THE BORDENTOWN SEWERAGE AUTHORITY

REPORT OF AUDIT

FOR THE FISCAL YEARS ENDED

NOVEMBER 30, 2017 AND 2016

BORDENTOWN SEWERAGE AUTHORITY

NOVEMBER 30, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

The Chairwoman and Members of the
Bordentown Sewerage Authority
954 Farnsworth Avenue
Bordentown, New Jersey 08505

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Bordentown Sewerage Authority, County of Burlington, State of New Jersey, as of and for the fiscal years ended November 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and in compliance with audit standards prescribed by the Local Finance Board and 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority'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 Authority'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Bordentown Sewerage Authority, County of Burlington, State of New Jersey, as of November 30, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Bordentown Sewerage Authority's basic financial statements. The accompanying schedule of revenues and expenses – budget to actual is presented for purposes of additional analysis as required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and is not a required part of the basic financial statements. The other supplementary information, such as the statement of miscellaneous revenue and analysis of consumer accounts receivable, are also presented for purposes of additional analysis and are also not a required part of the basic financial statements

The accompanying schedule of revenues and expenses – budget to actual, the statement of miscellaneous revenue and analysis of consumer accounts receivable are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of revenues and expenses – budget to actual, the statement of miscellaneous revenue and analysis of consumer accounts receivable are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 14, 2018 on our consideration of the Bordentown 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 Bordentown Sewerage Authority's internal control over financial reporting and compliance.

Respectfully Submitted,

Holman Frenia Allison, P.C.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

May 14, 2018
Toms River, New Jersey

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

The Chairwoman and Members of the
Bordentown Sewerage Authority
954 Farnsworth Avenue
Bordentown, New Jersey 08505

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 and audit requirements as prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the business-type activities of the Bordentown Sewerage Authority as of and for the year ended November 30, 2017, and the related notes to the financial statements, which collectively comprise the Bordentown Sewerage Authority's basic financial statements and have issued our report thereon dated May 14, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Bordentown 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Bordentown Sewerage Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Bordentown 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 Bordentown Sewerage Authority's financial statements are free of 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* or audit requirements as prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Purpose of this Report

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

Respectfully Submitted,

Holman Frenia Allison, P.C.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

May 14, 2018
Toms River, New Jersey

The Bordentown Sewerage Authority
Management Discussion and Analysis
For The Fiscal Year Ending
November 30, 2017 and 2016

The Bordentown Sewerage Authority (the "Authority") is a public body corporate and politic, created pursuant to N.J.S.A. 40:14A-1 *et seq.* to provide wastewater collection, treatment and disposal services within the City of Bordentown and the Township of Bordentown in the County of Burlington, New Jersey. This section of the Authority's annual financial report provides management's discussion and analysis of the financial performance for fiscal years ending November 30, 2017 and 2016. The entire annual financial report consists of five parts: the Independent Auditor's Report, the Management Discussion and Analysis, the Financial Statements, the Supplemental Information, and the Single Audit Section when applicable.

FINANCIAL HIGHLIGHTS

The following selected operating information is presented for the year ended November 30, 2017 (FY17).

Total Operating Revenue: Total operating revenues for FY17 were $4,551,140, which is a decrease of $1,426,824 from FY16, resulting primarily from a decrease in connection fees. Total operating revenues for FY16 were $5,977,964, which was an increase of $2,028,162 from FY15, resulting primarily from an increase in connection fees.

Total Operating Expenses: Total operating expenses for FY17 were $4,387,224, which is a decrease of $88,687 over FY16. Total operating expenses for FY16 were $4,475,911, which is an increase of $148,609 over FY15.

Connection Fees: Connection fee revenues for FY17 were $508,060 which is a decrease of $1,813,493 from FY16 and $93,074 from FY15.

Debt Service: Principal paid in FY17 was $1,583,922 compared to $1,523,922 and $1,208,922 paid in FY16 and FY15. Interest paid for FY17 was $600,426 compared to $643,708 and $737,526 paid in FY16 and FY15. Total debt service payments will remain relatively the same for the next year.

Total Assets: Total assets at the end of FY17 were $32,911,504. After deducting liabilities and deferred inflows of resources and adding deferred outflows of resources, net position totaled $11,173,917. At the end of FY16, total assets were $33,622,240 and net position was $11,277,755. The main reason for the decrease in net position was related to connection fees and contributed capital. At the end of FY15, total assets were $32,742,528 and net position was $8,072,440.

OVERVIEW OF FINANCIAL STATEMENTS

The basic financial statements contain information about the Authority as a whole using accounting methods similar to those used by private-sector companies. Since the Authority follows the accrual method of accounting, the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The comparative statement of net position includes all of the Authority's assets and liabilities. Net position, the difference between the Authority's assets and liabilities, is a measure of the Authority's financial health.

The statement of revenues, expenses and changes in fund net position provides a breakdown of the various areas of revenues and expenses encountered during the current year.

The statement of cash flows provides a breakdown of the various sources of cash, categorized into four areas: cash flows from operating activities, non-capital financing activities, capital and related financing activities and investing activities.

SUMMARY OF FINANCIAL STATEMENTS

Total assets, total liabilities and net position of the Authority, as of November 30, are summarized below:

	2017	2016	2015
Assets:			
Current Assets	$ 5,072,851	$ 4,208,546	$ 4,600,755
Restricted Assets	5,543,411	5,651,122	5,725,693
Capital Assets - Net	21,226,324	22,288,652	21,470,397
Total Assets	31,842,586	32,148,320	31,796,845
Deferred Outlflows of Resources:			
Unamortized Charge on Refunding Bonds	$ 306,307	$ 386,543	$ 487,969
Deferred Outflows of Resources- Pensions	762,611	1,087,377	457,714
Total Deferred Outflows of Resources	1,068,918	1,473,920	945,683
Liabilities:			
Current Liabilities	$ 3,869,583	$ 2,648,753	$ 4,299,439
Long-Term Liabilities - Net	17,292,721	19,695,732	20,327,297
Total Liabilities	21,162,304	22,344,485	24,626,736
Deferred Inflows of Resources:			
Deferred Inflows of Resources- Pensions	$ 575,283	$ -	$ 43,352
Total Deferred Inflows of Resources	575,283	-	43,352
Net Position:			
Net Investment in Capital Assets	$ 5,573,501	$ 5,149,158	$ 2,953,652
Restricted Accounts	5,992,397	5,915,832	5,302,560
Unrestricted Net Position	(391,981)	212,765	(183,772)
Total Net Position	11,173,917	11,277,755	8,072,440

The Authority had a net operating income (total operating income less operating expenses) of $163,916 in FY17. Combined with the net non-operating expense (total non-operating income less non-operating expenses) of $267,754, net position decreased by $103,838 in the current year.

The revenues, expenses and change in net position of the Authority are summarized below:

	2017	2016	2015
Operating Revenues:			
User Charges and Fees	$ 3,914,407	$ 3,529,382	$ 3,212,958
Delinquent Penalties	20,446	12,756	13,548
Connection Fees	508,060	2,321,553	601,134
Miscellaneous	108,227	114,273	122,162
Total Operating Revenues	4,551,140	5,977,964	3,949,802
Operating Expenses:			
Operating Expenses	2,668,601	2,772,266	2,640,810
Depreciation Expense	1,718,623	1,703,645	1,686,492
Total Operating Expenses	4,387,224	4,475,911	4,327,302
Operating Income/ (Loss)	163,916	1,502,053	(377,500)
Non-Operating Revenues (Expenses):			
Investment Income / (Loss)	95,839	(542)	66,082
Interest/Amortization Expense	(682,411)	(747,951)	(803,343)
Contributed Capital	318,818	2,451,755	-
Total Non-Operating Revenues (Expenses)	(267,754)	1,703,262	(737,261)
Income/(Loss)	(103,838)	3,205,315	(1,114,761)
Net Position, December 1	11,277,755	8,072,440	11,468,546
Prior Period Restatement	-	-	(2,281,345)
Net Position, December 1 as Restated	11,277,755	8,072,440	9,187,201
Net Position, November 30	$ 11,173,917	$ 11,277,755	$ 8,072,440

ANALYSIS OF FINANCIAL CONDITION

Overall, the Authority is in sound financial condition, due in part, to its policies of prudent planning, preventative maintenance, fiscal responsibility and avoiding an undue reliance on connection fees to meet the Authority's financial obligations. The Authority believes that it must be financially able to afford operating expenses, debt service and capital expenditures without a substantial reliance on connection fee revenue.

OPERATING ACTIVITIES

The condensed statement of revenues, expenses, and changes in net position provides information as to the nature and source of changes in financial position. The statement shows that operating revenues in 2017 decreased by $1,426,824 or 23.87% and operating expenses, before depreciation expense, decreased $103,665 or 3.74% over 2016. The items, which were responsible for the major changes in net position for the year ended November 30, 2017, include a $1,813,493 decrease in connection fees.

The statement also shows that operating revenues in 2016 increased by $2,028,162 or 51.35% and operating expenses, before depreciation expense, increased $131,456 4.98% over 2015. The items, which were responsible for the major changes in net position for the year ended November 30, 2016, include a $1,720,419 increase in connection fees.

CAPITAL ASSETS

The following table summarizes the changes in capital assets at November 30, 2017, 2016 and 2015:

Capital Assets, Net of Depreciation

Year Ended November 30	2017	2016	2015
Land and Buildings	$ 19,389,926	$ 19,215,748	$ 19,215,748
Tanks, Pump Stations and Mains	31,009,518	30,639,493	28,173,915
Other	7,698,043	7,613,289	7,556,987
	58,097,487	57,468,530	54,946,650
Less: Accumulated Depreciation	36,871,163	35,179,898	33,476,253
Total Capital Assets, Net of Depreciation	$ 21,226,324	$ 22,288,632	$ 21,470,397

At November 30, 2017, the Authority's investment in capital assets was $21,226,324 (net of accumulated depreciation) which represents a decrease of $1,062,308 when compared to November 30, 2016 as a result of depreciation expense exceeding purchases. At November 30, 2016, the Authority's investment in capital assets was $22,288,632 (net of accumulated depreciation) which represents an increase of $818,235 when compared to November 30, 2015 as a result of fixed asset purchases, capital contributions and depreciation expense.

The Authority's capital expenditures are expected to increase based on the five-year capital program adopted along with the annual budget for the fiscal year ending November 30, 2017 shown below.

The proposed Capital Budget for FY18 is $450,000. The major items constituting the capital budget are as follows.

Plant and System Repairs	$ 285,000
Collection System Upgrades	120,000
Lab Equipment	10,000
Vehicle Replacement	35,000
	$ 450,000

The proposed 2018 to 2022 Capital Budget is $1,795,000. Future major capital projects, which are essential to the continuing efficient operation of its system by the Authority, include:

Collection System Upgrade	$ 370,000
Plant and System Repairs	1,180,000
Vehicle Replacement	185,000
Laboratory Equipment	60,000
	$ 1,795,000

DEBT ADMINISTRATION

The Authority's outstanding bonds and loans payable (excluding bond premium and discounts) is $15,949,787 at November 30, 2017, a decrease of $1,583,922 when compared to the $17,533,709 at November 30, 2016. The outstanding bonds and loans payable at November 30, 2015 was $19,057,630. Interest on these bonds and loans is paid semi-annually with interest rates ranging from 2.37% to 5.50%.

CONTACTING THE AUTHORITY

This financial report is designed to provide the State of New Jersey, residents and customers within the City of Bordentown and Township of Bordentown and holders of Authority bonds, with a general overview of the Authority's finances. Any additional information may be obtained by contacting:

The Bordentown Sewerage Authority
954 Farnsworth Ave
P.O. Box 396
Bordentown, N.J. 08505
(609) 291-9105

Exhibit A

THE BORDENTOWN SEWERAGE AUTHORITY
COMPARATIVE STATEMENTS OF NET POSITION
NOVEMBER 30, 2017 AND 2016

	2017	2016
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 4,916,481	$ 4,096,647
Accounts Receivable:		
Consumer Accounts Receivable	147,957	103,546
Prepaid Expenses	8,413	8,353
Total Current Assets	5,072,851	4,208,546
Noncurrent Assets:		
Restricted Assets:		
Revenue Account		
Cash and Cash Equivalents	3,979	4,855
Operating Account		
Cash and Cash Equivalents	1,058,332	1,012,454
Investments	-	2,776
Debt Service Account		
Cash and Cash Equivalents	1,935,065	1,913,633
Debt Service Reserve Account		
Cash and Cash Equivalents	235,214	154,219
Investments	2,047,459	2,126,129
Renewal and Replacement Account		
Cash and Cash Equivalents	241,572	400,000
Unexpended Bond Proceeds		
Cash Held by NJEIT	19,931	35,197
Accrued Interest Receivable	1,859	1,859
Total Restricted Assets	5,543,411	5,651,122
Capital Assets		
Land	2,264,000	2,264,000
Buildings, Plant and Equipment		
(Net of Accumulated Depreciation)	18,962,324	20,024,652
Total Capital Assets	21,226,324	22,288,652
Total Assets	31,842,586	32,148,320
DEFERRED OUTFLOWS OF RESOURCES		
Unamortized Charge on Refunding Bonds	306,307	386,543
Deferred Outflows of Resources- Pensions	762,611	1,087,377
Total Deferred Outflows of Resources	1,068,918	1,473,920
Total Assets and Deferred Outflows of Resources	$ 32,911,504	$ 33,622,240

See Notes to Financial Statements.

Exhibit A

THE BORDENTOWN SEWERAGE AUTHORITY
COMPARATIVE STATEMENTS OF NET POSITION (CONTINUED)
NOVEMBER 30, 2017 AND 2016

	2017	2016
LIABILITIES		
Current Liabilities:		
Accounts Payable	$ 115,481	$ 111,566
Payroll Deductions Payable	-	320
Deposits for Future Claims		
Deposits for Connection Fees	1,509,080	475,910
Developers' Escrow Deposits	292,244	123,964
State Unemployment Compensation	19,455	32,030
Total Current Liabilities Payable	1,936,260	743,790
Current Liabilities Payable From Restricted Assets:		
Revenue Bonds Payable - Current Portion	1,633,922	1,583,922
Accrued Interest Payable on Bonds	299,401	321,041
Total Current Liabilities Payable From Restricted Assets	1,933,323	1,904,963
Noncurrent Liabilities		
Revenue Bonds Payable	14,345,139	15,977,312
Compensated Absences	81,584	78,295
Net Pension Liability	2,865,998	3,640,125
Total Noncurrent Liabilities	17,292,721	19,695,732
Total Liabilities	21,162,304	22,344,485
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows of Resources- Pensions	575,283	-
Total Deferred Inflows of Resources	575,283	-
NET POSITION		
Net Investment in Capital Assets	5,573,501	5,149,158
Restricted Net Position:		
Reserved for Bond Service	2,238,498	2,234,348
Reserved for Bond Reserve	2,245,567	2,245,567
Reserved for Operating Costs	1,058,332	1,035,917
Reserved for Renewal and Replacement	450,000	400,000
Unrestricted Net Position	(391,981)	212,765
Total Net Position	11,173,917	11,277,755
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 32,911,504	$ 33,622,240

See Notes to Financial Statements.

THE BORDENTOWN SEWERAGE AUTHORITY
COMPARATIVE STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION
FOR THE YEARS ENDED NOVEMBER 30, 2017 AND 2016

	2017	2016
Operating Revenues		
User Charges and Fees	$ 3,914,407	$ 3,529,382
Delinquent Penalties	20,446	12,756
Connection Fees	508,060	2,321,553
Miscellaneous	108,227	114,273
Total Operating Revenues	4,551,140	5,977,964
Operating Expenses:		
Personnel Services	877,011	870,584
Employee Benefits	697,380	830,816
Administrative Expenses	330,084	332,574
Operations and Maintenance	764,126	738,292
Depreciation	1,718,623	1,703,645
Total Operating Expenses	4,387,224	4,475,911
Operating Income/ (Loss)	163,916	1,502,053
Non-Operating Revenues (Expenses):		
Investment Income / (Loss)	95,839	(542)
Interest/Amortization Expense	(682,411)	(747,951)
Contributed Capital	318,818	2,451,755
Total Non-Operating Revenues (Expenses)	(267,754)	1,703,262
Change in Net Position	(103,838)	3,205,315
Net Position, December 1	11,277,755	8,072,440
Net Position, November 30	$ 11,173,917	$ 11,277,755

See Notes to Financial Statements.

THE BORDENTOWN SEWERAGE AUTHORITY
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2017 AND 2016

	2017	2016
Cash Flows From Operating Activities:		
Cash Received from Customers and Users	$ 5,708,179	$ 4,336,360
Cash Payments for Goods and Supplies	(972,460)	(786,425)
Cash Payments for Employee Expenses	(1,571,102)	(1,695,637)
Net Cash Provided by Operating Activities	3,164,617	1,854,298
Cash Flows From Capital and Related Financing Activities:		
General and Construction Outlays	(310,120)	(109,022)
Debt Service:		
Principal	(1,583,922)	(1,523,922)
Interest	(600,426)	(643,708)
Net Cash Used by Capital and Related Financing Activities	(2,494,468)	(2,276,652)
Cash Flows From Investing Activities:		
Investment Income	95,839	(542)
Net Change in Investments	27,581	(194,103)
Net Cash Provided/(Used) by Investing Activities	123,420	(194,645)
Net Cash Increase/(Decrease) for the Year	793,569	(616,999)
Cash at Beginning of Year	7,617,005	8,234,004
Cash at End of Year	$ 8,410,574	$ 7,617,005

See Notes to Financial Statements.

THE BORDENTOWN SEWERAGE AUTHORITY
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2017 AND 2016

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	2017	2016
Operating Income	$ 163,916	$ 1,502,053
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	1,718,623	1,703,645
Additional Pension Expense Per GASB 68	130,790	276,682
(Increase) Decrease in:		
Accounts Receivable	(44,411)	43,763
Prepaid Expenses	(60)	121
(Decrease) Increase in:		
Accounts Payable	3,915	7,910
Payroll Deductions Payable	(320)	(1,973)
Deposits for Connection Fees	1,033,170	(1,685,367)
Developers' Escrow Deposits	168,280	(994)
Reserve for Unemployment Insurance	(12,575)	2,695
Compensated Absences	3,289	5,763
Total Adjustments	3,000,701	352,245
Net Cash Provided by Operating Activities	$ 3,164,617	$ 1,854,298

Reconciliation of Cash to the Statement of Net Position

	2017	2016
Current Assets:		
Cash	$ 4,916,481	$ 4,096,647
Restricted Assets:		
Cash	3,494,093	3,520,358
	$ 8,410,574	$ 7,617,005

See Notes to Financial Statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Bordentown Sewerage Authority (the "Authority") have been prepared to conform with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant of these policies.

Reporting Entity

The Bordentown Sewerage Authority, a public body corporate and politic of the State of New Jersey, was created by virtue of an ordinance duly adopted on June 10, 1986 by the Township Committee of the Township of Bordentown and an ordinance duly adopted on June 9, 1986 by the Board of Commissioners of the City of Bordentown.

The Authority was created in order to provide an agency for the collection, treatment and disposal of all sewage generated within the City and the Township of Bordentown. The Authority is a legally separate entity and does not satisfy the criteria established by GASB 14 defining a component unit.

Basis of Presentation

The financial statements of the Authority have been prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles ("GAAP") applicable to enterprise funds of State and Local Governments on a going concern basis.

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

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, liabilities and deferred inflow or outflow of resources associated with the operations are included on the statement of net position. Net position (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt and unrestricted components.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Enterprise funds are accounted for using the accrual basis of accounting.

Revenues -- Exchange and Non-Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Sewer service charges are recognized as revenue when services are provided. Connection fees are collected in advance and, accordingly, the Authority defers these revenues until the municipality issues a release for certificate of occupancy and determines that sewage collection services are being provided to the properties.

Non-exchange transactions, in which the Authority receives value without directly giving equal value in return, include grants, contributed capital, and donations. Revenue from grants, contributed capital, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Authority must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

Expenses - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

Budgets and Budgetary Accounting

The Authority must adopt an annual budget in accordance with *N.J.A.C. 5:31-2. N.J.A.C. 5:31-2* requires the governing body to introduce the annual Authority budget at least 60 days prior to the end of the current fiscal year and to adopt no later than the beginning of the Authority's fiscal year. The governing body may amend the budget at any point during the year by resolution of the Board of Commissioners. The budgetary basis of accounting is utilized to determine the Authority has sufficient cash to operate and pay debt service. As such, certain items such as bond payments are included in budgetary expenses while depreciation is not included.

The legal level of budgetary control is established at the detail shown on the Comparative Statements of Revenues, Expenses and Changes in Net Position. All budget transfers and amendments to those accounts must be approved by resolution of the Authority as required by the Local Finance Board. Management may transfer among supplementary line items as long as the legal level line items are not affected. There are no statutory requirements that budgetary line items not be over-expended.

The Authority records encumbrances. An encumbrance represents a commitment related to unperformed contracts for goods or services. The issuance of a purchase order or the signing of a contract would create an encumbrance. The encumbrance does not represent an expenditure for the period, only a commitment to expend resources. At year-end, the accounting records are adjusted to record only expenses in accordance with generally accepted accounting principles.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash, Cash Equivalents and Investments

Cash and cash equivalents include cash in banks and may include petty cash and change funds. It may also include all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Such is the definition of cash and cash equivalents used in the statement of cash flows. U.S. treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey Authorities are required by *N.J.S.A. 40A:5-14* to deposit public funds into a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States of America or State of New Jersey or the New Jersey Cash Management Fund. *N.J.S.A. 40A:5-15.1* provides a list of securities which may be purchased by New Jersey Authorities. The Authority is required by *N.J.S.A. 17:9-41* to deposit funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey.

Additionally, the Authority has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act. In lieu of designating a depository, the cash management plan may provide that the local unit make deposits with the State of New Jersey Cash Management Fund.

Prepaid Expenses

Prepaid expenses recorded on the financial statements represent payments made to vendors for services that will benefit periods beyond the Authority's fiscal year end.

Capital Assets

Capital assets primarily consist of expenditures to acquire, construct, place in operation and improve the facilities of the Authority. Assets purchased are stated at cost. Assets contributed by developer's are valued at estimated fair market value as of the date of contribution. Costs incurred for construction projects are recorded as construction in progress. In the year that the project is completed, these costs are transferred to capital assets.

Depreciation is determined on a straight-line basis for all capital assets. Depreciation was provided over the following estimated useful lives:

	Years
Sewer mains	40
Buildings	40
Building renovations	20
Equipment	5-15

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, 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.

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows 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 that time.

Compensated Absences

Compensated absences represent amounts to which employees are entitled to based on accumulated leave earned in accordance with the Authority's Personnel Policy. Employees may be compensated for accumulated sick leave in the event of retirement from service at the current salary.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied and are recorded as a liability until the revenue is both measurable and the Authority is eligible to realize the revenue.

The Authority receives payments for connection fees when new users connect to the sewer system. Since the Authority does not supply the user with supplies or services to make the physical connection, this would be considered a nonexchange transaction and recorded as deferred revenue under deposits for future claims. The Authority recognizes the revenue in the period that the user exercises their right to connect to the system.

Bond Discounts/Bond Premium

Bond discounts and bond premiums are deferred and amortized over the term of the bonds. Bond discounts are presented as a reduction of the face amount of the revenue bonds payable. Bond premium is presented as an addition to bonds payable.

Pensions Section

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 Public Employees' Retirement System ("PERS") and additions to/deductions from the PERS's fiduciary net position have been determined on the same basis as they are reported by the plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position

In accordance with the provisions of GASB Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", the Authority has classified its net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position.

Restricted Net Position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted Net Position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

Income Taxes

The Authority operates as defined by Internal Revenue Code Section 115 and appropriately is exempt from income taxes under Section 115.

Operating and Non-Operating Revenues and Expenses

The Authority defines its operating revenues as income derived from charges to residents and others for services provided as well as government subsidies and grants used for operating purposes. Non-operating revenues primarily consist of interest income and on investments of securities.

Operating expenses are costs incurred in the operation of its program activities to provide services to residents and others. Non-operating expenses primarily include expenses attributable to the Authority's interest on debt, contribution to Borough and sales of capital assets.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amount.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impact of Recently Issued Accounting Principles

Adopted Accounting Pronouncements

For the year ended November 30, 2017, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The adoption this Statement had no impact on the Authority's financial statements.

For the year ended November 30, 2017, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units. The adoption this Statement had no impact on the Authority's financial statements.

For the year ended November 30, 2017, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The adoption this Statement had no impact on the Authority's financial statements.

For the year ended November 30, 2017, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67* and 68. The adoption this Statement had no impact on the Authority's financial statements.

Recently Issued Accounting Pronouncements

The GASB has issued the following Statements which will become effective in future fiscal years as shown below:

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently Issued Accounting Pronouncements (continued)

Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions*. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Post- employment Benefits Other Than Pensions*, as amended, and No. 57*, OPEB Measurements by Agency Employers and Agent Multi-Employer Plans*, for OPEB Statement No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB Plans. This Statement will be effective for the year ended November 30, 2018. Management has not yet determined the potential impact on the Authority's financial statements.

Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting requirements for certain asset retirement obligations and establishes the timing and pattern of recognition of a liability and corresponding deferred outflow of resources. This Statement will be effective for the year ended November 30, 2019. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement will be effective for the year ended November 30, 2019. Management does not expect this Statement to impact the Authority's financial statements.

Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). This Statement will be effective for the year ended November 30, 2018. Management has not yet determined the potential impact on the Authority's financial statements.

Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement will become effective for the Authority in the fiscal year ending November 30, 2018. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently Issued Accounting Pronouncements (continued)

contract. The Statement will become effective for the Authority in the fiscal year ending November 30, 2020. Management has not yet determined the impact of this Statement on the financial statements.

Subsequent Events

Bordentown Sewerage Authority has evaluated subsequent events occurring after November 30, 2017 through May 14, 2018, which is the date the financial statements were available to be issued.

NOTE 2: REQUIRED ACCOUNTS AND DEBT SERVICE COVERAGE

The Authority is subject to the provisions and restrictions of the Bond Resolution adopted July 24, 1986 and supplemental resolutions thereto. A summary of the activities of each fund (account) created by the Bond Resolution is covered below.

Operating Fund - The amount of the Operating Requirement as of any particular date of computation is equal to the amount required for payment of operating expenses for the period of four months next following the date of computation as shown by the annual budget then in effect. The Authority shall make payment from time to time out of the Operating Fund of all amounts required for the operation, maintenance or repair of the System and for reasonable and necessary operating expenses.

Bond Service Fund - The balance on deposit must be sufficient to enable the Trustee to withdraw amounts equal to interest due on bonds, principal amounts of bonds maturing and sinking fund installments when such payments are required.

Bond Reserve Fund - The amount of funds on deposit must be maintained at a level equal to the maximum Debt Service to insure funds are available for payment of debt service.

Renewal and Replacement Fund - These funds are maintained for reasonable and necessary expenses with respect to the system for major repairs, renewals, replacements or maintenance items of a type not recurring annually. The minimum system reserve requirement is $150,000. By resolution of the governing body effective December 1, 1999, the minimum was increased to $400,000. On August 21, 2017, the governing body increased it to $450,000.

General Fund - All excess funds of the Authority are recorded in the General Account. If the Authority is not in default in the payment of the principal of, or interest on, or redemption price of bonds and all fund requirements are satisfied, funds in excess of the amounts reasonably required to be reserved for payment of bonds or necessary reconstruction of the system may be withdrawn by the Authority for any lawful purpose.

Construction Fund - This fund was established in accordance with Section 401 of the Bond Resolution and is inactive.

NOTE 2: REQUIRED ACCOUNTS AND DEBT SERVICE COVERAGE (continued)

The Bond Resolution adopted July 24, 1986 and supplemental resolutions thereto require the establishment and funding of certain funds (accounts) as follows:

	Amount Required	Balance at Year End	Excess or (Deficiency)
Bond Resolution Reserves:			
Operating Reserve Fund	$ 1,058,332	$ 1,058,332	$ -
Bond Service Fund	2,238,498	1,935,065	(303,433)
Bond Reserve Fund	2,245,567	2,282,673	37,106
Renewal and Replacement Fund	150,000	150,000	-
Local Reserves:			
Renewal and Replacement Fund	300,000	91,572	(208,428)

Section 612 of the 1986 Bond Resolution requires certain ratios of Net Revenues to Debt Service. Compliance with the covenant is calculated as follows:

	2017		2016	
Net Revenue:				
Operating Income (Exhibit B)	$ 163,916		$ 1,502,053	
Add: Depreciation Expense	1,718,623		1,703,645	
Interest Income	95,839		(542)	
Pension Expense Per GASB 68	130,790		276,682	
General Fund - Fund Balance	348,615	**	-	
Net Revenues	$ 2,457,783		$ 3,481,838	
Debt Service:				
Interest Charges (Exhibit C-1)	$ 600,426		$ 643,708	
Add: Bond Principal (Due 12/1) Ensuing	1,633,922		1,583,922	
Debt Service	$ 2,234,348		$ 2,227,630	
Net Revenues / Debt Service	2,457,783 / 2,234,348	= 1.10	3,481,838 / 2,227,630	= 1.56 *

* This ratio meets the required coverage of 110% of debt service.

** This represents the portion of the General Fund balance at November 30, 2017 to meet the required coverage.

NOTE 3: CASH AND CASH EQUIVALENTS

This Authority is governed by the deposit and investment limitations of New Jersey state law. The deposits held at November 30, 2017 and 2016, reported at fair value, are as follows:

	2017	2016
Deposits:		
Demand deposits	$8,410,574	$7,617,005
Total deposits	$8,410,574	$7,617,005
Reconciliation to Statements of Net Position:		
Current assets:		
Cash and cash equivalents	$8,410,574	$7,617,005
Total deposits	$8,410,574	$7,617,005

Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. Although the Authority does not have a formal policy regarding custodial credit risk, *N.J.S.A. 17:9-41* et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). Under the Act, the first $250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the Authority in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings or funds that may pass to the Authority relative to the happening of a future condition. If the Authority had any such funds, they would be shown as Uninsured and Uncollateralized in the schedule below. As of November 30, 2017 and 2016, the Authority's bank balances were insured or exposed to credit risk as follows:

	2017	2016
Insured by FDIC	$ 500,000	$ 500,000
Uninsured and Collateralized with securities held by the pledging bank's trust department but not in the Authority's name.	8,055,401	7,096,999
Held by NJEIT	19,931	35,197
	$ 8,575,332	$ 7,632,196

NOTE 4: ACCOUNTS RECEIVABLE

Consumer accounts receivable, net of unbilled receivables of $8,934, totaled $147,957 at November 30, 2017. Consumer accounts receivable, net of unbilled receivables of $43,949, totaled $103,546 at November 30, 2016. Consumer accounts receivable consisted of unrestricted receivables entirely from customer accounts. Unbilled receivables represents the estimated amount of accounts receivable for services that have not been billed as of the balance sheet date. The amounts are a result of a timing difference between the end of the financial statement cycle (month end) and the billing cycle (various dates within the month for each billing period). The Authority believes that all receivables are collectible and has not established an allowance for doubtful accounts.

NOTE 5: INVESTMENTS

New Jersey authorities are limited as to the types of investments and types of financial institutions they may invest in. *N.J.S.A. 40A:5-15.1* provides a list of permissible investments that may be purchased by New Jersey authorities. These permissible investments generally include bonds or other obligations of the United States of America or obligations guaranteed by the United States of America, government money market mutual funds, any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, bonds or other obligations of the local unit or other obligations of the local unit or units within which the Authority is located, bonds or other obligations approved by the Division of Investment in the Department of Treasury for investment by authorities, local government investment pools, deposits with the State of New Jersey Cash Management Fund, and agreements for the purchase of fully collateralized securities with certain provisions. The Authority has no investment policy that would further limit its investment choices. As of November 30, 2017 and 2016, the Authority had the following investments and maturities:

Investment	Maturities	Fair Value Hierachy Level	Fair Value November 30, 2017	Fair Value November 30, 2016
Federal National Mortgage Association	5/25/2033	Level 1	$ 19,115	$ 30,295
Government National Mortgage Association	5/20/2034	Level 1	8,609	20,696
Government National Mortgage Association	4/20/2039	Level 1	116,745	399,290
Federal National Mortgage Association	11/25/2041	Level 1	-	2,776
Federal National Mortgage Association	6/25/2042	Level 1	43,969	63,744
Federal Home Loan Mortgage Corp	8/15/2042	Level 1	208,162	394,746
Government National Mortgage Association	10/16/2042	Level 1	159,750	201,049
Federal National Mortgage Association	12/25/2042	Level 1	58,062	170,710
Freddic Mac	1/15/2043	Level 1	60,495	103,623
Federal Home Loan Mortgage Corp	3/15/2043	Level 1	111,861	-
FNR	3/25/2043	Level 1	-	66,340
Federal Home Loan Mortgage Corp	11/15/2043	Level 1	-	35,819
Federal National Mortgage Association	7/25/2044	Level 1	43,414	86,343
Federal National Mortgage Association	2/25/2046	Level 1	344,275	308,772
Federal National Mortgage Association	9/25/2046	Level 1	179,834	244,702
Federal Home Loan Mortgage Corp	1/15/2047	Level 1	115,407	-
Federal National Mortgage Association	2/25/2047	Level 1	102,839	-
Federal National Mortgage Association	4/25/2047	Level 1	27,929	-
Federal National Mortgage Association	5/25/2047	Level 1	179,639	-
Government National Mortgage Association	7/20/2047	Level 1	97,125	-
Federal National Mortgage Association	8/25/2047	Level 1	170,229	-
			$ 2,047,459	$ 2,128,905

NOTE 5: INVESTMENTS (continued)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name. The Authority's investments, totaling $2,047,459 as of November 30, 2017 and $2,128,905 as of November 30, 2016 consist of U.S. Government Securities. All investments are held by TD Bank Trust Department in the name of the Authority.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Other than the rules and regulations promulgated by *N.J.S.A. 40A:5-15.1*, the Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure; however, investments are matched with anticipated cash flows to minimize interest rate risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Other than the rules and regulations promulgated by *N.J.S.A. 40A:5-15.1*, the Authority's investment policies place no limit on the amount the Authority may invest in any one issuer.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As stated in note 1, investments are purchased in accordance with *N.J.S.A. 40A:5-15.1*. Other than the rules and regulations promulgated by *N.J.S.A. 40A:5-15.1*, the Authority has no investment policy that would further limit its exposure to credit risk.

BORDENTOWN SEWERAGE AUTHORITY
Notes to Financial Statements
For the years ended November 30, 2017 and 2016

NOTE 6: CAPITAL ASSETS

The activity in capital assets for the year ended November 30, 2017 is as followed:

	Balance November 30, 2016	Additions	Retirements and Transfers	Balance November 30, 2017
Capital Assets not being depreciated:				
Land	$ 2,264,000	$ -	$ -	$ 2,264,000
Total Capital Assets not being depreciated	2,264,000	-	-	2,264,000
Capital Assets being depreciated:				
Buildings	16,951,748	174,178	-	17,125,926
Tanks	12,421,971	-	-	12,421,971
Pumping Stations	12,874,498	11,808	-	12,886,306
Force Mains	2,924,460	-	-	2,924,460
Gravity Mains	2,418,583	358,198	-	2,776,781
Computer Hardware and Software	164,736	14,392	(25,611)	153,517
Machinery and Equipment	7,413,065	89,355	(1,746)	7,500,674
Furniture and Fixtures	35,488	8,364	-	43,852
Total Capital Assets being depreciated	55,204,549	656,295	(27,357)	55,833,487
Less: Accumulated Depreciation:	(35,179,897)	(1,718,623)	27,357	(36,871,163)
Total Capital Assets being depreciated, net	20,024,652	(1,062,328)	-	18,962,324
Total Capital Assets, net	$ 22,288,652	$ (1,062,328)	$ -	$ 21,226,324

The activity in capital assets for the year ended November 30, 2016 is as followed:

	Balance November 30, 2015	Additions	Retirements and Transfers	Balance November 30, 2016
Capital Assets not being depreciated:				
Land	$ 2,264,000	$ -	$ -	$ 2,264,000
Total Capital Assets not being depreciated	2,264,000	-	-	2,264,000
Capital Assets being depreciated:				
Buildings	16,951,748	-	-	16,951,748
Tanks	12,421,971	-	-	12,421,971
Pumping Stations	11,191,729	1,682,769	-	12,874,498
Force Mains	2,150,453	774,007	-	2,924,460
Gravity Mains	2,409,762	8,821	-	2,418,583
Computer Hardware and Software	158,709	6,027	-	164,736
Machinery and Equipment	7,362,790	50,275	-	7,413,065
Furniture and Fixtures	35,488	-	-	35,488
Total Capital Assets being depreciated	52,682,650	2,521,899	-	55,204,549
Less: Accumulated Depreciation:	(33,476,253)	(1,703,644)	-	(35,179,897)
Total Capital Assets being depreciated, net	19,206,397	818,255	-	20,024,652
Total Capital Assets, net	$ 21,470,397	$ 818,255	$ -	$ 22,288,652

NOTE 7: LIABILITIES

During the years ended November 30, 2017 and 2016, the following changes occurred in long-term obligations:

	Balance November 30, 2016	Additions	Reductions	Balance November 30, 2017	Balance Due Within One Year
Revenue Bonds Payable	$ 17,533,709	$ -	$ 1,583,922	$ 15,949,787	$ 1,633,922
Unamortized Bond Discounts	(93,618)	-	(17,779)	(75,839)	-
Unamortized Bond Premiums	121,143	-	16,030	105,113	-
Revenue Bonds Payable, Net	17,561,234	-	1,582,173	15,979,061	1,633,922
Compensated Absences	78,295	3,289	-	81,584	-
Net Pension Liability	3,640,125	-	774,127	2,865,998	-
	$ 21,279,654	$ 3,289	$ 2,356,300	$ 18,926,643	$ 1,633,922

	Balance November 30, 2015	Additions	Reductions	Balance November 30, 2016	Balance Due Within One Year
Revenue Bonds Payable	$ 19,057,631	$ -	$ 1,523,922	$ 17,533,709	$ 1,583,922
Unamortized Bond Discounts	(113,043)	-	(19,425)	(93,618)	-
Unamortized Bond Premiums	137,750	-	16,607	121,143	-
Revenue Bonds Payable, Net	19,082,338	-	1,521,104	17,561,234	1,583,922
Compensated Absences	72,532	5,763	-	78,295	-
Net Pension Liability	2,696,349	943,776	-	3,640,125	-
	$ 21,851,219	$ 949,539	$ 1,521,104	$ 21,279,654	$ 1,583,922

Net Pension Liability

For details on the net pension liability, see the Pension Obligations in Note 7. The Authority's annual required contribution to the Public Employees' Retirement System is budgeted and paid on an annual basis.

Compensated Absences

The employees of the Authority are entitled to thirteen paid sick leave days per year. Unused sick leave may be accumulated and carried forward to the subsequent year. Accumulated sick leave is not vested until retirement. Upon retirement the employee may receive payment for all accumulated sick leave at one-half (1/2) the employees' present daily rate up to a maximum of $15,000. Vacation and personal days accrue at a varying amount depending on the employee's length of service. Vacation and personal days not used during the year may be accumulated and carried forward as sick days.

For the years ended November 30, 2017 and 2016, the Authority accrued compensated absences in the amount of $81,584 and $78,295, respectively.

NOTE 7: LIABILITIES (continued)

Revenue Bonds Payable

The Revenue Bonds - **Series F, G, H, and I** dated September 1, 2003, March 10, 2010, December 2, 2010, and May 3, 2012 are direct obligations of the Authority. The Bonds are secured by a pledge of all revenues derived by the Authority from its operations, including payments, if any, made by the Township and City of Bordentown pursuant to the 1986 service contract.

The proceeds of **Series F** Bonds were used to refund $11,475,000 of the then outstanding Revenue Bonds, Series D along with interest due December 1, 2003 and pay for costs of issuance. Series F Bonds were issued originally for $11,870,000 and carry interest rates ranging from 2.50% to 5.25% with a final maturity in 2020. Series F Bonds maturing on or after December 1, 2014 are subject to redemption prior to maturity at the option of the Authority at any time on and after December 1, 2013 at the Redemption Price of par.

The proceeds of **Series G-ARRA and Series G-Traditional** Bonds were used to fund various capital projects. The **Series G-ARRA** funding totaled $1,527,015 to finance the cost of new screw pumps. Of that amount ARRA principal forgiveness amounted to $768,010. The balance of $759,005 was funded through the New Jersey Environmental Infrastructure Financing Program (NJEIT), the Trust Loan portion and carries interest on $375,000 with rates ranging from 3.00% to 5.00%. The remaining $384,005 is the ARRA Fund Loan portion through NJEIT, and is interest free. Final principal payments are due in fiscal year 2029.

The **Series G-Traditional** Bonds were issued for $1,422,944 for various capital projects. Of that amount $350,000 is funded through NJEIT, the Trust Loan portion and carries interest rates ranging from 3.00% to 5.00%. The remaining $1,072,944 is the NJEIT Fund Loan portion, and is interest free. Final principal payments are due in fiscal year 2029.

The proceeds of **Series H** Bonds were used to refund $12,955,000 of the then outstanding Revenue Bonds, Series E and pay for costs of issuance. Series H Bonds were issued originally for $13,500,000 and carry interest rates ranging from 2.375% to 4.375% with a final maturity in 2025. Series H Bonds maturing on or after December 1, 2014 are subject to redemption prior to maturity at the option of the Authority at any time on and after December 1, 2013 at the Redemption Price of par.

The proceeds of **Series I-Traditional** Bonds were issued for $2,205,680 and used to fund various Energy Audit Improvements. Of that amount ARRA principal forgiveness amounted to $448,560. The balance of $1,757,120 was funded through the New Jersey Environmental Infrastructure Financing Program (NJEIT), the Trust Loan portion and carries interest on $860,000 with rates ranging from 3.00% to 5.00%. The remaining $897,120 is the Fund Loan portion, and is interest free. Final principal payments are due in fiscal year 2031.

Bond Discount and Bond Premium: Bond discount includes original issue discounts paid at the time on Series H. Series F, G, and I Bonds were issued at a premium. Bond discount is being amortized over the life of the bonds using the outstanding principal method. Bond premium is being amortized using the effective interest method. The unamortized balances of bond premium and bond discounts are presented net with long term debt.

NOTE 7: LIABILITIES (continued)

Revenue Bonds Payable (continued)

The following is a summary of remaining long-term revenue bond payments, excluding bond discounts and premiums:

Year Ending November 30,	Principal	Interest	Total
2018	$ 1,633,922	$ 598,679	$ 2,232,601
2019	1,688,922	547,701	2,236,623
2020	1,743,922	493,195	2,237,117
2021	1,818,922	424,520	2,243,442
2022	1,533,922	353,630	1,887,552
2023-2027	6,941,764	782,969	7,724,733
2028-2031	588,413	25,306	613,719
	$ 15,949,787	$ 3,226,000	$ 19,175,787

Defeasance of Debt

On January 15, 1991, the Authority advance refunded a portion of the **Series A and B** Bonds by placing a portion of the **Series C** Bonds in an irrevocable trust with an escrow agent to provide for debt service payments on a portion of the Series A and B Bonds. Accordingly, those portions of the Revenue Bonds are considered defeased and the remaining liability of $12,250,000 for those bonds was removed from the financial statements.

Also in 1991, the Authority placed $1,196,256.31 of excess construction and general account funds in an irrevocable trust with an escrow agent to provide for the principal and interest payments for the Series A and B Revenue Bonds through December 1, 1994. Consequently, those portions of the Bonds were defeased and the remaining liability of $820,000 was removed from the financial statements.

On July 1, 1993 the Authority advance refunded the remaining portion of the **Series A** Bonds and a portion of the **Series B** Bonds by placing the **Series D** Bond proceeds in an irrevocable trust with an escrow agent to provide for debt service payments on the designated maturities of the Series A and B Bonds. Accordingly, those portions of the Series A and B Bonds were considered defeased and the liability of $13,280,000 for those bonds was removed from the financial statements.

On September 15, 2000, the Authority issued **Series E** Revenue Bonds of $13,645,000 with interest rates ranging from 4.4% to 5.5% to refund a portion of **Series C** Bonds with interest rates ranging from 6.40% to 6.8% by placing a portion of the **Series E** Bonds in an irrevocable trust with an escrow agent to provide for debt service payments on the remaining balance of **Series C** Bonds. The refunding met the requirement of an in-substance debt defeasance and the remaining liability of $13,565,000 of the Series C Bonds is removed from the financial statements. The loss on the early retirement of debt (difference between the book value of the refunded debt and the amount required to retire the debt) is deferred and amortized over the remaining life of the old debt using the effective interest method. The

NOTE 7: LIABILITIES (continued)

Defeasance of Debt (continued)

deferred loss totaled $936,141. As a result of the refunding, the Authority reduced its total debt service requirements by $3,277,199, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $1,084,764.

On September 1, 2003, the Authority issued **Series F** Revenue Bonds of $11,870,000 with interest rates ranging from 2.50% to 5.25% to refund a portion of **Series D** Bonds with interest rates ranging from 5.0% to 5.4% by placing a portion of the Series F Bonds in an irrevocable trust with an escrow agent to provide for debt service payments on the remaining balance of Series D Bonds. The refunding met the requirement of an in-substance debt defeasance and the remaining liability of $11,475,000 of the Series D Bonds is removed from the financial statements. The loss on the early retirement of debt (difference between the book value of the refunded debt and the amount required to retire the debt) is deferred and amortized over the remaining life of the old debt using the effective interest method. The deferred loss totaled $758,419. As a result of the refunding, the Authority reduced its total debt service requirements by $561,791, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $413,791.

On December 2, 2010, the Authority issued **Series H** Revenue Bonds of $13,500,000 with interest rates ranging from 2.375% to 4.375% to refund all of **Series E** Bonds with interest rates ranging from 4.95% to 5.50% by placing a portion of the Series H Bonds in an irrevocable trust with an escrow agent to provide for debt service payments on the remaining balance of Series E Bonds. The refunding met the requirement of an in-substance debt defeasance and the remaining liability of $12,955,000 of the Series E Bonds is removed from the financial statements. The loss on the early retirement of debt (difference between the book value of the refunded debt and the amount required to retire the debt) is deferred and amortized over the remaining life of the old debt using the effective interest method. The deferred loss totaled $332,679. As a result of the refunding, the Authority reduced its total debt service requirements by $1,037,491, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $1,014,782.

The deferred loss of $332,679 is added to the unamortized balance of the deferred loss of Series C refunded by Series E of $566,052. This total is amortized over the life of Series H Revenue Bonds. The unamortized balance of $306,305 is reported as a Deferred Outflow of Resources. Amortization for the fiscal years ended November 30, 2017 and 2016 was $80,236 and $101,426.

Post-Employment Retirement Benefits

The Authority participates in the New Jersey State Health Benefits Program (“the SHBP”), which qualifies as a cost-sharing, multiple-employer plan in accordance with GASB Statement 45 “Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions” (“OPEB”). The SHBP is administered by the State of New Jersey, Department of Treasury, Division of Pensions and Benefits.

NOTE 7: LIABILITIES (continued)

Post-Employment Retirement Benefits (continued)

Under the SHBP, retirees may continue the health benefits programs in which they are enrolled at the time of retirement, provided the retiree pays the costs of the benefits (at group rates) for themselves and their eligible dependents. The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the SHBP. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

The SHBP is established under the authority of N.J.S.A. 52:14-17.25 et seq. and regulations adopted by the State Health Benefits Commission. The required contribution rate is determined on an annual pay as you go basis. The State will set the employer contribution rate based on the annual required contribution of the employers ("ARC"), an amount actuarially-determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed 30 years. The unfunded actuarial accrued liability for the Authority has not been determined. The Authority's contributions to the State Health Benefits Program Fund for post-retirement benefits for the year ended November 30, 2017, 2016, and 2015 were approximately $72,719, $62,773 and $58,184, respectively. There were 6, 6 and 5 retirees receiving benefits during 2017, 2016 and 2015, respectively.

NOTE 8: PENSION OBLIGATIONS

Public Employees' Retirement System (PERS)

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

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

NOTE 8: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

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

Basis of Presentation - The schedules of employer allocations and the schedules of pension amounts by employer (collectively, the Schedules) present amounts that are considered elements of the financial statements of PERS or its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of PERS or the participating employers. The accompanying Schedules were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of PERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

Contributions - The contribution policy for PERS is set by *N.J.S.A. 43:15A* and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount, which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid. For the fiscal year 2017, the State's pension contribution was less than the actuarial determined amount. The local employers' contribution amounts are based on an actuarially determined rate, which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets. For the year ended November 30, 2017, the Authority's contractually required contribution to PERS plan was $114.056.

Components of Net Pension Liability - At November 30, 2017, the Authority's proportionate share of the PERS net pension liability was $2,865,998. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. The Authority's proportion of the net pension

NOTE 8: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

liability was based on the Authority's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2017. The Authority's proportion measured as of June 30, 2017, was .01231% which was a decrease of .00068% from its proportion measured as of June 30, 2016.

Collective Balances at November 30, 2017 and November 30, 2016

	11/30/2017	11/30/2016
Actuarial valuation date (including roll forward)	June 30, 2017	June 30, 2016
Deferred Outflows of Resources	$ 762,611	$ 1,087,377
Deferred Inflows of Resources	575,283	-
Net Pension Liability	2,865,998	3,640,125
Authority's portion of the Plan's total net pension Liability	0.01231%	0.01299%

Pension Expense and Deferred Outflows/Inflows of Resources - At November 30, 2017, the Authority's proportionate share of the PERS expense, calculated by the plan as of the June 30, 2017 measurement date is $239,977. At November 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	$ 67,484	$ -
Changes of Assumptions	577,400	575,283
Net Difference between Projected and Actual Earnings on Pension Plan Investments	19,516	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions	98,211	-
	$ 762,611	$ 575,283

NOTE 8: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

The Authority will amortize the above sources of deferred outflows and inflows related to PERS over the following number of years:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between Expected and Actual Experience		
Year of Pension Plan Deferral:		
June 30, 2014	-	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
June 30, 2017	5.48	-
Changes of Assumptions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
June 30, 2017	-	5.48
Net Difference between Projected and Actual Earnings on Pension Plan Investments		
Year of Pension Plan Deferral:		
June 30, 2014	-	5.00
June 30, 2015	-	5.00
June 30, 2016	5.00	-
June 30, 2017	5.00	-
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	6.44
June 30, 2015	5.72	5.72
June 30, 2016	5.57	5.57
June 30, 2017	5.48	5.48

NOTE 8: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

The following is a summary of the deferred outflows of resources and deferred inflows of resources related to PERS that will be recognized in future periods:

Year Ending Nov 30,	Amount
2018	$ 106,773
2019	139,066
2020	91,715
2021	(91,070)
2022	(59,156)
	$ 187,328

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

Inflation	2.25%
Salary Increases:	
Through 2026	1.65% - 4.15% Based on Age
Thereafter	2.65% - 5.15% Based on Age
Investment Rate of Return	7.00%
Mortality Rate Table	RP-2000
Period of Actuarial Experience Study upon which Actuarial Assumptions were Based	July 1, 2011 - June 30, 2014

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 rate were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on the 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

NOTE 8: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

plan actuary's modified MP-2014 projection scales. 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.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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%
	100.00%	

NOTE 8: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

Discount Rate - The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. The single blended discount rate was based on long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.58% as of June 30, 2017 based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation 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.

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

	1% Decrease (4.00%)	Current Discount Rate (5.00%)	1% Increase (6.00%)
Authority's Proportionate Share of the Net Pension Liability	$ 3,555,465	$ 2,865,998	$ 2,291,587

NOTE 9: RATE STRUCTURE/USER CHARGES/ACCOUNTS RECEIVABLE

The following is a comparison of sewer service billings, collections and receivables:

Fiscal Year	Beginning Balance	Billings	Total Collections	Percentage of Collections
2017	$ 147,957	3,905,639	3,879,392	95.70%
2016	103,546	3,556,914	3,550,486	97.00%
2015	157,993	3,252,555	3,240,394	95.01%
2014	150,769	3,694,797	3,687,573	95.89%
2013	150,780	3,731,208	3,731,220	96.12%
2012	110,474	3,781,957	3,741,650	96.13%
2011	135,454	3,585,420	3,610,400	97.03%
2010	115,375	3,662,497	3,642,417	96.41%
2009	105,222	3,705,048	3,694,896	96.97%
2008	96,358	3,811,673	3,802,808	97.31%

NOTE 10: SERVICE AGREEMENTS

Under the 1986 Service Contract, should certain items of expense exceed certain items of receipt during any fiscal year, then upon certification by the Authority to the City and Township of Bordentown not later than January 15, next succeeding the completion of such fiscal year of the amount of such excess, each municipality is obligated to pay to the Authority its proportionate share of such excess in an amount to be computed in accordance with the 1986 Service Contract.

At any time after five years from the date of the 1986 Service Contract, and after the payment in full of all obligations of the Authority, including all outstanding bonds, the 1986 Service Contract, upon two years notice to the Authority and to each of the municipalities, may be terminated by the Authority or either municipality.

NOTE 11: RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties.

NOTE 12: DEFICIT IN NET POSITION

The Authority had a deficit in unrestricted net position in the amount of $391,981 at November 30, 2017. The primary cause of this deficit is due to the recording of the net pension liability for the Public Employee's Retirement System (PERS) as of November 30, 2015, as required by generally accepted accounting principles. If this was not required, the unrestricted net position before net pension liability and deferred outflows and inflows related to pensions would be $2,286,689 as of November 30, 2017. This deficit in unrestricted net position does not indicate that the Authority is facing financial difficulties.

EXHIBIT D-1

Bordentown Sewerage Authority
Schedule of the Authority's Proportionate Share of the Net Pension Liability
Public Employee's Retirement System
Last Ten Fiscal Years

	2017	2016	2015	2014	2013
Authority's proportion of the net pension liability (asset)	0.01231%	0.01229%	0.01201%	0.01158%	0.01131%
Authoritys proportionate share of the net pension liability (asset)	$ 2,865,998	$ 3,640,125	$ 2,696,349	$ 2,167,460	$ 2,162,135
Authority's covered-employee payroll	$ 834,548	$ 819,967	$ 822,258	$ 811,580	$ 809,465
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	343.42%	443.94%	327.92%	267.07%	267.11%
Plan fiduciary net position as a percentage of the total pension liability	48.10%	40.14%	47.92%	52.08%	48.72%

**This schedule is presented to illistrate the requirement to show information for 10 years.However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

EXHIBIT D-2

Bordentown Sewerage Authority
Schedule of Authority Contributions
Public Employee's Retirement System
Last Ten Fiscal Years

	2017	2016	2015	2014	2013
Contractually required contribution	$ 114,056	$ 109,188	$ 103,267	$ 95,436	$ 85,241
Contributions in relation to the contractually required contribution	114,056	109,188	103,267	95,436	85,241
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Authority's covered-employee payroll	$ 835,482	$ 834,548	$ 819,967	$ 822,258	$ 811,580
Contributions as a percentage of covered-employee payroll	13.65%	13.08%	12.59%	11.61%	10.50%

**This schedule is presented to illistrate the requirement to show information for 10 years.However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

Public Employees' Retirement System (PERS)

Changes of Benefit Terms – None

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

THE BORDENTOWN SEWERAGE AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2017

	Original Budget	Transfers +, (-)	Modified Budget	Actual	Variance Favorable (Unfavorable)	Prior Year Actual
Operating Revenues:						
Retained Earnings Appropriated	$ -		$ -	$ -	$ -	$ -
User Charges and Fees	4,036,702		4,036,702	3,914,407	(122,295)	3,529,382
Delinquent Penalties	-		-	20,446	20,446	12,756
Connection Fees	581,044		581,044	508,060	(72,984)	2,321,553
Miscellaneous	53,000		53,000	108,227	55,227	114,273
Total Operating Revenues	4,670,746	-	4,670,746	4,551,140	(119,606)	5,977,964
Operating Expenses:						
Personnel Services:						
Board Salaries	3,000		3,000	3,000	-	3,000
Administrative Salaries	327,000		327,000	228,164	98,836	235,462
Plant Salaries	711,400		711,400	645,847	65,553	632,122
	1,041,400	-	1,041,400	877,011	164,389	870,584
Employee Benefits:						
Public Employees Retirement System	113,000		113,000	109,699	3,301	103,267
Social Security	79,600		79,600	63,385	16,215	62,891
Unemployment/Disability	3,000		3,000	474	2,526	483
Health Benefits	294,350		294,350	232,952	61,398	229,574
Health Benefits - Retirees	82,000		82,000	72,719	9,281	70,325
Other Employee Benefits	106,550		106,550	87,361	19,189	87,594
	678,500	-	678,500	566,590	111,910	554,134
Administrative Expenses:						
Office Expense	96,500	380	96,880	75,946	20,934	79,455
Insurance	110,000		110,000	104,028	5,972	104,296
Legal	65,000		65,000	57,246	7,754	59,595
Engineering	20,000		20,000	11,797	8,203	7,902
Auditing	35,000		35,000	27,400	7,600	31,760
Miscellaneous Administrative Expenses	45,800	500	46,300	34,887	11,413	32,317
Telephone	12,000		12,000	10,481	1,519	8,949
Trustee Expense	12,000		12,000	8,300	3,700	8,300
	396,300	880	397,180	330,085	67,095	332,574
Operations and Maintenance:						
Utilities	401,000	500	401,500	294,455	107,045	298,043
Repairs to Plants & Collection System	50,000		50,000	24,847	25,153	22,266
Fuel for Heating and Generators	500		500	-	500	-
Alarms	16,000	2,000	18,000	17,897	103	15,527
Chemicals	162,000		162,000	151,365	10,635	147,648
Plant and Lab Supplies	22,150	400	22,550	15,627	6,923	16,463
Other Repairs and Maintenance	15,000		15,000	11,912	3,088	5,359
Vehicle Expense	42,500		42,500	27,668	14,832	26,767
Permits	36,500	5,000	41,500	38,198	3,302	19,466
Sludge Removal	210,000	(9,880)	200,120	163,473	36,647	165,962
Laboratory Analysis	26,400		26,400	11,967	14,433	15,727
Uniform Expense	5,000	1,100	6,100	6,074	26	3,626
Miscellaneous Other Expenses	4,500		4,500	642	3,858	1,438
	991,550	(880)	990,670	764,125	226,545	738,292
Bond Principal in Lieu of Depreciation	1,633,922	-	1,633,922	1,583,922	50,000	1,523,922
Total Operating Expenses	4,741,672	-	4,741,672	4,121,733	619,939	4,019,506

THE BORDENTOWN SEWERAGE AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES -
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2017

	Original Budget	Transfers	Modified Budget	Actual	Variance Favorable (Unfavorable)	Prior Year Actual
Other Sources and (Uses):						
Investment Income:						
Unrestricted Accounts	-		-	19,634	19,634	4,308
Restricted Accounts	100,000		100,000	76,205	(23,795)	(2,706)
Interest on Bonds	(600,426)		(600,426)	(600,426)	-	(643,708)
Total Other Sources and (Uses)	(500,426)	-	(500,426)	(504,587)	(4,161)	(642,106)
Budgetary Revenues Over Expenses	$ (571,352)	$ -	$ (571,352)	$ (75,180)	$ 496,172	$ 1,316,352

	Actual	Prior Year Actual
Reconciliation of Budgetary Basis to GAAP Basis:		
Excess from Above - Budgetary Basis	(75,180)	1,316,352
Budgeted Debt Principal	1,583,922	1,523,922
Depreciation	(1,718,623)	(1,703,645)
Amortization of Bond Discount, Premium and Early Retirement of Debt	(81,985)	(104,243)
Additional Pension Expense as Per GASB 68	(130,790)	(276,682)
Net Realized and Unrealized Gain or (Loss)	-	(2,144)
Contributed Capital	318,818	2,451,755
Changes in Net Position	$ (103,838)	$ 3,205,315

Capital Funding

	Original Budget	Transfers	Modified Budget	Actual	Variance Favorable (Unfavorable)
Funding Source:					
Net Position	-	-	-	-	-
Total Capital Sources	-	-	-	-	-
Costs:					
Capital Outlay:					
Plant and System Repairs	265,000	5,000	270,000	209,663	60,337
Pump Stations/Collection Systems	50,000	-	50,000	46,801	3,199
Lab Equipment	10,000	(5,000)	5,000	3,487	1,513
Vehicle Replacement	25,000	-	25,000	24,257	743
Total Capital Outlay	350,000	-	350,000	284,208	65,792
Excess (Deficit) of Capital Funding Sources over (Under) Capital Costs	(350,000)	-	(350,000)	(284,208)	65,792

Schedule 2

THE BORDENTOWN SEWERAGE AUTHORITY
STATEMENT OF MISCELLANEOUS REVENUE EARNED
FOR THE FISCAL YEARS ENED NOVEMBER 30, 2017 AND 2016

	2017	2016
Insurance Reimbursement - JIF	$ 13,874	$ 22,916
Insurance Reimbursement - Other	-	23,739
Waste Water Treatment Tipping Fees	54,099	39,555
Application Fees	175	385
Inspection Fees	1,200	2,400
New Customer and Turn-On/Off Fees	1,103	-
Review Fees	-	4,700
Interest on Connection Fee	-	945
Miscellaneous	37,776	19,633
	$ 108,227	$ 114,273

Schedule 3

THE BORDENTOWN SEWERAGE AUTHORITY
ANALYSIS OF CONSUMER ACCOUNTS RECEIVABLE
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2017

Balance - December 1, 2016		$ 103,546
Increased By:		
Billings:		
Rents	3,914,407	
Penalties	20,446	
Sludge	54,099	
Other	-	
		3,988,952
		4,092,498
Decreased By:		
Collections		3,944,541
Balance - November 30, 2017		$ 147,957

<u>Aging</u>

Current	$ 122,914
30 Days	956
60 Days	25
90 Days	24,062
	$ 147,957

BORDENTOWN SEWERAGE AUTHORITY

ROSTER OF OFFICIALS

NOVEMBER 30, 2017

MEMBERS	POSITION
M. Ellen Gulbinsky	Chairwoman
James E. Lynch, Jr.	Vice-Chairman
Joseph R. Malone, III	Secretary
Leonard J. de Groot	Treasurer
Aneka Miller	Assistant Secretary
Zigmont F. Targonski	Assistant Secretary

OTHER OFFICIALS	
Richard D. Eustace	Executive Director
Elizabeth J. Kwelty	Administrative Manager
W. Craig Dansbury	Operations Manager
Richard Czekanski of Remington & Vernick Engineers	Consulting Engineer
Thomas J. Coleman, III Esquire of Raymond, Coleman, & Heinold LLP	Solicitor
TD Wealth Management	Trustee

HFA
HOLMAN | FRENIA
ALLISON, P.C.
Certified Public Accountants & Consultants

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The Chairwoman and Members of the
Bordentown Sewerage Authority
954 Farnsworth Avenue
Bordentown, New Jersey 08505

We have audited the financial accounts and transactions of the Bordentown Sewerage Authority, County of Burlington, State of New Jersey for the year ended November 30, 2017. In accordance with requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the following are the *General Comments* and *Recommendations* for the year then ended.

GENERAL COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required to be Advertised by (*N.J.S.A.40A:11-4*)

N.J.S.A.40A:11-4 - Every contract or agreement, for the performance of any work or furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of public funds not included within the terms of Section 3 of this act, shall be made or awarded only by the governing body of the contracting unit after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other Law. From December 1, 2016 to February 20, 2017, no work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate $17,500 except by contract or agreement. Effective February 21, 2017, the Authority appointed a qualified purchasing agent and therefore may award contracts up to $40,000 without competitive bids.

It is pointed out that the Members of the Authority have the responsibility of determining whether the expenditures in any category will exceed the statutory minimum within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the solicitor's opinion should be sought before a commitment is made.

In as much as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed. The results of our examination did not disclose any discrepancies.

The minutes indicated that bids were requested by public advertising and awarded by resolution for the following items in the current fiscal year: Building B-3 Roof Replacement and Chemicals.

The minutes also indicate that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services," per *N.J.S.A.40A:11-5*.

Contracts and Agreements Requiring Solicitation of Quotations

The examination of expenditures revealed individual payments, contracts or agreements in excess of \$2,625 from December 1, 2016 to February 20, 2017 and \$6,000 from February 21, 2017 to November 30, 2017 "for the performance of any work or the furnishing or hiring of any materials or supplies", other than those where bids had been previously sought by public advertisement or where a resolution had been previously adopted under the provision of (*N.J.S.A.40A:11-6.1*).

The supporting documentation indicated that quotes were requested for all items that required them.

Examination of Bills

A test check of paid bills was made and each bill, upon proper approval, was considered as a separate and individual contract unless the records disclosed it to be a part payment or estimate. The results of the examination did not disclose any discrepancies with respect to signatures, certification or supporting documentation.

Payroll Fund

The examination of the payroll account included the detailed computation of various deductions or other credits from the payroll of the Authority employees and we ascertained that the accumulated withholdings were disbursed to the proper agencies.

Property, Plant & Equipment

The property, plant and equipment subsidiary ledger was maintained properly.

Follow-Up of Prior Years' Findings

In accordance with *Government Auditing Standards*, our procedures included a review of all prior year findings. There were no findings in the prior year.

Acknowledgment

We received the complete cooperation of all the Authority officials and employees and we greatly appreciate the courtesies extended to the members of the audit team.

During our audit, we did not note any problems or weaknesses significant enough that would affect our ability to express an opinion on the financial statements taken as a whole. Should you have any questions concerning our comments, please call us.

Respectfully Submitted,

Holman Frenia Allison, P.C.

HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountant

May 14, 2018
Toms River, New Jersey