

Bayshore Regional Sewerage Authority

Audit Report

December 31, 2017 and 2016

Bart & Bart  
Certified Public Accountants

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**BART & BART CERTIFIED PUBLIC ACCOUNTANTS**

INDEPENDENT AUDITORS' REPORT

To Chairperson and Members  
Bayshore Regional Sewerage Authority  
Union Beach, New Jersey

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Bayshore Regional Sewerage Authority (the Authority), 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 an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in government auditing standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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To Chairperson and Members  
Bayshore Regional Sewerage Authority

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Bayshore Regional Sewerage Authority, as of December 31, 2017 and 2016, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

**Other Matters**

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9, and schedule of proportionate share of net pension liability on page 28 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.

**Supplementary and Other Information**

Our audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise the Authority's basic financial statements. The supplemental information included on schedules 2-5 are presented for purposes of additional analysis and are not a required part of the basic financial statements, but are presented as additional analytical data as required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Schedules 2 through 5 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These schedules have 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

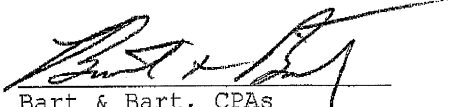
To Chairperson and Members  
Bayshore Regional Sewerage Authority

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The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Uniform Guidance, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 expenditures of federal awards 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 17, 2018 on our consideration of the Authority's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

  
Bart & Bart, CPAs

Woodbridge, NJ  
May 17, 2018

**BART & BART CERTIFIED PUBLIC ACCOUNTANTS**

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

To The Chairperson and Members  
Bayshore Regional Sewerage Authority

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 Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements and fund information of Bayshore Regional Sewerage Authority as of and for the year ended December 31, 2017, and the related notes to the financial statements, which comprise of the Authority's financial statements, and have issued our report thereon dated May XX, 2018.

**Internal Control Over Financial Reporting**

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

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

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

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Report on Compliance and on Internal Control over Financial Reporting Based  
on an Audit of Financial Statements  
Performed in Accordance with Government Auditing Standards

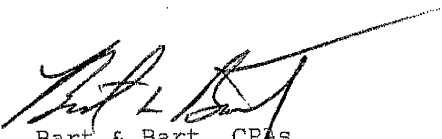
To The Chairperson and Members  
Bayshore Regional Sewerage Authority

Compliance and Other Matters

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

Purpose of this Report

This 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.



Bart & Bart, CPAs

Woodbridge, NJ  
May 17, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS



## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section presents management's analysis of the Authority's financial condition and activities of the Authority for the calendar year ended on December 31, 2017 and 2016. This information should be read in conjunction with the basic financial statements and accompanying notes to the basic financial statements, which immediately follow this section.

Management's Discussion and Analysis (MD&A) is Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34, *Basic Financial Statements-Management's Discussion and Analysis for Local Governments*. Certain comparative information between the current fiscal year and the prior two fiscal years is presented in the MD&A as required by GASB Statement No. 34.

### ***Our Mission***

The "Mission" of the Bayshore Regional Sewerage Authority is focused on protection of the environment. In the early part of 2006 the employees gathered discuss the mission and goals at length. Subsequently the staff consolidated the mission in the following statement; "*Dedicated to a Clean Environment for Today, Tomorrow, and Generations to Come*". The Authority employees believe that small continual improvement each year leads to major improvement over time. It is in this spirit that we strive for a minor improvement each year, and it is within this culture that we have achieved substantial results. The Authority accomplishes this by maintaining a well operated, clean, safe facility at 100 Oak Street in Union Beach, NJ. The facility operates well within the limits set by State and Federal permits. Improvements are aimed at lowering the cost of business while prolonging function. Key indicators of performance include the trends in effluent quality of the wastewater being processed as well as operating, capital and debt service expenditures and net position.

### ***Water quality***

One of the more revealing measures of facility performance is the concentration of solids in the discharge from the facility as well as the concentration of organics in this discharge. Figures 1. and 2 below illustrate these measures.

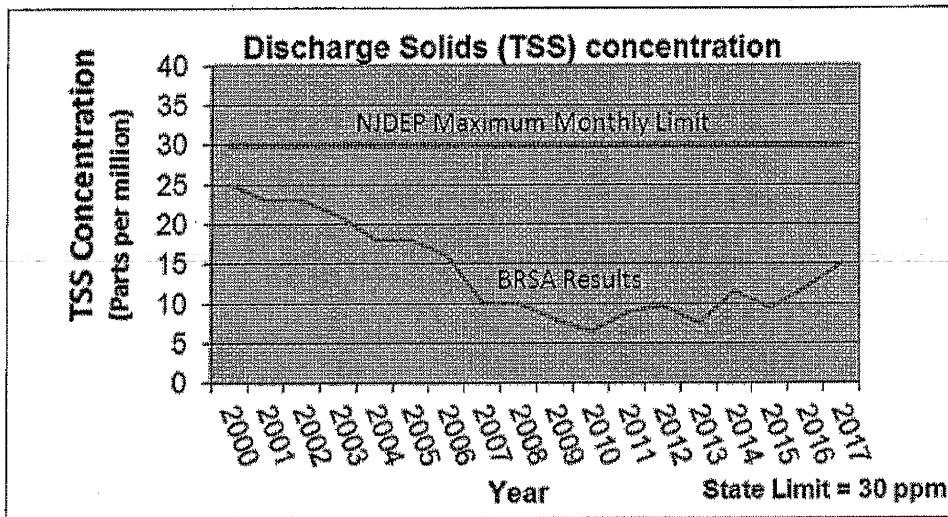


Fig. 1

Effluent total suspended solids (TSS) per liter of water discharged. State requires value to be 30 mg/l or lower

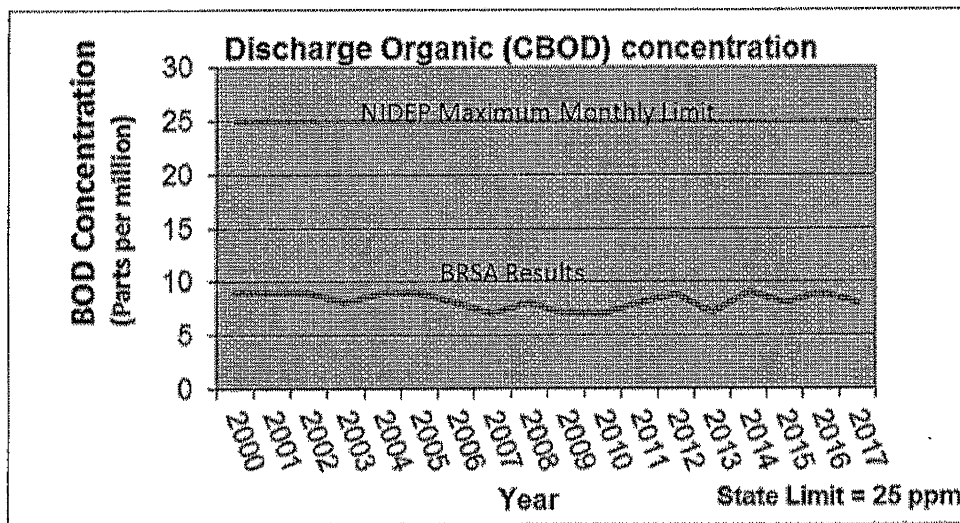


Fig. 2. Effluent carbonaceous biological oxygen demand (cbod) per liter of water discharged. State requires values to be 25 mg/l or lower.

TSS is a measure of the concentration of total suspended solids in parts per million, or milligrams per liter of water. It is one of the most widely used measures of wastewater treatment performance in the United States. Low TSS values are associated with clean water. The State Department of Environmental Protection (NJDEP) requires the Authority to achieve a value of 30

mg/l as a monthly average. The biological oxygen demand (BOD) concentration over time, like the solids concentration, is another key indicator of facility performance. This parameter is an indicator of the organic content remaining in the water after treatment. High organic content is related to receiving water body degradation since the breakdown of organic matter, if not completed in the treatment plant, will resume in the receiving water body utilizing valuable dissolved oxygen meant for aquatic biota. State regulations require a maximum of 25 mg/l as a monthly average. The Authority has achieved a level of 15 mg/l for TSS and 8 mg/l for BOD as a yearly average for 2017.

***Operating and capital expenditures***

The Authority budget is a combination of operating, capital and debt service expense. In 2012 the Authority became debt free when the final debt service payment was made and all bonds were paid off. Authority budgets since then have been comprised of operating and capital expense items only. The Authority Operating budget provides for administration and cost of providing service expenses associated with a 16 million gallon per day treatment plant and regional interceptor collection system as well as an anticipated reserve. In 2017 the Authority focused its Capital Budget on improvements to the interceptor collection system which conveys the sewage from the contributing communities to the Authority treatment plant. Upgrades to the remote pump stations located in those communities are an additional focus. Capital funding is derived primarily from unrestricted net position generated during the year as well as low interest loans from the New Jersey Infrastructure Bank (NJIB). The chart in figure 3 illustrates the Authority effort to maintain a stable operating environment over the past nine-(9) years while dealing with the impact of Superstorm Sandy in 2012. Process equipment repair subsequent to Superstorm Sandy has been the main driver in increased operating costs.

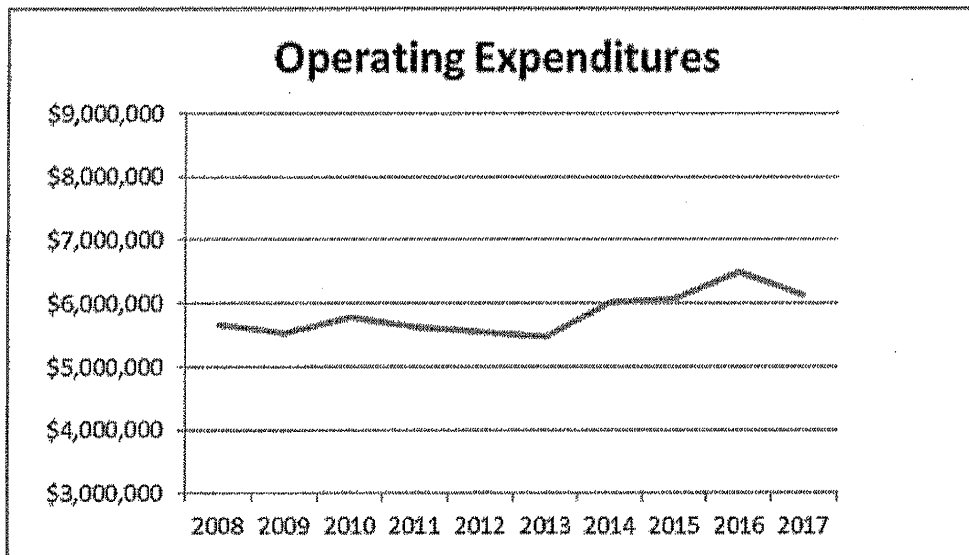


Figure 3 Graph of annual operating expenses 2008 to 2017

***Net Position***

The Authority's financial condition remained strong at year end, as depicted by the financial data which follows. In accordance with GASB Statement No. 63 the term

net asset has been replaced with the term net position. *Net position* is defined as the residual of all other elements presented in a statement of financial position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. In the past this measure has been called net assets, fund balance and equity.

The net position of the Authority is an indication of overall financial health and is the accumulated results of all the individuals years of operating. For calendar year ending 2017 the net position of the Authority (including contributed capital) was \$77,419,740. The net position of the Authority at calendar year end 2016 was \$71,212,074. The change in net position for the Authority in 2017 was an increase of \$6,207,666.

**Net Position of the Bayshore Regional Sewerage Authority for the calendar year ended 12/31**

2017	2016	2015
\$77,419,740	\$71,212,074	\$66,124,417

***Internal Controls***

The Authority has instituted a multi-layered internal control over spending which originates in a formal requisitioning system. All purchasing is handled by our State Qualified Purchasing Agent who follows NJ local public contract laws for procurement and attends ongoing annual training. All operational purchasing requests are made by the requisitioning department. They are authorized first by the Plant Superintendent and sent to the Executive Director for his approval prior to purchase. Signed certifications are received from the claimant (vendor) as well as the requisitioning department upon receipt of goods or services. Upon receipt of goods or services with certifications, a completed payment voucher is submitted to the Executive Director for review and approval before being submitted to the Authority Treasurer for final authorization. Subsequent to the final authorization the claim for payment is presented to the entire Board of Commissioners at a monthly open public meeting. A final resolution approving the claim is required before the authority releases payment to the vendor. Payment to the vendor follows within three-(3) days. The system reduces the risk of error, provides for full disclosure of all payments, involves the authority executive staff and provides payment to the vendor in a reasonable and acceptable time frame.

Internal transfer of funds from one account to another is accomplished via a fund transfer request form produced by the Administrative Assistant in charge of Finances and approved by the Executive Director. Necessary electronic payments are permitted only after Board approval and follow a double entry and certification process. All Operating checks require 3 signatures and payroll checks require 2 signatures.

The payment of claims related to Superstorm Sandy involves even greater scrutiny and includes a review and approval by the NJIB and their contracted Integrity Monitors as well as the NJ Office of Emergency Management prior to FEMA reimbursement.

All Procurement is in accordance with Authority, State and Federal Regulations.

### ***Overview of Financial Report***

#### ***Comparative Statement of Net Position***

“The Comparative Statement of Net Position” presents information on the Authority’s assets and liabilities. “Net Position” or fund equity is the difference between the Authority’s assets and liabilities and is an indicator of the Authority financial strength. Among other things the statement provides the value of the authority’s plant property and equipment from the creation of the authority to present. The Authority’s Net Position (before contributed capital) increased in 2017 from \$65,528,813 to \$72,118,819 primarily due to an increase in operating income as well as connections fees from new development in the service area.

#### ***Comparative Statement of Revenues, Expenses and Changes in Net Position***

The Comparative Statement of Revenues, Expenses and Changes in Net Position presents the results of the business activities over the past year including payroll and benefits, plant materials and supplies purchased, net income and changes in net position. The Authority’s net income increased in 2017 from \$5,180,593 to \$6,590,006 primarily due to an increase in connections to the sewer system and an increase in operating income. The increase in connection fees is the result of several multiuse redevelopment projects in the Bayshore area that are underway.

#### ***Comparative Statement of Cash Flows***

The Comparative Statement of Cash Flows presents the changes in cash and cash equivalents resulting from operational, financing and investing activities. The Net cash and cash equivalents for 2017 was \$13,812,682 which represents a decrease from 2016 of \$144,688 which was recorded as \$14,057,370.

#### ***Schedule of revenue, expenses and changes in net position***

The Schedule of revenue, expenses and changes in net position presents the similar information as the Comparative Statement of Revenues, Expenses and Changes in Net Position with this schedule providing a breakdown by Authority fund. In 2017 the net position at December 31 was \$72,118,819 and compares to \$65,528,813 for December 31, 2016. This represents an increase of \$6,590,006, the largest component of which was developer connection fees to connect to the authority sewer system.

#### ***Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Investments***

The Schedule of cash receipts, cash disbursements and changes in cash and investments presents the allocation of all cash according to authority fund and account for the calendar year 2017. The Schedule indicates transfers made between all accounts and reconciles to the Comparative Statement of Cash Flows. Unrestricted Accounts of Cash and Investments at December 31, 2017 were \$13,912,682 as compared to \$14,057,370 at December 31, 2016. The total Restricted Accounts for December 31, 2017 were

\$12,325,802 as compared to \$7,698,462 at December 31, 2016. Construction fund cash receipts increased due to short term loan reimbursements from the NJEIT and FEMA reimbursements from Superstorm Sandy damage. Construction fund cash disbursements increased due to payments made to the NJEIT to pay off the short term loan as well as ongoing capital construction costs.

*Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to Budget*

The *Schedule of operating revenues and costs funded by operating revenues compared to budget* reviews the authority line item budget to actual expenditures and compares to the same line item from the prior year. Total Costs funded by operating Revenues for 2017 were \$14,202,044 as compared to \$10,411,981 for 2016 due mainly to capital outlays. In 2017 revenues for Permits and Applications increased by \$224,839 as a result of increased property redevelopment activity in the Bayshore area and the connection fees associated with connecting those properties to the sewer system. Revenues from Treatment charges were slightly less (1.1%) in 2017 as compared to 2016. Pension expense decreased in 2017. The Authority has adopted GASB 68 in 2015, which requires the Authority to accrue its proportionate share of State pension liability, resulting in a non-cash charge of \$950,470 in 2016 and \$119,823 in 2017, a decrease of \$814,328. Plant electrical costs decreased by \$155,477 primarily due to the Authority involvement in an energy aggregate group which purchases power at a lower rate due to the aggregate size. In 2017 expenditures for incinerator fuel oil decreased by 58% or \$166,992 because the Authority switched incinerators. The NIRO Incinerator ran for all of 2017 which is a more efficient process from an auxiliary fuel oil standpoint as compared to the DORR Oliver Incinerator which was operating in 2016. Conversely, the use of natural gas increased by \$35,027 or 55% since this fuel is used in the newly renovated NIRO incinerator. Machinery repairs in 2017 were substantially lower than 2016 primarily due to the 2016 repair of the standby emergency generators. Conversely, in 2017 the Authority cost for removal of accumulated incinerator ash was \$247,688. The Authority did not have a need to remove incinerator ash in 2016. In 2017 the Authority completed over \$6,000,000 in capital improvements mostly related to the lining of old sewer pipes in the system. The lining process adds upwards of 50 + additional years of life expectancy to the system pipelines. Most other operational expenditures were in line with prior year.

***Ongoing Response to Hurricane Sandy***

On October 29, 2012 Hurricane Sandy flooded the Borough of Union Beach, NJ where the Bayshore Regional Sewerage Authority is located. The Authority suffered significant damage to its processes. The authority has received funding from three separate insurance policies as well as the Federal Emergency Management Agency, FEMA. FEMA has obligated approximately \$35,000,000 towards the restoration and mitigation of the Authority processes. FEMA share of the funding to restore and mitigate damage has been established at 90% of cost, leaving 10% cost share for the Authority. The Authority has applied to the New Jersey Infrastructure Bank (NJIB) for a short-term Sandy SAIL loan to cover the payment of restoration, mitigation and improvement costs until FEMA

reimbursements have been made and to cover other Authority led projects as well as the 10% Authority share of the FEMA recovery dollars. The Short term loan works on a reimbursement basis whereby the Authority pays the contractor invoice and submits a request for reimbursement to the NJIB which in turn transfers loan proceeds to the Authority account in the amount of the request. Any FEMA funding that the Authority receives related to the invoice amount is transferred to the NJEIT as repayment of loan proceeds.

In 2015 the Authority sold a \$28,113,307 three year note to the New Jersey Environmental Infrastructure Trust under the Sandy- SAIL program to fund the completion of three major restoration/mitigation and improvement projects. The restoration of the NIRO Incinerator Project was awarded at \$16,445,997. The Restoration and Mitigation of the Authority Pump Stations was awarded at \$3,377,600 and the Restoration and Mitigation of the Various Authority Buildings project was awarded at \$1,135,000. As of December 31, 2017 the Authority has requisitioned and received \$24,042,663 of the \$28,113,307 and has repaid the NJEIT \$13,376,832.57 from FEMA reimbursements received.

The State Treasury Department assigns Integrity Oversight Monitors to any Federally Funded FEMA Project with a value exceeding \$10,000,000. As a result, Addex Corp., an Integrity Monitoring firm has been assigned to oversee the NIRO Incineration project. The Integrity Monitor concluded the oversight of the NIRO project in 2017 without incident.

Additional Sandy Restoration/Mitigation and Improvement Projects began in 2016 and 2017 with funding once again through the NJEIT Sandy SAIL Program. The Combined Blower Building project consolidates the two blower process buildings destroyed by Sandy flooding into one and lowers the amount spent to power the plant process air demands as a result. The Combined Blower Building Project was awarded to the lowest bidder for \$6,158,180. A final restoration and mitigation project began in 2017. The project is known as the Elevation of the Power Distribution System Project and was awarded to the lowest bidder at \$4,793,000. The Elevation of the Power Distribution System raises 15KV switchgear and five-(5) onsite transformers to the 500 year flood elevation. These two projects are FEMA funded but will also be funded in the short term through the NJIB Sandy-SAIL program similar to the three projects currently being financed through the NJIB. In 2017 the New Jersey Environmental Infrastructure Trust (NJEIT) changed its name to the New Jersey Infrastructure Bank (NJIB).

#### **AUTHORITY CONTACT INFORMATION**

Questions concerning any of the information provided in this report or requests for additional information should be addressed to Robert C. Fischer, Executive Director, at the Bayshore Regional Sewerage Authority, 100 Oak Street, Union Beach, NJ 07735.

## EXHIBIT A

Bayshore Regional Sewerage Authority  
Comparative Statement of Net Position  
December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Unrestricted Assets:		
Cash and Cash Equivalents	\$13,912,682	\$ 14,057,370
Inventory (Note 1.G.)	517,603	450,080
Prepaid Expenses	95,844	90,282
Insurance and FEMA Claims Receivable	2,777,891	3,329,596
Claims Receivable - I-Bank	<u>60,377</u>	<u>-</u>
Total Unrestricted Assets	\$17,364,397	\$ 17,927,328
Restricted Assets:		
Construction Funds	9,604,589	4,953,816
Customer Escrow Deposits	2,721,643	2,744,648
Due from NJEIT	<u>-</u>	<u>1,498,294</u>
Total Restricted Assets	<u>12,326,232</u>	<u>9,196,758</u>
Plant, Property and Equipment	147,244,158	137,616,228
Less: Accumulated Depreciation	<u>75,470,219</u>	<u>73,626,740</u>
Net Plant, Property and Equipment	<u>71,773,939</u>	<u>63,989,488</u>
TOTAL ASSETS	\$101,464,568	\$ 91,113,574
Deferred Outflow of Resources:		
Deferred Amount of Net Pension Liability	<u>2,156,369</u>	<u>2,472,721</u>
Total Assets and Deferred Outflow of Resources	<u>\$103,620,937</u>	<u>\$ 93,586,295</u>

See accompanying notes.



EXHIBIT A  
(Continued)

Bayshore Regional Sewerage Authority

Comparative Statement of Net Position

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<u>LIABILITIES AND NET POSITION</u>		
Current Liabilities -		
Payable from Unrestricted Assets:		
Accounts Payable - Operating	\$361,627	\$ 402,876
Accounts Payable - Retainage	165,867	111,575
Payroll Deductions Payable	17,778	24,047
Obligation to Customers	-	8,316
Accrual for Unused Leave and Vacation Time	72,805	79,920
Total Current Liabilities Payable from Unrestricted Assets	<u>618,077</u>	<u>626,734</u>
Current Liabilities -		
Payable from Restricted Assets:		
Escrow Deposits Payable	2,721,643	2,744,648
FEMA Reimbursement due to State	1,722,847	292,169
Note payable - I-Bank -2015 Series	<u>10,671,531</u>	<u>-0-</u>
Total Current Liabilities Payable from Restricted Assets	15,116,021	3,036,817
Long Term Liabilities -		
Payable from restricted assets:		
Note payable - I-Bank -2015 Series	-0-	9,724,506
-2016 Series	1,677,528	-0-
Net Pension Liability	<u>7,303,552</u>	<u>8,986,164</u>
TOTAL LIABILITIES	24,715,178	22,374,221
Deferred Inflow of Resources		
Deferred Amount on Net Pension Liability	<u>1,486,019</u>	<u>-0-</u>
Total Liabilities and Deferred Inflow of Resources	26,201,197	22,374,221
<u>NET POSITION</u>		
Restricted for:		
Contributed capital, net	5,683,261	5,683,261
Construction	<u>9,604,159</u>	<u>1,364,423</u>
	15,287,420	7,047,684
Unrestricted	<u>62,132,320</u>	<u>64,164,390</u>
Total Net Position	<u>77,419,740</u>	<u>71,212,074</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$103,620,937</u>	<u>\$93,586,295</u>

See accompanying notes.

Bayshore Regional Sewerage Authority

Comparative Statement of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Treatment Charges	\$ 9,224,232	\$ 9,327,464
Operating Expenses:		
Payroll and Employee Benefits	3,974,345	4,664,695
Plant Materials and Supplies	1,886,543	2,339,762
Administrative and General	387,735	432,250
Depreciation	1,843,478	1,841,724
Total Operating Expenses	<u>8,092,101</u>	<u>9,278,431</u>
Operating Income	<u>1,132,131</u>	<u>49,033</u>
Nonoperating Revenue (Expenses):		
Interest Income on Investments	120,630	24,965
Miscellaneous Income - Applications and Sundry	5,019,743	4,811,271
Superstorm Sandy Expense - Net	-	(87,016)
Note Issuance Costs - I-Bank Notes	(36,196)	-
Interest- I-Bank Note	(28,642)	-
	<u>5,075,535</u>	<u>4,749,220</u>
Net Income (Before Transfer of Depreciation of Assets Purchased with Contributed Capital)	6,207,666	4,798,253
Transfer of Depreciation to Contributed Capital	<u>382,340</u>	<u>382,340</u>
Net Income	6,590,006	5,180,593
Net Position, January 1 <sup>st</sup>	65,528,813	60,348,220
Net Position, December 31 <sup>st</sup>	<u>72,118,819</u>	<u>65,528,813</u>
Contributed Capital - Net, January 1 <sup>st</sup>	5,683,261	5,776,197
NJEIT Note Principle Forgiveness	-	289,404
Transfer of Depreciation from Operations	<u>(382,340)</u>	<u>(382,340)</u>
Contributed Capital - Net, December 31 <sup>st</sup>	<u>5,300,921</u>	<u>5,683,261</u>
Net Position, End of Year	<u>\$ 77,419,740</u>	<u>\$ 71,212,074</u>

## EXHIBIT C

Bayshore Regional Sewerage Authority  
Comparative Statement of Cash Flows  
Years Ended December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash Provided by (Used for) Operations:		
Change in Net Position	\$ 6,207,666	\$ 4,798,253
Adjustments to Reconcile Net Income to Net Cash:		
Depreciation	1,843,478	1,841,724
Prepaid Expenses	(5,562)	(1,580)
Inventory	(67,523)	(30,356)
Claims Receivable	491,328	-
Current Liabilities Payable from Unrestricted Assets	(8,657)	11,601
Current Liabilities Payable from Restricted Assets	1,407,673	(806,605)
Deferred Amounts on Net Pension Liability	1,802,376	1,453,376
Net Pension Liability	(1,682,617)	2,403,847
Net Cash Provided by Operations	<u>9,988,162</u>	<u>6,763,508</u>
Cash Flows Provided by (Used for) Investing Activities:		
Restricted Assets	(3,129,474)	(3,404,753)
Plant, Property and Equipment	<u>(9,627,930)</u>	<u>(10,179,966)</u>
Net Cash Used by Investing Activities	<u>(12,757,404)</u>	<u>(13,584,719)</u>
Cash Flows provided by Financing Activities:		
Note Payable	2,624,554	8,422,260
Grant Income	-	289,404
Net Cash provided by Financing Activities	<u>2,624,554</u>	<u>8,711,664</u>
Net Increase in Cash and Cash Equivalents	(144,688)	1,890,453
Cash and Cash Equivalents:		
Beginning of Period	<u>14,057,370</u>	<u>12,166,917</u>
End of Period	<u>\$ 13,912,682</u>	<u>\$ 14,057,370</u>

See accompanying notes.

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2017 and 2016

1. Summary of Significant Accounting Policies

A. General

The Bayshore Regional Sewerage Authority (Authority) is a public body politic and corporate constituting a political subdivision of the State of New Jersey created under Chapter 138 of the Sewerage Authority Law of New Jersey of 1946, as amended, pursuant to the action of the governing bodies of Hazlet Township, Holmdel Township and the Borough of Union Beach in 1968.

The Authority is authorized and empowered to acquire, construct, maintain, operate or improve works for the collection, treatment, and disposal of sewage or other wastes in return for the participants agreeing to pay all charges necessary to cover debt service requirements and all obligations of the Authority through sewer charges for usage. The present participants are Hazlet Township, Holmdel Township, Borough of Union Beach, Borough of Keyport, Keansburg Municipal Utilities Authority, Borough of Matawan, Western Monmouth Utilities Authority, and the Township of Aberdeen. All participants have entered into service contracts with the Authority.

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

B. New Accounting Standards

The Authority has adopted GASB Statement 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 67 and 68* ("GASB 73"). Statement No. 73 requires the Authority to present a 10-year schedule of changes in the total net pension liability. The schedule of changes in the total net pension liability is presented in the Supplementary Information of these financial statements.

In June 2015, GASB issued Statement No. 75, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions* ("GASB 75.") This Statement establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to employees of state and local government employers through OPEB plans that are administered through trusts or equivalent arrangements. This Statement also establishes standards of accounting and financial reporting for defined benefit OPEB and defined contribution OPEB that are provided to employees of state and local government employers through OPEB plans that are not administered through trusts or equivalent arrangements. The provisions of this Statement are effective for financial statements in periods beginning after June 15, 2017. This Statement will become effective for the December 31, 2018 year-end. The Authority has not yet completed the process of evaluating the impact of GASB 75 on the financial statements.

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2017 and 2016

B. New Accounting Standards (Continued)

In March 2016, GASB issued Statement No. 82, *Pension Issues* ("GASB 82"). This Statement requires presentation of covered payroll, defined as payroll on which contributions to a pension plan are based, and ratios that use that measure, in schedules of required supplementary information. The Statement also addresses issues regarding the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions of this Statement are effective for financial statements in periods beginning after June 15, 2016. The Authority has implemented GASB 82 during this fiscal year.

C. Basis of Financial Statements

The financial statements of the Authority have been prepared on an accrual basis in accordance with generally accepted accounting principles applicable to enterprise funds of state and local governments.

Cash, Cash Equivalents and Investments

New Jersey Authorities 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 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 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.

N.J.S.A. 17:9-42 requires governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

Public funds are defined as the funds of any government unit. Public depositories include banks (both state and national banks), savings and loan institutions and savings banks, the deposits of which are federally insured. All public depositories pledge collateral, having a market value of 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 in the collateral pool, is available to pay the full amount of their deposits to the governmental units.

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2017 and 2016

1. Summary of Significant Accounting Policies (continued)

D. Due from State of New Jersey Infrastructure Bank ("I - Bank")

The Authority in 2012 participated in a financing program for improvements to the treatment plant and the construction of a Wind Turbine located in Union Beach, New Jersey. The funds borrowed were held in trust by the New Jersey Infrastructure Bank ("I-Bank" - F/K/A New Jersey Environmental Infrastructure Trust), for the Authority and are remitted on a reimbursement basis. The balance due the authority was paid in 2017.

E. Unemployment Insurance

The Authority is insured under the rules and regulations of the State of New Jersey Unemployment Compensation Law, whereby it pays into the state fund a percentage of payroll costs to cover benefits to be paid to former employees of the Authority.

F. Inventory

Inventory consists principally of machinery replacement parts and supplies. The inventory is stated at cost determined on a first-in, first-out basis. An adjustment was made to the December 31, 2017 inventory dollar amount due to an increase in amounts of inventory and cost thereof.

G. Grants-In-Aid

Federal and state grants-in-aid of construction are recorded in the period received. Grants received by the Authority are restricted by the grantor to the design and construction of plant facilities and are recorded as contributed capital.

H. Use of Estimates

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

I. Plant, Property and Equipment

Plant, property and equipment are stated at cost, which includes direct construction costs and other expenditures related to construction. Construction costs are charged to construction in progress until such time as given segments of the project are completed and put into service.

Depreciation is determined on a straight-line basis for all plant and equipment. Depreciation on assets acquired with Grants-in-Aid is recorded as a reduction of contributed capital. Depreciation is provided over the following estimated useful lives of capital assets ranging from 5-40 years. Construction in Progress is not depreciated until put into service.

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2017 and 2016

I. Plant, Property and Equipment (Continued)

The following table summarizes the capital asset activity of the Authority for 2017 and 2016:

<u>2016</u>	<u>Balance December 31, 2016</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance December 31, 2017</u>
Land & Buildings	\$ 1,222,762	\$ -	\$ -	\$ 1,222,762
Plant Infrastructure	92,915,325	1,172,918	-	94,088,243
System Infrastructure	20,518,619	4,885,151	-	25,403,770
Vehicles & Equipment	1,346,229	41,641	-	1,387,870
Construction in Progress	<u>21,613,293</u>	<u>3,528,220</u>	<u>-</u>	<u>25,141,513</u>
	\$137,616,228	\$9,627,930	-	\$147,244,158
Less: Accumulated depreciation	<u>(73,626,740)</u>	<u>(1,843,479)</u>	<u>-</u>	<u>(75,470,219)</u>
	<u>\$ 63,989,488</u>	<u>\$7,784,451</u>	<u>\$ -</u>	<u>\$ 71,773,939</u>

The following table summarizes the capital asset activity of the Authority for 2016 and 2015:

<u>2014</u>	<u>Balance December 31, 2015</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance December 31, 2016</u>
Land & Building	\$ 1,222,762	\$ -	\$ -	\$ 1,222,762
Plant Infrastructure	92,342,217	573,108	-	92,915,325
System Infrastructure	19,969,503	549,116	-	20,518,619
Vehicles & Equipment	1,291,153	54,716	-	1,346,229
Construction in Progress	<u>12,878,056</u>	<u>8,735,237</u>	<u>-</u>	<u>21,613,293</u>
	\$127,704,051	\$ 9,912,177	-	\$137,616,228
Less: Accumulated Depreciation	<u>(71,785,016)</u>	<u>(1,841,724)</u>	<u>-</u>	<u>\$(73,626,740)</u>
	<u>\$ 55,919,035</u>	<u>\$ 8,070,453</u>	<u>\$ -</u>	<u>\$ 63,989,488</u>

J. Statements of Cash Flows

For purposes of the statement of cash flows, the Authority considers unrestricted investments with maturities of three months or less to be cash equivalents.

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2017 and 2016

NOTE 2. INSURANCE AND FEMA CLAIMS RECEIVABLE/FINANCING OF SUPER STORM SANDY COSTS

On October 29, 2012, Super Storm Sandy made landfall along the Southern Atlantic Coast of New Jersey. The resulting storm surge and winds caused catastrophic damage to the community of Union Beach, where the Authority is located.

The Authority sustained significant damage to its property, plant and equipment. As of December 31, 2017, the Authority has expended \$12,540,837 (exclusive to amounts spent in relation to the I-Bank note borrowings discussed in Note 3), in repairs, equipment replacement and alternative treatment methods in order to continue to service its customer base. The full extent and cost of the damage caused by this extraordinary event has yet to be finalized and measured.

Certain of the expenses incurred by the Authority and discussed above will be eligible for a combination of insurance coverage and financial assistance from the Federal Emergency Management Agency (FEMA). The Authority anticipates that many of these expenses will be reimbursable at 90%. Certain of these expenses will mitigate future storm damage, and as such, will be capital in nature and will be financed over the useful life of the repaired asset. The amount shown as Insurance Claims receivable on the balance sheet is shown net of a \$2,842,842 reimbursement from the Authority's various insurance carriers, and \$5,698,325 from FEMA.

NOTE 3. CLAIMS RECEIVABLE I-BANK

During 2017, the Authority expended \$60,377 in funds for engineering and other fees related to projects that will eventually be financed by an additional short-term note sold to the I-Bank. The Authority has made application to FEMA, and upon approval from FEMA, these funds will be reimbursed to the Authority when the additional short-term note is sold by the Authority.

NOTE 4. NOTES PAYABLE- I-BANK

2015 Series

On May 23, 2015, the authority sold a three-year note to I-Bank in an amount not to exceed \$28,113,307. The proceeds of the note were used by the Authority to fund repairs associated with damage from Super Storm Sandy, as well as fund costs associated with future mitigation of damages from future storms. The terms of the note called for the Authority to draw funds as needed to fund completion of these projects. Most of these costs will be ultimately funded by FEMA, or in the form of principal forgiveness of a portion of the note by I-Bank. The Authority drew funds from a construction account established by I-Bank and receives reimbursements from FEMA. These reimbursements were forwarded back to I-Bank, thereby lowering the balance due on the note. As of December 31, 2016, and 2015, the Authority owed I Bank \$10,761,531 and \$9,724,506 respectively. The Authority paid a one-time interest payment on this note of \$28,642 to I-Bank in 2017.



Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2017 and 2016

NOTE 4. NOTES PAYABLE- I-BANK (Continued)

On February 26, 2018, The Authority adopted a resolution ("General Bond Resolution") authorizing the issuance of revenue bonds. Also, on February 26, 2018, the Authority adopted supplemental resolution 1 to the General Bond Resolution authorizing the issuance to the I-Bank of an amount not to exceed \$14,000,000 (the "2018 Bonds"). The 2018 bonds are to consist of two portions: A Federal portion that includes principal forgiveness, and a State Portion. The federal portion of the 2018 Bonds is dated March 20, 2018 and consist of semiannual principle payments of 47,627.74 commencing on August 1, 2018, with a final maturity on August 1, 2037, at which time the total principal payments will amount to \$936,679. This portion does not bear interest. The State portion of the 2018 bonds in the amount of \$10,307,021 is anticipated to be borrowed no later than May 30, 2018. The state Portion shall be initially dated the date of delivery and shall bear interest from their date of delivery, and semiannually thereafter on August 1 and February 1 of each year. This portion shall bear interest at the rates and shall mature on the dates and in the principal amounts, set forth in an I-Bank Loan Agreement; provided that (i) each maturity date shall be February 1 or August 1; (ii) the final maturity date shall not be later than August 1, 2040; and (iii) no interest shall exceed six percent (6%) per annum. The Proceeds of the 2018 bonds will be used to refund the balance due on the 2015 notes payable, and pay for the cost of issuance of the 2018 bonds.

2016 Series

On June 22, 2016, the Authority sold a three-year note to I-Bank in an amount not to exceed \$11,233,343. Like the 2015 Note payable, the proceeds of the note were used by the Authority to fund repairs associated with damage from Super Storm Sandy, as well as fund costs associated with future mitigation of damages from future storms. The terms of the note called for the Authority to draw funds as needed to fund completion of these projects. Most of these costs will be ultimately funded by FEMA, or in the form of principal forgiveness of a portion of the note by I-Bank. The Authority drew funds from a construction account established by I-Bank and receives reimbursements from FEMA. These reimbursements were forwarded back to I-Bank, thereby lowering the balance due on the note. As of December 31, 2016, the Authority owed I Bank \$1,677,528 under the terms of this note.

As of December 31, 2017, and 2016, the Authority owed I-Bank \$1,722,847 and \$292,169 to the I-Bank for FEMA reimbursement received under both the 2015 and 2016 series note programs.

NOTE 5. EMPLOYEE RETIREMENT SYSTEM

Full-time employees of the Authority are covered by the Public Employees' Retirement System of the State of New Jersey ("PERS"). PERS is administered by the State of New Jersey, Division of Pensions and Benefits ("Division").

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2017 and 2016

NOTE 5. EMPLOYEE RETIREMENT SYSTEM (Continued)

PERS is a cost-sharing, multiple-employer defined benefit pension plan. PES provides retirement and disability benefits, annual cost of living adjustments and benefits to plan members and their beneficiaries. As a condition of employment, all Authority full-time employees are required to be members of PERS. PERS members can apply for a service retirement of age 60 if enrolled before November 2, 2008 (Tier 1 or Tier 2), or at age 62 if enrolled on or after November 2, 2008, but before June 28, 2011 (Tier 3 or Tier 4), or at age 65 if enrolled on or after June 28, 2011 (Tier 5) regardless of the amount of service credit earned.

**Plan Description and Benefits**

Tier 1, 2 or 3: Annual Benefit = Years of Service Credit, divided by 55, times Final Average Salary (average salary of the last three years of credited service or the highest three fiscal years of credited service, whichever provides the higher benefit). Tier 4 or Tier 5: Annual Benefit = Years of Service Credit, divided by 60, times Final Average Salary (average salary of the last five years of credited service or the highest five fiscal years of credited service, whichever provides the higher benefit). Pension benefits fully vest on reaching 10 years of service. Vested employees who were enrolled prior to July 1, 2007, and who have established 25 years or more of creditable service may retire without penalty at or after age 55 and receive full retirement benefits. PERS also provides death and disability benefits. Benefits are established by State statute.

**Contributions**

Employees contribution rates to PERS governed by P.L. 2011, C. 78, effective June 28, 2011, were increased from 5.5% of salary to 6.5% of salary, and a phase-in to 7.5% of salary over a seven year period. Covered Authority employees are required by PERS to contribute 7.06% of their salaries. State statute requires the Authority to contribute an actuarially determined rate which includes the normal cost and the unfunded accrued liability. The amount of the Authority's contribution is certified each year by PERS on the recommendation of the actuary, who makes an annual actuarial valuation. The valuation is based on a determination of the financial condition of the retirement system. It includes the computation of the present dollar value of benefits payable to former and present members and the present dollar value of future employer and employee contributions, giving effect to mortality among active and retired members and also to the rates of disability, retirement, withdrawal, former service, salary and interest. In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries.

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2017 and 2016

**NOTE 5 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)**

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

Public Employees Retirement System (PERS)

At December 31, 2017 and 2016, the Authority had a liability of \$7,303,552 and \$8,986,164, respectively, for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2017 and 2016, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 and 2016, respectively. The Authority's proportionate share of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, actuarially determined. As of the measurement date of June 30, 2017, the Authority's proportionate share was .00313 percent, which was an increase of 0.0010 percent from its proportionate share measured as of June 30, 2016 of 0.0303.

For the years ended December 31, 2017 and 2016, respectively, the pension system has determined the Agency's pension expense to be \$662,912 and \$950,920, respectively, for PERS based on the actuarial valuation which is more than the actual contributions made by the Agency of \$270,981 and \$254,597, respectively. At December 31, 2017 and 2016, the Agency's deferred outflows of resources and deferred inflows of resources related to the PERS pension are from the following sources:

	<u>2017</u>		<u>2016</u>	
	Deferred Outflows of Resource	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	\$ 171,973		\$ 167,115	
Changes of Assumptions	1,471,414	\$1,486,019	1,861,453	
Net Difference Between Projected and Actual Earning on Pension Plan Investments	49,732		342,651	
Changes in Proportion and Differences Between Authority Contributions and Proportionate Share of Contributions	<u>463,250</u>			
 Total	 <u>\$2,156,369</u>	 <u>\$1,486,019</u>	 <u>\$2,742,721</u>	

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2017 and 2016

NOTE 5 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

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

Public Employees Retirement System (PERS) (Continued)

At December 31, 2017, the amounts reported as deferred outflows of resources and deferred inflows of resources related to PERS pension will be recognized expense as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Total</u>
2018	\$ 118,169
2019	118,169
2020	118,169
2021	118,169
2022	118,169
Thereafter	<u>1,565,524</u>
	<u>\$2,156,369</u>

Actuarial Assumptions

The Authority's total pension liability reported for the year ended December 31, 2017 was based on the June 30, 2017 measurement date as determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. The total pension liability reported for the year ended December 31, 2016 was based on the June 30, 2016 measurement date as determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement date:

<u>PERS</u>	<u>2017</u>	<u>2016</u>
Inflation Rate	2.25%	3.08%
Salary Increases:		
2012 - 2021		1.65 - 4.40%
Through 2026	1.65 - 4.15%	Based on Age
Thereafter	2.65 - 5.15%	2.15 - 5.15%
	Based on Age	Based on Age
Investment Rate of Return	7.00%	7.65%

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2017 and 2016

**NOTE 5 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)**

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - Public Employees Retirement System (PERS) (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rate of return (expected returns, net of pension plans 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 weighing 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 the pension plans' target asset allocation as of June 30, 2017 and 2016 are summarized in the following tables:

<u>2017</u>			<u>2016</u>		
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute return/ risk mitigation	5.00%	5.51%	Cash	5.00%	0.87%
Cash equivalents	5.50%	1.00%	U.S. Treasuries	1.50%	1.74%
U.S. Treasuries	3.00%	1.87%	Investment-grade credit	8.00%	1.79%
Investment grade credit	10.00%	3.78%	High-yield bonds	2.00%	4.56%
Public high yield	2.50%	6.82%	Inflation-indexed bonds	1.50%	3.44%
Global diversified credit	5.00%	7.10%	Broad U.S. Equities	26.00%	8.53%
Credit-oriented			Developed Foreign Equities	13.25%	6.83%
Hedge funds	1.00%	6.60%	Emerging markets equities	6.50%	9.95%
Debt-related			Private Equity	9.00%	12.40%
private equity	2.00%	10.63%	Hedge funds/Absolute return	12.50%	4.68%
Debt-related real estate	1.00%	6.61%	Real estate (property)	2.00%	6.91%
Private real asset	2.50%	11.83%			
Equity-related			Commodities	0.50%	5.45%
real estate	6.25%	9.23%	Global debt ex U.S.	5.00%	-0.25%
U.S. Equity	30.00%	8.19%			
Non-US developed			REIT	5.25%	5.63%
Markets equity	11.50%	9.00%			
Emerging markets equity	6.50%	11.64%			
Buyouts/venture capital	8.25%	13.08%			

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2017 and 2016

NOTE 5 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

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

Public Employees Retirement System (PERS) (Continued)

Discount Rate

The Discount rate used to measure the total pension liabilities of the PERS plan was as follows:

<u>Year</u>	<u>Measurement Date</u>	<u>Discount Rate</u>
2017	June 30, 2017	5.00%
2016	June 30, 2016	3.98%

The following table represents the crossover period, if applicable, for the PERS defined benefit plan:

<u>Payments for which the Following Rates were Applied</u>	<u>Period of Projected Benefit</u>
Long-Term Expected Rate of Return	Through June 30, 2040
Municipal Bond Rate*	From July 1, 2040 and Thereafter

• The municipal bond rate used is 3.58% and 2.85% as of the measurement dates of June 30, 2017 and 2016, respectively. The source is 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.

Sensitivity of Net Pension Liability

The following present the Authority's proportionate share of the PERS net pension liability as of December 31, 2017 and 2016, calculated using the discount rate of 5.00% and 3.98%, respectively, as well as what the Authority's proportionate share of the PERS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.00% and 2.98%, respectively) or 1-percentage-point higher (6.00% or 4.98%, respectively) than the current rate:

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2017 and 2016

NOTE 5 EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (Continued)

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

Public Employees Retirement System (PERS) (Continued)

Sensitivity of Net Pension Liability (Continued)

	<u>2017</u>		
	1% Decrease <u>(4.00%)</u>	Current Discount Rate <u>(5.00%)</u>	1% Increase <u>(6.00%)</u>
Authority's Proportionate Share of The PERS Net Pension Liability	<u>\$ 8,691,266</u>	<u>\$ 7,303,552</u>	<u>\$ 6,134,982</u>
	<u>2016</u>		
	1% Decrease <u>(2.98%)</u>	Current Discount Rate <u>(3.98%)</u>	1% Increase <u>(4.98%)</u>
Authority's Proportionate Share of The PERS Net Pension Liability	<u>\$8,986,164</u>	<u>\$ 7,007,069</u>	<u>\$10,783,396</u>

The sensitivity analysis was based on the proportionate share of the Authority's net pension liability at December 31, 2017 and 2016. A sensitivity analysis specific to the Authority's net pension liability was not provided by the pension system.

Pension Plan Fiduciary Net Position

Detailed information about the PERS pension plan's fiduciary net position is available in the separately issued report from the State of New Jersey, Department of the Treasury, Division of Pension and Benefits. The financial report may be accessed via the New Jersey, Division of Pensions and Benefits website at [www.state.nj.us/treasury/pensions](http://www.state.nj.us/treasury/pensions).

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2017 and 2016

NOTE 6. POST-RETIREMENT MEDICAL BENEFITS

The State of New Jersey sponsors and administers the post-retirement health benefit program plans for participating government agencies including the Authority. The Plans are cost-sharing multiple employer-defined benefit plans.

As a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans (OPEB)*, effective for Fiscal Year 2007, the State Health Benefits Program (SHBP), and the Prescription Drug Program (PDP), and Post-Retirement Medical (PRM) of the PERS are combined and reported as Pension and Other employee Benefit Trust funds in the State's Comprehensive Annual Financial Report (CAFR). Specifically, SHBP-State, PDP-State, and the PRM are combined and reported as a fund (Health Benefits Program Fund - State). The SHBP-Local, PDP-Local, and the PRM are combined and reported as a separate fund (Health Benefits Program Fund -Local) in the State's CAFR. The health benefit programs had a total of 454 state and local participating employers and contributing entities for Fiscal Year 2008.

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 above trusts. 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.

BASIS OF ACCOUNTING

The financial statements of the health benefit programs are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the health benefit programs. Benefits or refunds are recognized when due and payable in accordance with the terms of the health benefit programs.

INVESTMENT VALUATION

Investments are reported at fair value. Securities traded on a national or international exchange is valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

The State of New Jersey, Department of Treasury, Division of Investment, issues publicly available financial reports. The financial reports maybe obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 2909, Trenton, New Jersey 08625-0290.



Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2017 and 2016

NOTE 6. POST-RETIREMENT MEDICAL BENEFITS (Continued)

FUNDING POLICY

P.L. 1987, c. 384 and P.L. 1990, c.6 required the Public Employees' Retirement System to fund post-retirement medical benefits for those State and participating local government employees who retire after accumulating 25 years of credited service or on a disability retirement. ~~As of June 30, 2008, there were 80,181~~ retirees receiving post-retirement medical benefits. The cost of these benefits is funded through contributions by the State and participating local governments, in accordance with P.L. 1994, c.62. Funding of post-retirement medical benefits changed from a pre-funding basis to a pay-as-you-go basis beginning in Fiscal Year 1994.

P.L. 1977, c. 136 provides for the State and participating local governments to pay health benefits on a pay-as-you-go basis for all enrolled retired employees, regardless of retirement date, under two provisions. The first is for employees whose pensions are based on 25 years or more of credited service (except those who elect a deferred retirement). The second is for retired employees who are eligible for a disability retirement regardless of years of service.

PERS retirees are excluded from the provisions set forth in P.L. 1977, c. 136 since their health benefits coverage is funded through each of their respective pension fund systems via an annual appropriation. The State annually sets 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 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 thirty years. The Authority had no required contributions to the State Health Benefits Program Fund for post-retirement benefits for the years ended December 31, 2015, 2014 or 2013.

NOTE 7. SUBSEQUENT EVENTS

In Management's opinion, there were no other transactions or events which would require recognition or disclosure in the Financial Statements from January 1, 2018 through May 17, 2018, the date in which these Financial Statements became available to the public.

SUPPLEMENTARY INFORMATION

Bayshore Regional Sewerage AuthoritySCHEDULE OF PROPORTIONATE SHARE OF PERS NET PENSION LIABILITY (NPL)  
DETERMINED AS OF JUNE 30, 2017, PERS MEASUREMENT DATE

Fiscal Year	Authority's Proportion	Authority's Proportionate	Authority's Covered Payroll	Authority's Proportionate Share of NPL as a % of Covered Payroll
2017	0.03%	\$7,303,532	\$2,122,042	344%
2016	0.03%	8,986,164	2,125,099	422%
2015	0.03%	6,582,317	2,088,779	315%

## SCHEDULE OF CONTRIBUTIONS

Fiscal Year	Required Contribution	Contributions Recognized by PERS	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2017	\$ 662,912	\$ 290,654	\$372,258	\$2,122,042	13.69%
2016	950,420	269,456	680,964	2,125,099	12.67%
2015	487,968	252,095	235,873	2,088,779	12.06%

## SCHEDULE OF CHANGES IN TOTAL NET PENSION LIABILITY

Fiscal Year	Difference Beginning Balance Total Net Pension	between Expected & Actual	Difference Change of Assumptions	Change in between Expected & Actual Earnings	Proportion & Actual Less Proportionate Share	Other Changes and Reclassifications	Ending Balance Total Net Pension Liability
2017	\$8,986,164	\$171,973	\$ 5,395	\$ 49,732	\$463,250	\$(2,372,962)	\$7,303,552
2016	6,582,317	167,115	1,861,453	342,651	371,502	(338,694)	8,986,164
2015	5,275,787	157,031	706,888		261,677	180,934	6,582,317

The Pension Schedules are intended to show information for ten years. The State of New Jersey has issued three years of pension information to the Authority. Additional years information will be displayed as it becomes available.

Bayshore Regional Sewerage Authority

Schedule of Revenue, Expenses and Changes in Net Position

	Reserved and Unreserved		
	Totals		
	Year Ended December 31, 2017		
	Unreserved	Construction	2016
Operating Revenues:			
Treatment Charges	\$ 9,224,232	\$ -	\$ 9,327,464
Operating Expenses:			
Payroll & Employee Benefits	3,974,586	-	4,664,695
Plant Materials and Supplies	1,866,543	-	2,339,762
Administrative and General	448,112	-	432,250
Depreciation	1,843,478	-	1,841,724
Total Operating Expenses	8,092,101	-	9,278,431
Operating Income	1,132,181	-	49,033
Nonoperating Revenues (Expenses):			
Interest Income on Investments			
- Operating	71,457	-	18,459
- Construction	-	49,173	6,506
Miscellaneous Income	5,019,743	-	4,811,271
Superstorm Sandy Expenses-net	(36,196)	-	(87,016)
Net Income Before Transfers	5,026,452	49,173	4,749,220
	6,158,493	49,173	4,798,253
Transfers:			
Depreciation on Assets Purchased with Contributed Capital	382,340	-	382,340
Increase (Decrease) in Retained Earnings	6,540,833	49,173	5,180,593
Net Position, January 1st	\$64,164,390	\$1,364,423	\$60,348,220
GASB 68 Adjustment	-	-	-
Net Position, December 31st	\$70,705,223	\$1,413,596	\$65,528,813

Bayshore Regional Sewerage Authority

Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Investments

Unrestricted Accounts

Year Ended December 31, 2017

	Revenue	Regular Account	Payroll Account	Petty Cash	Reserve Account	Total
Cash and Investments - December 31, 2015	\$ 5,516	\$ 558,360	\$ 198,148	\$ 300	\$13,295,046	\$14,057,370
Cash Receipts:						
Service Charges	9,230,134	-	-	-	-	9,230,134
Outfall Charges	934,992	-	-	-	-	934,992
Insurance and Reimbursements	-	-	-	-	-	-
Transfers from other funds	-	12,449,167	3,339,855	-	15,718,770	31,557,292
Interest Received	1,030	8,878	3,195	-	54,867	67,970
Miscellaneous Income	4,037,560	-	-	-	-	4,037,560
Total Cash Available	\$14,209,232	\$13,016,405	\$3,541,198	\$ 300	\$29,118,183	\$59,885,318
Cash Disbursements -						
Transfer to Other Funds	13,887,294	-	-	-	18,013,421	31,900,715
Net Payroll & Payroll Taxes	-	-	2,807,438	-	-	2,807,438
Operations	-	11,264,483	-	-	-	11,264,483
Total Cash Disbursements	13,887,294	11,264,483	2,807,438	-	18,013,421	45,972,636
Cash and Investments - December 31, 2016	321,938	1,751,922	733,760	300	11,104,762	13,912,682
Balance Comprised of:						
- Cash	\$ 321,938	\$1,751,922	\$ 733,760	\$ 300	\$11,104,762	\$13,912,682

Bayshore Regional Sewerage Authority

Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Investments

Restricted Accounts

Year Ended December 31, 2017

	Escrow Deposits	Construction Fund	Total
Cash and Investments - December 31, 2016	\$ 2,744,648	\$ 4,953,814	\$ 7,698,462
Cash Receipts:			
Interest Received	6,197	33,149	39,346
Received from Customers	-	-	-
Transfer from other funds	-	1,500,000	1,500,000
Received from NJEIT	-	7,659,876	7,659,876
Received from FEMA	-	5,302,471	5,302,471
Total Cash and Investments Available	<u>2,750,845</u>	<u>19,447,310</u>	<u>22,198,155</u>
Cash Disbursements:			
Paid to Customers	29,202	-	29,202
Reimbursements to NJEIT	-	3,871,793	3,871,793
Construction Costs	-	5,971,358	5,971,358
Total Cash Disbursements	<u>29,202</u>	<u>9,843,151</u>	<u>9,872,353</u>
Cash and Investments - December 31, 2017	<u>\$ 2,721,643</u>	<u>\$ 9,604,159</u>	<u>\$12,325,802</u>
Balance Comprised of:			
Investments - Cash	<u>\$ 2,721,643</u>	<u>\$ 9,604,159</u>	<u>\$12,325,802</u>

SCHEDULE 5

Bayshore Regional Sewerage Authority

Schedule of Operating Revenues and Costs Funded

By Operating Revenues Compared to Budget

For the Year Ended December 31, 2017

With Comparative Actual Amounts for the Year Ended December 31, 2016

	<u>2017</u> <u>Budget</u>	<u>2017</u> <u>Actual</u>	<u>2016</u> <u>Actual</u>
<b>Revenues:</b>			
Treatment Charges	\$ 9,241,436	\$ 9,224,232	\$ 9,327,464
Interest on Investments	8,000	120,630	24,965
Permits and Applications	500,000	5,019,743	4,794,904
Sundry	15,000	-	16,367
	<u>\$ 9,764,436</u>	<u>\$ 14,364,605</u>	<u>\$ 14,163,700</u>
<b>Expenses:</b>			
Salaries - Superintendents	581,296	591,219	565,786
- Plant Operations	1,758,000	1,624,219	1,580,838
- Commissioners and Executive Director	167,800	169,123	164,123
- Office Staff	112,744	101,595	106,288
Pension	269,546	390,740	1,205,068
Social Security Tax	188,000	176,652	177,635
Unemployment Compensation Insurance	9,500	8,304	7,484
Health Insurance	999,000	872,838	864,124
Life Insurance	6,895	8,945	6,177
Uniform and Safety Shoes	3,680	3,923	13,562
Memberships	18,900	4,010	15,459
Training and Seminars	19,000	21,269	6,791
Sick-Vacation-Holiday Pay	45,000	(7,144)	(12,777)
Electric Plant	704,687	594,001	749,478
Incineration Fuel	300,000	116,783	283,775
Natural Gas	76,853	98,377	63,350
Plant Telephone	3,900	3,849	3,584
Water	55,153	70,575	55,743
Gasoline	10,000	8,172	7,296
Machinery Repairs	121,000	85,807	460,509
Computer Maintenance	18,000	11,923	21,357
Service Contracts	130,000	98,700	80,524
Major Projects/Repairs	30,000	15,407	22,361
Electrical/Instrument Repairs	47,000	24,456	22,588
Chemicals	296,496	221,381	232,345
Operating Supplies	15,530	10,360	6,509
Grounds Maintenance	15,000	16,713	14,120
Fire and Safety Equipment	20,000	12,291	12,264
Incinerator Sand	6,000	2,254	8,695
Major Projects	51,000	4,082	19,935
Scavengers	15,940	15,935	9,223
Ash Removal	207,941	247,688	-

SCHEDULE 5  
(Continued)

Bayshore Regional Sewerage Authority

Schedule of Operating Revenues and Costs Funded

By Operating Revenues Compared to Budget

For the Year Ended December 31, 2017

With Comparative Actual Amounts for the Year Ended December 31, 2016

	2017 Budget	2017 Actual	2016 Actual
<b>Expenses (continued):</b>			
Lab Chemicals and Supplies	\$ 27,600	\$ 27,374	\$ 31,759
Lab Calibrations	10,000	6,340	3,570
Electric Pump Stations	60,000	74,493	54,412
Telephone - Alarm System	8,400	6,721	7,382
Line Maintenance, Parts, and Supplies	25,755	219	15,830
Truck Expense	6,500	4,365	14,806
Water - Pump Stations	18,000	58,874	20,585
Line Rehabilitation	25,000	159	-
TV Inspection/Cleanings	190,000	-	19,637
Sludge Testing	90,000	8,379	18,081
Fees and Permits	45,000	29,549	22,910
Municipal Host Benefit	12,000	11,302	11,302
Professional Fees - Legal	65,000	20,550	24,278
- Accounting	41,000	32,341	38,737
- Engineering	90,000	50,773	81,878
- Trustee Fees	3,500	-	-
- Consultants; Other	51,500	52,683	45,004
- Payroll Services	-	8,670	8,073
Office Expense - Office Maintenance	3,000	3,540	1,722
- Insurance	230,000	204,876	204,606
- Advertisements	3,200	3,192	5,943
- Telephone	3,000	3,720	3,906
- Office Supplies	9,000	8,596	8,512
- Printing and Postage	2,300	1,391	2,468
- Office Equip. Rental	2,500	552	2,545
- Promotions	1,500	-	3,472
- Miscellaneous	7,000	5,517	954
<b>Other Costs Funded By Operating Revenues:</b>			
Principal Maturities	-	-	-
Capital Outlays	2,430,000	6,045,105	1,046,534
Superstorm Sandy Expenses	-	-	87,016
Depreciation	-	1,843,478	1,841,724
Note Issuance Costs	-	36,196	-
Interest on Note	-	28,642	-
Total Costs Funded by Operating Revenues	9,764,436	14,202,044	10,411,981
Excess (Deficit)	-	162,561	3,751,719
	\$ 9,764,436	\$14,364,605	\$14,163,700



ROSTER OF OFFICIALS

<u>Authority Members</u>	<u>Position</u>	<u>Amount of Surety Bond</u>
Marcy McMullen	Chairperson	-
Charles Steiner	Vice Chairperson	-
Scott Whalen	Treasurer	\$50,000
Bart Sutton	Secretary	-
Louis Pisano	Assistant Secretary	-
Adam Khachaturian	Assistant Treasurer	-

Other Officials

Robert C. Fischer	Executive Director	50,000
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All Other

Office Staff	-	50,000
Plant Employees	-	50,000

Surety Company

NJ Utility Authorities Joint Insurance Fund  
Westchester Surplus Lines Ins.

SINGLE AUDIT SECTION

**BART & BART CERTIFIED PUBLIC ACCOUNTANTS**

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Commissioners  
Bayshore Regional Sewerage Authority  
Union Beach, New Jersey

Report on Compliance for Each Major Federal Program

We have audited Bayshore Regional Sewerage Authority (the "Authority") compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2017. Bayshore Regional Sewerage Authority's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Bayshore Regional Sewerage Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform administrative requirements, Cost Principles, and Audit requirements for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Bayshore Regional Sewerage Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Bayshore Regional Sewerage Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2017.

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(732) 634-5680

-36-

26 MAIN STREET  
KEYPORT, NJ 07735  
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FAX (732) 602-1059

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL  
CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Commissioners  
Bayshore Regional Sewerage Authority  
Union Beach, New Jersey

Report on Internal Control Over Compliance

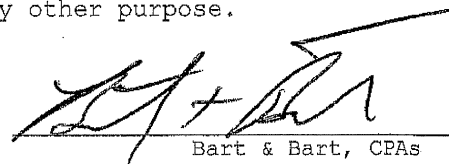
Management of Bayshore Regional Sewerage Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Bayshore Regional Sewerage Authority's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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Woodbridge, NJ  
May 17 2018

  
Bart & Bart, CPAs

Bayshore Regional Sewerage Authority

County of Monmouth, New Jersey

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2017

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Agency Pass-through Number</u>	<u>Award Amount</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>
U.S. Federal Emergency Management Agency	97.036	66 1200 100	\$ 5,302,471	\$ 5,302,471	\$12,738,945
Passed through State of New Jersey Department of Law and Public Safety				\$ 5,302,471	\$12,738,945

BAYSHORE REGIONAL SEWERAGE AUTHORITY  
NOTES TO THE SCHEDULES OF EXPENDITURES OF  
FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2017

1. GENERAL

The accompanying schedules of expenditures of federal awards include federal award activity of the Bayshore Regional Sewerage Authority ("Authority"). The Authority is defined in Note 1 (A) to the Authority's basic financial statements. All federal awards received directly from federal agencies, as well as federal awards and assistance passed through other governmental agencies is included on the schedules or expenditures of federal awards.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented on the accrual basis of accounting. These bases of accounting are described in Note 1 to the Authority's basic financial statements. The information in this schedule is presented in accordance with the requirements of Government Auditing Standards. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements. The Authority has not elected to use the 10% de minimis indirect cost rate.

3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Amounts reported in the accompanying schedules agree with the amounts reported in the Authority's basic financial statements.

4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.

5. FEDERAL AND STATE LOANS OUTSTANDING

The Authority had \$12,349,059 in Notes outstanding payable to state entities at December 31, 2017.

THE BAYSHORE REGIONAL SEWERAGE AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

MAJOR FEDERAL AWARD PROGRAMS

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified dated  
May XX, 2018

Internal control over financial reporting:

1. Material weakness(es) identified? \_\_\_ yes    X no

2. Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_ yes    X no

Noncompliance material to general-purpose financials Statements noted? \_\_\_ yes    X no

State Financial Assistance

Internal control over major programs:

1. Material weakness(es) identified? \_\_\_ yes    X no

2. Reportable condition(s) identified that are not considered to be material weaknesses? \_\_\_ yes    X no

Type of auditor's report issued on compliance for Major programs:

Unqualified dated  
May 17, 2018

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133? \_\_\_ yes    X no

Identification of major programs:

Federal Grant Number:	Name of Program or Cluster
97.036	Emergency Management

Dollar threshold used to distinguish between Type A and Type B Programs:  
\$750,000.00.

Auditee qualified as low-risk auditee? X yes    \_\_\_ no

THE BAYSHORE REGIONAL SEWERAGE AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY  
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS  
YEAR ENDED DECEMBER 31, 2017

FOR THE YEAR ENDED DECEMBER 31, 2016:

There were no findings for the year ended December 31, 2016.



Bayshore Regional Sewerage Authority  
General Comments and Recommendations  
For the Year Ended December 31, 2017

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified Opinion issued on  
Financial Statements - presented  
standards generally accepted in the  
United States of America dated May  
17, 2018.

Internal control over financial reporting:

- |  |    |
|--|----|
| 1) Material Weakness identified?   | NO |
| 2) Significant deficiencies<br>identified that are not<br>considered to be a Material<br>Weakness? | NO |

Non-Compliance material to Financial  
Statements noted? NO

II. FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE  
REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS.

NONE