

**CLINTON TOWNSHIP SEWERAGE AUTHORITY  
(A COMPONENT UNIT OF THE  
TOWNSHIP OF CLINTON)**

**COUNTY OF HUNTERDON**

**December 31, 2017**

**BEDARD, KUROWICKI & CO., CPA'S  
CERTIFIED PUBLIC ACCOUNTANTS**

**CLINTON TOWNSHIP SEWERAGE AUTHORITY  
(A COMPONENT UNIT OF THE TOWNSHIP OF CLINTON)**

**For the Years Ended December 31, 2017 and 2016**

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**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**(A Component Unit of the Township of Clinton)**  
**Roster of Officials**  
**Year Ended December 31, 2017**

<u>Members of the Authority</u>	<u>Title</u>
Steven Krommenhoek	Chairman
Peter Geiger	Vice Chairman
Edward Schneider	Secretary
Katrin Glode-Sethna	Treasurer
Michael Mauer	Member
Michael McCue	Member
<u>Administration of the Authority</u>	<u>Title</u>
Meliss Paulus	Administrator
C. Gregory Watts	General Counsel
Hatch Mott MacDonald	Engineer

See independent auditors' report.



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## Independent Auditors' Report

Honorable Chairman and Members of  
Clinton Township Sewerage Authority  
Clinton Township, New Jersey

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Clinton Township Sewerage Authority (the Authority), a component unit of the Township of Clinton, as of and for the years ended December 31, 2017 and 2016, and the related Notes to the Financial Statements, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of December 31, 2017 and 2016, and the respective changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Budgetary Comparison Information, Roster of Officials, Schedule of the Authority's Proportionate Share of the Net Pension Liability, and the Schedule of Authority Contributions to the Public Employees Retirement System identified in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Changes in Net Position - Restricted is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Changes in Net Position - Restricted is the responsibility of management and was derived from and relate 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 and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Changes in Net Position - Restricted is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated May 2, 2018 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

*Bedard, Kurowicki & Co.*  
**BEDARD, KUROWICKI & CO., CPA'S, PC**

May 2, 2018  
Flemington, New Jersey

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2017**

**Introduction**

The Clinton Township Sewerage Authority, hereafter referred to as "CTSA", hereby presents its Annual Financial Report prepared in accordance with Governmental Accounting Standards Board (GASB), and related standards.

Mission

The mission of the CTSA is to protect the public health and the environment by providing environmentally sound and affordable sewerage treatment and disposal for the residents of Clinton Township.

Responsibility and Controls

The CTSA has prepared and is responsible for the financial statements and related information included in this report. The Management feels that the cost of the system should not exceed its benefits and due diligence has been taken to maintain the cost of running the plant and the system at reasonable rates and with good accounting practices.

The CTSA is made up of six appointed Members.

The CTSA meets on a monthly basis at an open public meeting. Individual members also periodically meet with the Auditor and General Counsel to review and gain input and guidance on the financial practices of the CTSA.

Based on its present and past practices the CTSA is proud to present a stable and responsible financial accounting. Its operations are conducted within a high standard of business ethics.

Summary of Organization

The Sewerage Authorities Law of the State of New Jersey (L1946,c.138 as amended; RS 40:14A01, et seq.) declared it to be in the public interest and to be the policy of the State and its communities to foster and promote by all reasonable means the relief of waters from pollution and to reduce and ultimately abate the menace to the public health caused thereby. The Township of Clinton was granted express authority to create the Clinton Township Sewerage Authority to acquire, construct, maintain, operate or improve works for the collection, treatment and purification or disposal or sewerage.

The six members are appointed by the Governing Body of the Township of Clinton for five-year terms.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2017**

The CTSA does not operate or maintain the sewer plant; that is the responsibility of the Town of Clinton. Operational and maintenance costs for both the plant and local sewer lines are funded from customers' fees and charges.

Auditors

The audit is conducted by independent auditors, Bedard Kurowicki & Co., CPA's, PC, and is included in this report.

**Management's Discussion and Analysis (MD&A)**

This section of the Clinton Township Sewerage Authority's annual financial report presents our discussion and analysis of the CTSA's financial performance during the fiscal year ending December 31, 2017. Please read it in conjunction with the CTSA's condensed financial statements (Exhibits A and B), which follow this section.

Financial Highlights

1. The CTSA's total assets decreased .8% over the course of this year's operations. This was primarily due to depreciation expense decreasing the capital assets.
2. During the year, the CTSA's operating revenues decreased by .4%. This was due to a decrease in late charges and fees over the prior year.
3. Operating expenses increased by .4%. Accounts payable increased by 13.6%. The largest increase in expenses was for administrative expenses relating to legal costs which increased \$13,201. The largest decrease in expenses was for administrative expenses relating to salaries and wages which decreased \$8,277.
4. Net position decreased by .2%. Part of this decrease was a result of the decreased GASB 68 deferred outflows, which decreased to \$17,073 and because of net pension expense of \$14,988.

Overview of Annual Financial Report

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

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



**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2017**

The Comparative Statement of Revenues, Expenses and Changes in Net Position presents the results of the CTSA's activities over the course of the fiscal year and information as to how the net position changed during the year.

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

The Notes to the Financial Statements provide disclosures and other information that is essential to a full understanding of material data provided in the statements. Supplementary information comparing the budget to actual revenues and expenses as well as changes in restricted accounts is provided.

The system requires constant maintenance and inspection and as the sewer lines age more repair work and replacements are required.

Revenues from new applications and connections will decrease as surplus capacity becomes less available.

Financial Analysis

The attached comparative condensed financial statements serve as the key financial data and indicators for management, monitoring and planning.

**Availability of Financial Report**

This report is prepared in compliance with State mandates and will be made available to residents, taxpayers and any interested person or entity upon request at the CTSA office located at 79 Beaver Avenue Suite 5, Clinton, NJ 08809.

**Clinton Township Sewerage Authority**

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Management's Discussion and Analysis**

Condensed Statement of Net Position

Exhibit A

	December 31,		Increase (Decrease)
	2017	2016	
Assets			
Current assets			
Unrestricted assets	\$ 450,542	\$ 394,422	\$ 56,120
Restricted assets	1,437,294	1,366,292	71,002
Capital assets, net	9,114,463	9,325,423	(210,960)
Total current assets	<u>11,002,299</u>	<u>11,086,137</u>	<u>(83,838)</u>
Deferred outflows of resources	<u>76,665</u>	<u>93,738</u>	<u>(17,073)</u>
Total assets and deferred outflows of resources	<u>\$ 11,078,964</u>	<u>\$ 11,179,875</u>	<u>\$ (100,911)</u>
Liabilities			
Current liabilities			
Unrestricted	\$ 294,150	\$ 265,032	\$ 29,118
Restricted	35,058	34,709	349
Non-current liabilities	1,241,876	1,396,283	(154,407)
Total liabilities	<u>1,571,084</u>	<u>1,696,024</u>	<u>(124,940)</u>
Deferred inflows of resources	<u>42,832</u>	<u>-</u>	<u>42,832</u>
Net position			
Net investment in capital assets	7,976,484	8,084,411	(107,927)
Restricted	1,402,236	1,331,583	70,653
Unrestricted	86,328	67,857	18,471
Total net position	<u>9,465,048</u>	<u>9,483,851</u>	<u>(18,803)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 11,078,964</u>	<u>\$ 11,179,875</u>	<u>\$ (100,911)</u>

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Years Ended**

Condensed Statement of Revenues, Expenses and Changes in Net Position

Exhibit B

	December 31,		Increase
	2017	2016	(Decrease)
Operating revenues	\$ 1,144,049	\$ 1,148,723	\$ (4,674)
Operating expenses	1,325,928	1,321,177	4,751
Operating income (loss)	(181,879)	(172,454)	(9,425)
Non-operating revenues (expenses)	163,076	3,457	159,619
Increase (decrease) in net position	(18,803)	(168,997)	150,194
Net position beginning of year	9,483,851	9,652,848	(168,997)
Net position end of year	<u>\$ 9,465,048</u>	<u>\$ 9,483,851</u>	<u>\$ (18,803)</u>

## **Basic Financial Statements**

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Comparative Statement of Net Position**  
**December 31,**

	2017	2016
Assets		
Current unrestricted assets		
Cash and cash equivalents	\$ 215,635	\$ 98,254
Certificates of deposit	139,151	193,294
Accounts receivable	95,756	102,874
Total unrestricted assets	450,542	394,422
Non-current restricted assets		
Cash and cash equivalents	41,118	40,748
Certificates of deposit	1,396,176	1,325,544
Total restricted assets	1,437,294	1,366,292
Capital assets		
Capital assets being depreciated	12,191,969	12,191,969
Capital assets not being depreciated	425,583	411,215
Less: accumulated depreciation	(3,503,089)	(3,277,761)
Net capital assets	9,114,463	9,325,423
Total assets	11,002,299	11,086,137
Deferred outflows of resources	76,665	93,738
Total assets and deferred outflows of resources	\$ 11,078,964	\$ 11,179,875

See accompanying notes to the financial statements.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Comparative Statement of Net Position (continued)**  
**December 31,**

	2017	2016
Liabilities		
Current liabilities		
Accounts payable	\$ 175,402	\$ 154,370
Accrued sick pay	9,258	7,629
Current portion of loan payable	109,490	103,033
Total current liabilities	294,150	265,032
Current liabilities (payable from restricted assets)		
Trust funds		
Reserve for developers deposits	35,058	34,709
Total current liabilities (payable from restricted assets)	35,058	34,709
Non-current liabilities		
Long-term portion of loan payable	1,028,489	1,137,979
Net pension liability	213,387	258,304
Total non-current liabilities	1,241,876	1,396,283
Total liabilities	1,571,084	1,696,024
Deferred inflows of resources	42,832	-
Net position		
Net investment in capital assets	7,976,484	8,084,411
Restricted	1,402,236	1,331,583
Unrestricted	86,328	67,857
Total net position	9,465,048	9,483,851
Total liabilities, deferred inflows of resources, and net position	\$ 11,078,964	\$ 11,179,875

See accompanying notes to the financial statements.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Comparative Statement of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended December 31,**

	2017	2016
Operating revenues		
Sewer charges	\$ 1,136,280	\$ 1,132,800
Late charges and fees	5,918	15,420
Interest income	557	341
Miscellaneous	1,294	162
Total operating revenues	1,144,049	1,148,723
Operating expenses		
Cost of providing services	825,080	818,565
Administrative and general	275,520	273,986
Depreciation	225,328	228,626
Total operating expenses	1,325,928	1,321,177
Operating income (loss)	(181,879)	(172,454)
Non-operating revenues (expenses)		
Connection fees	-	26,525
Pro rata share of prior year capital expenditures	177,510	-
Interest income - unrestricted	16,498	12,191
Interest income - restricted	24	15
NJ Environmental Infrastructure Trust credits	6,019	9,963
Interest expense	(36,975)	(39,325)
Total non-operating revenues (expenses)	163,076	9,369
Other financing sources (uses)		
Loss on disposal of assets	-	(5,912)
Change in net position	(18,803)	(168,997)
Net position, beginning	9,483,851	9,652,848
Net position, ending	\$ 9,465,048	\$ 9,483,851

See accompanying notes to the financial statements.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Comparative Statement of Cash Flows**  
**For the Years Ended December 31,**

	2017	2016
Cash flows from operating activities		
Cash received from customers	\$ 1,144,692	\$ 1,150,944
Other operating cash receipts	5,918	15,420
Cash payments to suppliers and employees	(1,062,951)	(1,042,622)
Interest income	557	341
Net cash provided by (used for) operating activities	88,216	124,083
Cash flow from capital and related financing activities		
Connection fees	-	26,525
Pro rata share of prior year capital expenditures	177,510	-
Non-operating interest income	16,525	12,206
Proceeds from developer's deposits (net)	346	1,535
NJ Environmental Infrastructure Trust credits	6,019	9,963
Construction in progress	(14,368)	(39,415)
Purchase of capital assets	-	(46,161)
Payment of debt principal	(103,033)	(104,468)
Payment of debt interest	(36,975)	(39,325)
Net cash provided by (used for) capital and related financing activities	46,024	(179,140)
Net increase (decrease) in cash and cash equivalents	134,240	(55,057)
Cash and cash equivalents, beginning	1,657,840	1,712,897
Cash and cash equivalents, ending	\$ 1,792,080	\$ 1,657,840
Reconciliation of balance sheet		
Unrestricted cash and cash equivalents	\$ 354,786	\$ 291,548
Restricted cash and cash equivalents	1,437,294	1,366,292
Total cash	\$ 1,792,080	\$ 1,657,840

See accompanying notes to the financial statements.



**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Comparative Statement of Cash Flows (continued)**  
**For the Years Ended December 31,**

	2017	2016
Reconciliation of income (loss) from operations to net cash		
Provided by (used for) operating activities		
Income (loss) from operations	\$ (181,879)	\$ (172,454)
Adjustments to reconcile income (loss) from operations to net cash provided by (used for) operating activities		
Depreciation	225,328	228,626
Change in assets and liabilities		
Increase (decrease) in accounts payable	21,032	26,251
(Increase) decrease in accounts receivable	7,118	17,982
Increase (decrease) in accrued sick pay	1,629	937
Increase (decrease) in deferred inflow of resources	42,832	(2,878)
(Increase) decrease in deferred outflow of resources	17,073	(53,209)
Increase (decrease) in net pension liability	(44,917)	79,317
Increase (decrease) in payroll taxes and withholdings payable	-	(489)
Net cash provided by (used for) operating activities	\$ 88,216	\$ 124,083

See accompanying notes to the financial statements.

**Notes to the Financial Statements**

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 1 - Summary of significant accounting policies

The financial statements of the Clinton Township Sewerage Authority (Authority) have been prepared in conformity with generally accepted accounting principles (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 more significant accounting policies of the Authority's accounting policies are described below.

Reporting entity

The Authority (a component unit of the Township of Clinton) was created in accordance with the State Municipal Utilities Authorities Law (PL 1957, Chapter 183) by ordinance of the Township of Clinton in 1975 to construct and operate a sanitary sewer collection system in the Township of Clinton, Hunterdon County, New Jersey.

The Authority consists of six officials appointed by the Township of Clinton and is responsible for the fiscal control of the operations of the sewer system. Since the Authority issues its own financial statements its financial activity is not included in the financial statements of the Township of Clinton.

Basis of presentation - fund accounting

The operations of the Authority are recorded in a Proprietary Fund type. Proprietary Funds are used to account for activities that are financed and operated in a manner similar to business enterprises and the intention is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis are to be financed or recovered primarily through user charges.

Basis of accounting

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. The net position (i.e., total assets net of total liabilities) is segregated into invested capital assets, restricted and unrestricted components.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of American requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent net assets and liabilities at the Statement of Net Position date and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, among other accounts. Actual results may differ from those estimates.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 1 - Summary of significant accounting policies (continued)

Basis of accounting (continued)

The accrual basis of accounting is used for measuring financial position and operating results of Proprietary Fund types. Under this method of accounting, revenues are recorded in the accounting period in which they are earned, and expenses are recorded as incurred.

Budget and budgetary accounting

At least 60 days prior to the Authority's year-end (December 31), the Authority must file its operating budget with the Director of the State of New Jersey's Division of Local Government Services for approval. Within 45 days after receipt of the Authority's budget, the Director shall either approve or notify the Authority of the reasons for non-approval of the budget and to state the conditions upon which the approval will be granted. After approval, the Authority will formally adopt the budget. The budget is prepared based on the accounting principles and practices as prescribed by the Division of Local Government Services.

Income taxes

The Authority is a component unit of the Township of Clinton and is not required to file tax returns. Accordingly, no provision for income taxes has been made in the financial statements.

Restricted assets

The Authority has restricted the below summarized accounts which may only be utilized for the purposes indicated:

<u>Account</u>	<u>Use for which Restricted</u>
Reserve for State Unemployment	Required employee and employer contribution to State Unemployment Insurance Fund - Reimbursement Method
Reserve for Developer's Deposits	Funds required by the Authority to assure payment of performance
Reserve for Construction	Construction and/or reconstruction of assets including the construction of the Annandale collection system project.
Reserve for Renewals and Replacements	Renewals and replacements funded by budget appropriations

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 1 - Summary of significant accounting policies (continued)

Capital assets

Capital assets are recorded as expenditures at the time of purchase and the related assets are capitalized at cost, which includes direct construction costs and other expenditures related to construction. Depreciation on assets acquired with grants-in-aid is recorded as a reduction of contributed capital. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Pump stations	30 - 75 years
Sewer mains	50 - 75 years
Other equipment	5 - 25 years
Vehicles	5 - 10 years
Office equipment	5 - 10 years

Note 2 - Deposits, cash equivalents, and investments

Cash and cash equivalents include petty cash, change funds, cash and certificates of deposit in banks. As of December 31, 2017 and 2016, the Authority had no investments.

New Jersey Governmental Units are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or in the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of investments which may be purchased by New Jersey Governmental Units. In addition, other state statutes permit investments in obligations issued by local authorities and other state agencies. The State of New Jersey does not place any limit on the amount that the District may invest with any one issuer.

New Jersey Governmental Units are limited as to the types of investments and types of financial institutions they may invest in. New Jersey Statute 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey Governmental Units.

N.J.S.A. 17:9-41 e.t. seq. establishes the requirements for the security of deposits of Governmental Units. The statute requires that no Governmental Unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include savings and loan institutions, banks (both state and national banks) and saving banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 2 - Deposits, cash equivalents, and investments (continued)

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a policy for custodial credit risk. New Jersey statutes require cash be deposited only in New Jersey based banking institutions that participate in the New Jersey Governmental Unit Deposit Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. 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, employee salary withholdings, or funds that may pass to the Authority relative to the happening of a future condition.

As of December 31, 2017 and 2016, the Authority's bank balances were exposed to custodial credit risk as follows:

	2017	2016
Deposits Insured by the FDIC	\$ 517,046	\$ 402,100
Deposits Insured by GUDPA	1,285,327	1,268,838
Total bank balances	\$ 1,802,373	\$ 1,670,938

The Authority's carrying (Statement of Net Position) amounts were \$1,792,080 and \$1,657,840 for December 31, 2017 and 2016, respectively.

Note 3 - Authority revenues

Sewer charges and reserve capacity fees are charged on a rate as approved annually by the governing body. Bills are payable in quarterly installments and delinquent accounts may be included as part of the Township of Clinton's annual tax sale.

Note 4 - Pension plans

Public employees' retirement systems (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 [www.state.nj.us/treasury/pensions/annrprts.shtml](http://www.state.nj.us/treasury/pensions/annrprts.shtml).

The vesting and benefit provisions are set by NJSA 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.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 4 - Pension plans (continued)  
Public employees' retirement systems (PERS) (continued)  
Plan description (continued)

The following represents the membership Tiers for PERS:

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

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to Tiers 1 and 2 members upon reaching age 60 and to Tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to Tier 4 members upon reaching age 62 and Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, Tiers 3 and 4 before age 62 with 25 or more years of service credit and Tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early 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.

Allocation methodology and reconciliation to financial statements

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, requires participating employers in PERS to recognize their proportionate share of the collective net pension liability, collective deferred outflows of resources, collective deferred inflows of resources and collective pension expense. The employer allocation percentages presented in the Schedule of Employer Allocations and applied to amounts presented in the Schedule of Pension Amounts by Employer are based on the ratio of the contributions of an individual employer to the total contributions to PERS during the measurement period June 30, 2016 and June 30, 2017. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the Schedule of Pension Amounts by Employer may result in immaterial differences. Contributions from employers are recognized when due, based on statutory requirements.

Although the Division administers one cost-sharing, multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the disclosure of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each individual employer of the State and local groups of the plan.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 4 - Pension plans (continued)

Public employees' retirement systems (PERS) (continued)

Allocation methodology and reconciliation to financial statements (continued)

To facilitate the separate (sub) actuarial valuations, the Division maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages presented for each group in the Schedule of Employer Allocations are applied to amounts presented in the Schedules of Pension Amounts by Employer. The allocation percentages for each group as of June 30, 2017, are based on the ratio of each employer's contributions to total employer contributions of the group for the State fiscal year ended June 30, 2017.

Contributions

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

The contribution rate was 7.20% effective July 1, 2016 and will increase annually on July 1<sup>st</sup> until eventually reaching 7.50% of base salary effective July 1, 2018.

Three-year trend information for PERS

<u>Year Funded</u>	<u>Annual Contribution</u>	
	<u>Authority</u>	<u>Employee</u>
2017	\$ 7,748	\$ 4,762
2016	6,855	4,528
2015	5,841	4,194



**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 4 - Pension plans (continued)

Public employees' retirement systems (PERS) (continued)

Collective net pension liability and actuarial information

Components of net pension liability

The components of the Authority's allocable share of the net pension liability for PERS as of June 30, 2017 and 2016 are as follows:

	2017	2016
Total pension liability	\$ 411,150	\$ 431,490
Plan fiduciary net position	197,763	173,186
Net pension liability	\$ 213,387	\$ 258,304
Plan fiduciary net position as a percentage of the total pension liability	48.10%	40.14%

Actuarial Assumptions

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

Inflation rate	2.25%
Salary increases (based on age)	
Through 2026	1.65% - 4.15%
Thereafter	2.65% - 5.15%
Investment rate of return	7.00%

Postretirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 4 - Pension plans (continued)

Public employees' retirement systems (PERS) (continued)

Collective net pension liability and actuarial information (continued)

Long-term expected rate of return

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

<u>Asset Class</u>	<u>Target Allocations</u>	<u>Long-Term Expected Rate of Return</u>
Absolute return/risk mitigation	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public high yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit 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%

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 4 - Pension plans (continued)

Public employees' retirement systems (PERS) (continued)

Collective net pension liability and actuarial information (continued)

Discount rate

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.58% 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 rate in the most recent state 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 plans 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 collective net pension liability to changes in the discount rate

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

<u>Authority's proportionate share of the net pension liability</u>	<u>2017</u>
At current discount rate (5.00%)	\$ 213,387
At a 1% lower rate (4.00%)	264,721
At a 1% higher rate (6.00%)	170,619
<u>Authority's proportionate share of the net pension liability</u>	<u>2016</u>
At current discount rate (3.98%)	\$ 258,304
At a 1% lower rate (2.98%)	316,521
At a 1% higher rate (4.98%)	210,240

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 4 - **Pension plans (continued)**

**Public employees' retirement systems (PERS) (continued)**

**Collective deferred outflows of resources and deferred inflows of resources**

At June 30, 2017 and 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	2017		2016	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,025	\$ -	\$ 4,804	\$ -
Changes of assumptions	42,990	42,832	53,507	-
Net difference between projected and actual earnings on pension plan investments	1,453	-	9,849	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	27,197	-	25,578	-
<b>Total</b>	<b>\$ 76,665</b>	<b>\$ 42,832</b>	<b>\$ 93,738</b>	<b>\$ -</b>

The following presents a summary of changes in the collective deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the year ended June 30, 2017 and 2016:

<u>June 30, 2017</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Deferred outflows of resources				
Differences between expected and actual experience	\$ 5,049	\$ 1,558	\$ 1,583	\$ 5,025
Changes of assumptions	56,239	-	13,249	42,990
Differences between projected and actual investment earnings on pension plan investments	10,352	(9,146)	(247)	1,453
Deferred inflows of resources				
Changes of assumptions	-	(52,393)	(9,561)	(42,832)
Net changes in deferred Outflows (inflows) of resources	<u>\$ 71,640</u>	<u>\$ (59,981)</u>	<u>\$ 5,024</u>	<u>\$ 6,636</u>

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 4 - Pension plans (continued)  
Public employees' retirement systems (PERS) (continued)  
Collective deferred outflows of resources and deferred inflows of resources (continued)

<u>June 30, 2016</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Deferred outflows of resources				
Differences between expected and actual experience	\$ 4,671	\$ 1,368	\$ 1,235	\$ 4,804
Changes of assumptions	21,025	45,087	12,605	53,507
Differences between projected and actual investment earnings on pension plan investments	(3,148)	14,502	1,505	9,849
Deferred inflows of resources				
Changes of assumptions	-	-	-	-
Net changes in deferred Outflows (inflows) of resources	<u>\$ 22,548</u>	<u>\$ 60,957</u>	<u>\$ 15,345</u>	<u>\$ 68,160</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions (excluding employer specific amounts, deferrals from the Authority's contributions subsequent to the measurement date, and deferrals from change on proportion) will be recognized in pension expense as follows:

<u>December 31, 2017</u>		<u>December 31, 2016</u>	
<u>Year ending June 30,</u>		<u>Year ending June 30,</u>	
2018	\$ 5,023	2017	\$ 15,346
2019	7,580	2018	15,346
2020	4,593	2019	17,778
2021	(6,109)	2020	14,936
2022	(4,451)	2021	4,754
Total	<u>\$ 6,636</u>	Total	<u>\$ 68,160</u>

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 4 - Pension plans (continued)

Public employees' retirement systems (PERS) (continued)

Pension expense

The components of allocable pension expense, which exclude pension expense related to specific liabilities of individual employers, for the Authority for the year ending June 30, 2017 and 2016 are as follows:

	2017	2016
Service cost	\$ 9,951	\$ 8,429
Interest on total pension liability	18,061	18,405
Member contributions	(4,734)	(4,369)
Administrative expense	124	139
Expected investment return net of investment expense	(12,895)	(13,263)
Pension expense related to specific liabilities of individual employers	(140)	(25)
Recognition of deferred inflows/outflows of resources	-	
Amortization of expected versus actual experience	1,583	1,235
Amortization of assumption changes or inputs	3,688	12,605
Amortization of projected versus actual investment earnings on pension plan investments	(247)	1,505
Pension expense	<u>\$ 15,391</u>	<u>\$ 24,661</u>

Note 5 - Capital assets

A summary of changes in capital assets and accumulated depreciation is as follows:

<u>December 31, 2017</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Sewer distribution system				
Contributed	\$ 6,683,053	\$ -	\$ -	\$ 6,683,053
Constructed	5,235,785	-	-	5,235,785
Construction in progress	111,215	14,368	-	125,583
Maintenance equipment	178,565	-	-	178,565
Transportation equipment	41,562	-	-	41,562
Office equipment/furniture	53,004	-	-	53,004
Sewer capacity purchased	300,000	-	-	300,000
Total capital assets	<u>12,603,184</u>	<u>14,368</u>	<u>-</u>	<u>12,617,552</u>
Transfers	-	-	-	-
Accumulated depreciation	<u>(3,277,761)</u>	<u>(225,328)</u>	<u>-</u>	<u>(3,503,089)</u>
Capital assets, net	<u>\$ 9,325,423</u>	<u>\$ (210,960)</u>	<u>\$ -</u>	<u>\$ 9,114,463</u>

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 5 - Capital assets (continued)

December 31, 2016	Beginning Balance	Additions	Disposals	Ending Balance
Sewer distribution system				
Contributed	\$ 6,683,053	\$ -	\$ -	\$ 6,683,053
Constructed	4,616,207	643,223	23,645	5,235,785
Construction in progress	715,022	39,416	643,223	111,215
Maintenance equipment	132,404	46,161	-	178,565
Transportation equipment	41,562	-	-	41,562
Office equipment/furniture	53,004	-	-	53,004
Sewer capacity purchased	300,000	-	-	300,000
Total capital assets	12,541,252	728,800	(666,868)	12,603,184
Transfers	-	(643,223)	643,223	-
Accumulated depreciation	(3,066,868)	(228,626)	(17,733)	(3,277,761)
Capital assets, net	\$ 9,474,384	\$ (143,049)	\$ 5,912	\$ 9,325,423

Note 6 - Long-term liabilities

Long-term liability activity for the year ended December 31, 2017 and 2016 is as follows:

December 31, 2017	Beginning Balance	Additions	Reduction	Ending Balance	Due Within 1 Year
Net pension liability	\$ 258,304	\$ -	\$ 44,917	\$ 213,387	\$ -
NJ Environmental Infrastructure Trust					
2004 interest free loan	96,907	-	14,043	82,864	13,558
2006 loan	140,000	-	15,000	125,000	15,000
2010 interest free loan	419,105	-	38,990	380,115	40,932
2011 loan	585,000	-	35,000	550,000	40,000
Total	\$ 1,499,316	\$ -	\$ 147,950	\$ 1,351,366	\$ 109,490
December 31, 2016	Beginning Balance	Additions	Reduction	Ending Balance	Due Within 1 Year
Net pension liability	\$ 178,987	\$ 79,317	\$ -	\$ 258,304	\$ -
NJ Environmental Infrastructure Trust					
2004 interest free loan	111,338	-	14,431	96,907	14,043
2006 loan	155,000	-	15,000	140,000	15,000
2010 interest free loan	459,141	-	40,036	419,105	38,990
2011 loan	620,000	-	35,000	585,000	35,000
Total	\$ 1,524,466	\$ 79,317	\$ 104,467	\$ 1,499,316	\$ 103,033

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 6 - Long-term liabilities (continued)

The annual requirements to amortize long-term debt are listed as follows:

<u>Year ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 109,490	\$ 34,475	\$ 143,965
2019	107,810	31,725	139,535
2020	106,071	28,875	134,946
2021	120,492	25,925	146,417
2022	118,366	22,450	140,816
2023 - 2027	510,750	61,850	572,600
2028	65,000	3,250	68,250
	<u>\$ 1,137,979</u>	<u>\$ 208,550</u>	<u>\$ 1,346,529</u>

Outstanding loan balances due to the NJ Environmental Infrastructure Trust are comprised of the following:

	<u>2017</u>	<u>2016</u>
\$265,000 loan due in annual installments of \$10,000 to \$20,000 beginning August 1, 2006 through August 1, 2024, interest from 3.00% to 4.375%.	\$ 125,000	\$ 140,000
\$255,057 interest free loan due in annual installments of \$6,519.36 to \$15,335.84 beginning August 1, 2005 through August 1, 2023.	82,864	96,907
\$795,000 loan due in annual installments of \$25,000 to \$65,000 beginning August 1, 2011 through August 1, 2028, interest from 5.00% to 5.25%.	550,000	585,000
\$697,714 interest free loan due in annual installments of \$38,482 to \$41,381 beginning February 1, 2010 through August 1, 2027.	380,115	419,105
	<u>\$ 1,137,979</u>	<u>\$ 1,241,012</u>

Note 7 - Compensated absences

The Authority has allowed unused sick time to be accumulated to a maximum of 120 days per employee. Up to one half of accumulated sick days may be paid upon disability or retirement or compensating time-off may be taken. If present employees were eligible for this benefit at December 31, 2017 and 2016, the liability to the Authority would be approximately \$9,258 and \$7,629, respectively. Compensation in lieu of unused vacation days is not permitted.

Note 8 - Contingent liabilities

The Authority is involved in various claims and lawsuits incidental to its operations. In the opinion of legal counsel, the ultimate resolution of these matters will not have a material adverse effect on the financial position of the Authority.



**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Notes to the Financial Statements**

Note 9 - 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.

*Property and Liability Insurance* - Risks of losses from worker's compensation, property, automobile, and public official's liability are covered by insurance with New Jersey Utilities Authorities Joint Insurance Fund, plus separate policies for employee bonds and official's liability. Significant losses are covered by commercial insurance and there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current or the three prior years.

*New Jersey Unemployment Compensation Insurance* - The Authority has elected to fund its NJ Unemployment Compensation Insurance under the "Benefit Reimbursement Method." Under this plan, the Authority is required to reimburse the NJ Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The Authority is billed quarterly for amounts due to the State. The following is a summary of Authority contributions, and interest earnings, employee contributions, reimbursements to the State for benefits paid and the ending balance of the Authority's Unemployment Trust Fund for the current and previous two years:

Fiscal Year	Authority Deposits	Interest Earnings	Employee Deposits	Amount Reimbursed	Ending Balance
2017	\$ -	\$ 21	\$ -	\$ -	\$ 6,060
2016	-	11	-	-	6,039
2015	-	8	-	-	6,028

Note 10 - Subsequent events

The Authority's management has determined that no material events or transactions occurred subsequent to December 31, 2017 and through May 2, 2018, the date of the Authority's financial statement issuance, which requires additional disclosure in the Authority's financial statements.

Note 11 - Litigation

The Authority is presently in litigation with other plaintiffs against the municipality which treats sanitary sewerage emanating from respective sewer service areas alleging improper charging of treatment costs by the municipality.

As of December 31, 2017, the Authority has withheld \$782,701 from the municipality, in escrow, for sanitary sewer treatment costs which are in dispute.

**Supplementary Information**

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Schedule of the Authority's Proportionate Share of the Net Pension Liability**  
**Public Employees Retirement System**  
**Last Five Years**  
**Unaudited**

	Year Ending December 31,				
	2017	2016	2015	2014	2013
Authority's proportion of the net pension liability	0.0009166734%	0.0008721437%	0.0007973417%	0.0007085277%	0.0006862827%
Authority's proportion of the net pension liability	\$ 213,387	\$ 258,304	\$ 178,987	\$ 132,656	\$ 131,162
Authority's covered employee payroll	65,500	63,500	60,000	55,000	49,000
Authority's proportionate share of the net pension liability as a percentage of its covered employee payroll	325.78%	406.78%	298.31%	241.19%	267.68%
Plan fiduciary net position as a percentage of the total pension liability	48.10%	40.14%	47.93%	52.08%	48.72%

See independent auditors' report.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Schedule of the Authority Contributions to the**  
**Public Employees Retirement System**  
**Last Five Years**  
**Unaudited**

	Year Ending December 31,				
	2017	2016	2015	2014	2013
Contractually required contributions	\$ 8,492	\$ 7,748	\$ 6,855	\$ 5,841	\$ 5,171
Contributions in relation to the contractually required contribution	<u>8,492</u>	<u>7,748</u>	<u>6,855</u>	<u>5,841</u>	<u>5,085</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86</u>
Authority's covered employee payroll	\$ 65,500	\$ 63,500	\$ 60,000	\$ 55,000	\$ 49,000
Contributions as a percentage of covered employee payroll	12.96%	12.20%	11.43%	10.62%	10.55%

See independent auditors' report.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Notes to the Required Supplementary Information**  
**(Unaudited)**  
**December 31, 2017**

Note 1 - Public Employees Retirement System  
There were no changes in benefit terms.

Changes in assumptions

The discount rate used to measure the total pension liability was 5.00% as of the June 30, 2017 plan measurement date and 3.98% as of the June 30, 2016 plan measurement date. The single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and 7.65% and municipal bond rates of 3.58% and 2.85% for the respective plan measurement dates of June 30, 2017 and June 30, 2016.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Schedule of Changes in Net Position - Restricted Accounts**  
**For the Year Ended December 31, 2017**

	Trust Fund Developer's Deposits	Net Position				Total Net Position
		State Unemployment Insurance	Construction Fund	Renewals & Replacements	Total	
Balance at beginning of year	\$ 34,709	\$ 6,039	\$ 463,855	\$ 861,689	\$ 1,331,583	\$ 1,366,292
<b>Additions</b>						
Interest income	3	21	-	-	21	24
Budgeted contribution	-	-	-	85,000	85,000	85,000
Deposits received	6,569	-	-	-	-	6,569
Total additions	6,572	21	-	85,000	85,021	91,593
<b>Deductions</b>						
Capital projects and current year expenditures	-	-	14,368	-	14,368	14,368
Developer's fees	6,223	-	-	-	-	6,223
Total deductions	6,223	-	14,368	-	14,368	20,591
Balance at end of year	\$ 35,058	\$ 6,060	\$ 449,487	\$ 946,689	\$ 1,402,236	\$ 1,437,294

See independent auditors' report.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Schedule of Budgetary Comparison Information**  
**For the Years Ended**

	December 31, 2017		December 31, 2016	
	Unaudited Budget	Actual	Unaudited Budget	Actual
Revenues				
Net position appropriated	\$ 136,108	\$ 136,108	\$ 116,592	\$ 116,592
Operating revenues				
User charges and fees	1,137,600	1,136,280	1,132,800	1,132,800
Late charges and fees	10,000	5,918	10,000	15,420
Interest income	12,000	17,055	12,000	12,547
Connection fees	-	-	-	26,525
NJEIT credit	-	6,019	-	9,963
Pro rata share of prior year capital expenditures	-	177,510	-	-
Miscellaneous	-	1,294	-	162
Total operating revenues	<u>1,159,600</u>	<u>1,344,076</u>	<u>1,154,800</u>	<u>1,197,417</u>
Total revenues	<u>\$ 1,295,708</u>	<u>\$ 1,480,184</u>	<u>\$ 1,271,392</u>	<u>\$ 1,314,009</u>
Expenses				
Administrative and general				
Salaries and wages	\$ 81,550	\$ 73,629	\$ 71,000	\$ 81,906
Public Employee's Retirement System	8,000	7,748	6,500	6,855
Pension net liability - GASB 68	-	14,988	-	23,230
Payroll taxes	6,300	5,642	5,400	5,878
Unemployment compensation	100	-	100	-
Health insurance	19,200	16,314	22,000	17,318
Dental insurance	1,200	992	1,200	402
Legal fees	30,000	58,241	30,000	45,040
Engineering fees	30,000	28,286	30,000	23,157
Auditing and accounting fees	22,700	19,680	22,300	19,525
Insurance	12,000	9,946	7,200	9,614
Office supplies and expenses	2,500	3,285	2,500	5,548
Postage	3,500	2,382	4,000	3,252
Computer expenses	3,000	3,095	7,500	2,937
Director's fees	6,100	6,100	6,100	5,500
Telephone	10,000	11,281	10,000	10,327
Rent	9,000	9,000	9,000	9,000

See independent auditors' report.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Schedule of Budgetary Comparison Information (continued)**  
**For the Years Ended**

	December 31, 2017		December 31, 2016	
	Unaudited Budget	Actual	Unaudited Budget	Actual
Expenses (continued)				
Administrative and general (continued)				
Education	\$ 1,500	\$ -	\$ 2,000	\$ -
Advertising	500	911	500	162
Debt service administrative fee	-	3,180	-	3,180
Miscellaneous - contingency	1,000	820	1,000	1,155
Total administrative and general	<u>248,150</u>	<u>275,520</u>	<u>238,300</u>	<u>273,986</u>
Cost of providing services				
Capacity reserve - Deer Meadow	2,100	2,046	2,100	2,046
Repairs and maintenance supplies	30,000	5,019	15,000	9,201
Electric	40,000	36,087	36,000	39,900
Water service	750	842	1,000	771
Treatment cost	550,000	578,621	550,000	573,369
Calibration	5,000	6,146	5,000	3,423
Maintenance labor - operator	140,500	145,176	138,000	133,731
Maintenance labor - contracted	51,000	48,836	40,000	53,861
Travel	2,000	718	2,000	862
NJ on-call	1,200	1,589	1,200	1,401
Geographic information system	-	-	14,000	-
Total cost of providing services	<u>822,550</u>	<u>825,080</u>	<u>804,300</u>	<u>818,565</u>
Reserves and capital outlay				
Renewals and replacements reserve	<u>85,000</u>	<u>85,000</u>	<u>85,000</u>	<u>-</u>
Debt service				
Principal	103,033	103,033	104,467	104,467
Interest	36,975	36,975	39,325	39,325
Total debt service	<u>140,008</u>	<u>140,008</u>	<u>143,792</u>	<u>143,792</u>
Total expenses	<u>\$ 1,295,708</u>	<u>\$ 1,325,608</u>	<u>\$ 1,271,392</u>	<u>\$ 1,236,343</u>

See independent auditors' report.





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**Independent Auditors' Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards**

Honorable Chairman and Members of the  
Clinton Township Sewerage Authority  
Clinton Township, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Financial Statements as of and for the year ended December 31, 2017 and December 31, 2016, and the related Notes to the Financial Statements, which collectively comprise the Clinton Township Sewerage Authority's (the Authority) (a component unit of the Township of Clinton) basic financial statements, and have issued our report thereon dated May 2, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of General Comments and Recommendations that we consider to be significant deficiencies.

### Compliance and Other Matters

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

### Clinton Township Sewerage Authority's Response to Findings

Clinton Township Sewerage Authority's response to findings identified in our audit is described in the accompanying Schedule of General Comments and Recommendations. Clinton Township Sewerage Authority's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

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

*Bedard, Kurowicki & Co.*  
BEDARD, KUROWICKI & CO., CPA'S, PC

May 2, 2018  
Flemington, New Jersey

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Schedule of General Comments and Recommendations**

Significant Deficiencies

2017 - 01 Undeposited Funds

- Condition: Funds received from an account closing were not deposited to the Authority's account in a timely manner.
- Cause: A receipt of funds was outstanding at the year end and as of the subsequent year review.
- Effect: Untimely deposits increase the risk that the Authority's funds could be lost, stolen, or denied for deposit by the bank if held for too long.
- Recommendation: Procedures should be implemented by the Authority to ensure that all receipts are deposited timely and intact.

Views of Responsible Officials and Planned Corrective Action (unaudited):

The management agrees with this finding and believes they have implemented compensating controls to avoid untimely deposits of funds.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Schedule of General Comments and Recommendations**

Recommendations

2017-01 Procedures should be implemented by the Authority to ensure that all receipts are deposited timely and intact.

Status of Prior Year's Audit Findings/Recommendations

A review was performed on prior year recommendations and corrective action was taken on all with exception of the following, which is included in this year's recommendations:

2016-01 Procedures should be implemented by the Authority to ensure that all receipts are deposited timely and intact.

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We would be pleased to confer on questions that might arise with respect to any matters in this report.

We wish to express our appreciation for the assistance and courtesies rendered by the Authority officials and employees during the course of the examination.

Respectfully submitted,

*Bedard, Kurowicki & Co.*

**BEDARD, KUROWICKI & CO., CPA'S, PC**