Budget / Paid	\$ 3,742,501.01	\$ 5,294,508.91	\$ 3,163,690.64	\$ 216,102.86	\$ 318,610.58	\$ 12,735,414.00
Due (to) from Participants at November 30, 2017	\$ (103,963.32)	\$ 305,536.83	\$ (197,881.23)	\$ (2,554.25)	\$ (1,138.03)	\$ -
Allocation:						
Operation	\$ 19,090.93	\$ 393,040.48	\$ (91,309.01)	\$ 3,130.10	\$ 7,566.50	\$ 331,519.00
Debt Service	\$ (123,054.25)	\$ (87,503.65)	\$ (106,572.22)	\$ (5,684.35)	\$ (8,704.53)	\$ (331,519.00)
Amount due (refund)	\$ (103,963.32)	\$ 305,536.83	\$ (197,881.23)	\$ (2,554.25)	\$ (1,138.03)	\$ -

Stony Brook Regional Sewerage Authority
Notes to Schedule of Amounts Refundable to or Receivable from Individual Participants
Year Ended November 30, 2017

1. BASIS OF PRESENTATION

Five of the six member municipalities entered into an amended service contract dated November 1, 1977, with Stony Brook Regional Sewerage Authority ("Authority") for the treatment and disposal of sewage in return for the Authority constructing, operating, and maintaining the system. At the beginning of each year, the participants are assessed user charges based on the current year's budgeted operating revenues and expenses allocated to the individual participants by the Authority's projection based on the average of five prior years of flow. This allocation is then adjusted for actual flow received through year-end, and any additional charges or refunds necessary to or from the participants are determined by the Authority and assessed in the year-end adjustment.

2. METER CERTIFICATION AND CALIBRATION

The Authority's staff services and calibrates the billing meters monthly. On a quarterly basis, the Authority utilizes the services of W. G. Malden Inc. to certify the flow meters at each of the metering stations. As a result of the monthly calibration and quarterly certification, adjustments to the meter data are made by the Authority's engineering staff. A monthly flow report is sent to all of the member communities showing the adjusted flows and describing any adjustments which were made.

3. ALLOCATION OF PERCENTAGE

Allocation percentages are developed using actual flows measured by the meters installed at the member municipalities' meter stations. These flows are then adjusted for non-metered flow during meter breakdowns and any reallocations of flows experienced from having one member's meter station registering flows from another community. These percentages are then used to allocate actual revenues and expenditures to determine the amount refundable to or receivable from the individual participants.

See Independent Auditors' Report.

Stony Brook Regional Sewerage Authority
Schedule of Revenue Bonds Payable
November 30, 2017

Schedule 7

<u>Year Ending:</u>	<u>Amount</u>	<u>Interest</u>
2018	\$ 280,000	3.00%
2019	285,000	4.00%
2020	305,000	4.00%
2021	315,000	4.00%
2022	325,000	4.00%
2023	340,000	4.00%
2024	355,000	4.00%
2025	370,000	4.00%
2026	385,000	4.00%
2027	400,000	4.00%
2028	415,000	4.00%
2029	430,000	4.00%
2030	450,000	4.00%
2031	470,000	4.00%
2032	490,000	4.00%
2033	510,000	4.00%
2034	530,000	4.00%
Total Revenue Bonds Payable	<u>\$ 6,655,000</u>	

Note: All bond payments are due December 1st.

See Independent Auditors' Report.

Stony Brook Regional Sewerage Authority
Schedule of New Jersey Environmental Infrastructure Trust Loans Payable
November 30, 2017

Schedule 8

	<u>Due Fiscal</u>	<u>Principal</u>	<u>Rate of</u>		<u>Due Fiscal</u>	<u>Principal</u>	<u>Rate of</u>	
	<u>Year Ending:</u>	<u>Amount</u>	<u>Interest</u>		<u>Year Ending:</u>	<u>Amount</u>	<u>Interest</u>	<u>Total</u>
2007 Trust:	2018	\$ 129,000	5.00%	2007 Fund:	2018	\$ 146,121	0.00%	
	2019	137,000	4.00%		2019	147,686	0.00%	
	2020	143,000	4.00%		2020	146,810	0.00%	
	2021	148,000	5.00%		2021	145,809	0.00%	
	2022	157,000	5.00%		2022	146,747	0.00%	
	2023	166,000	4.25%		2023	147,373	0.00%	
	2024	176,000	4.50%		2024	148,577	0.00%	
	2025	181,000	4.50%		2025	146,075	0.00%	
	2026	191,000	4.50%		2026	117,855	0.00%	
	2027	201,000	4.25%		2027	-		
		<u>\$ 1,629,000</u>				<u>\$ 1,293,053</u>		<u>\$ 2,922,053</u>
2009 Trust:	2018	\$ 40,000	5.00%	2009 Fund:	2018	\$ 42,125	0.00%	
	2019	38,000	4.00%		2019	42,125	0.00%	
	2020	43,000	4.00%		2020	42,125	0.00%	
	2021	43,000	4.00%		2021	42,125	0.00%	
	2022	43,000	3.50%		2022	42,125	0.00%	
	2023	48,000	4.00%		2023	42,125	0.00%	
	2024	47,000	4.00%		2024	42,125	0.00%	
	2025	47,000	3.75%		2025	42,125	0.00%	
	2026	52,000	4.00%		2026	42,125	0.00%	
	2027	52,000	4.00%		2027	42,125	0.00%	
	2028	57,000	4.00%		2028	42,125	0.00%	
	2029	57,000	4.00%		2029	42,125	0.00%	
		<u>\$ 567,000</u>				<u>\$ 505,500</u>		<u>\$ 1,072,500</u>

See Independent Auditors' Report.

Stony Brook Regional Sewerage Authority
Schedule of New Jersey Environmental Infrastructure Trust Loan Payable (continued)
November 30, 2017

Schedule 8

	<u>Due Fiscal</u>	<u>Principal</u>	<u>Rate of</u>		<u>Due Fiscal</u>	<u>Principal</u>	<u>Rate of</u>	
	<u>Year Ending:</u>	<u>Amount</u>	<u>Interest</u>		<u>Year Ending:</u>	<u>Amount</u>	<u>Interest</u>	
2010 Trust:	2018	\$ 275,000	5.00%	2010 Fund:	2018	\$ 213,432	0.00%	
	2019	285,000	5.00%		2019	213,432	0.00%	
	2020	267,000	5.00%		2020	213,432	0.00%	
	2021	280,000	5.00%		2021	213,432	0.00%	
	2022	294,000	5.00%		2022	213,432	0.00%	
	2023	312,000	5.00%		2023	213,432	0.00%	
	2024	325,000	5.00%		2024	213,432	0.00%	
	2025	343,000	5.00%		2025	213,432	0.00%	
	2026	361,000	5.00%		2026	13,793	0.00%	
	2027	378,000	5.00%		2027	-	0.00%	
	2028	394,000	5.00%		2028	-	0.00%	
	2029	128,000	5.00%		2029	-	0.00%	
		<u>\$ 3,642,000</u>				<u>\$ 1,721,249</u>		<u>\$ 5,363,249</u>
2015 Trust:	2018	\$ 40,000	5.00%	2015 Fund:	2018	\$ 135,559	0.00%	
	2019	40,000	5.00%		2019	135,559	0.00%	
	2020	45,000	5.00%		2020	135,559	0.00%	
	2021	45,000	5.00%		2021	135,559	0.00%	
	2022	50,000	5.00%		2022	135,559	0.00%	
	2023	50,000	5.00%		2023	135,559	0.00%	
	2024	55,000	5.00%		2024	135,559	0.00%	
	2025	55,000	5.00%		2025	135,559	0.00%	
	2026	60,000	5.00%		2026	135,559	0.00%	
	2027	60,000	4.00%		2027	135,559	0.00%	
	2028	65,000	4.00%		2028	135,560	0.00%	
	2029	65,000	4.00%		2029	135,560	0.00%	
	2030	70,000	4.00%		2030	135,560	0.00%	
	2031	70,000	4.00%		2031	135,560	0.00%	
	2032	75,000	4.00%		2032	135,560	0.00%	
	2033	75,000	4.00%		2033	135,560	0.00%	
	2034	80,000	4.00%		2034	135,560	0.00%	
		<u>\$ 1,000,000</u>				<u>\$ 2,304,510</u>		<u>\$ 3,304,510</u>
Totals		<u>\$ 6,838,000</u>				<u>\$ 5,824,312</u>		<u>\$ 12,662,312</u>

Note: All fund payments are due August 1st. All trust payments are due February 1st and August 1st.

See Independent Auditors' Report.

Authority Members

Position

Robert A. Bartolini	Chair
Gale D. Downey	Vice Chair
C. Schuyler Morehouse	Treasurer
Bharat Patel	Member
David A. Goldfarb	Member
Harry R. Compton	Member

Other Officials

Position

John Kantorek, P.E.	Secretary/Executive Director
Antonia Schurott-Pchola, P.E.	Assistant Executive Director
Jonathan Sears	Chief Financial Officer
Patricia Carlino	Assistant Secretary
Diane Alexander	Attorney



STONY BROOK REGIONAL SEWERAGE AUTHORITY

*HOPEWELL BOROUGH • HOPEWELL TOWNSHIP • PENNINGTON BOROUGH
PRINCETON • SOUTH BRUNSWICK TOWNSHIP • WEST WINDSOR TOWNSHIP*

GOVERNMENTAL SECTION

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 Authority Members of
Stony Brook Regional Sewerage Authority
Princeton, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Stony Brook Regional Sewerage Authority, which comprise the statement of net position as of November 30, 2017, and the related statement of revenue, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated May 13, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Stony Brook Regional Sewerage 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 Stony Brook Regional Sewerage Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Stony Brook Regional Sewerage Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

WithumSmith+Brown, PC

May 13, 2018

**Stony Brook Regional Sewerage Authority
Comments and Recommendations
Year Ended November 30, 2017**

None.

See Independent Auditors' Report.