

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

**COUNTY OF HUNTERDON**

**December 31, 2016**

**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, 2016 and 2015**

**TABLE OF CONTENTS**

	Page
Roster of Officials	1
Independent Auditors' Report	2 - 4
Management's Discussion and Analysis	5 - 9
Basic Financial Statements	
Comparative Statement of Net Position	10 - 11
Comparative Statement of Revenues, Expenses and Changes in Net Position	12
Comparative Statement of Cash Flows	13 - 14
Notes to the Financial Statements	15 - 29
Supplementary Information	
Schedule of the Authority's Proportionate Share of the Net Pension Liability	30
Schedule of Authority Contributions to the Public Employees Retirement System	31
Notes to the Required Supplementary Information	32
Schedule of Changes in Net Position - Restricted Accounts	33
Schedule of Budgetary Comparison Information	34 - 35
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	36 - 37
Schedule of General Comments and Recommendations	38 - 39

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**(A Component Unit of the Township of Clinton)**  
**Roster of Officials**  
**Year Ended December 31, 2016**

<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.



Certified Public Accountants, PC

[www.bkc-cpa.com](http://www.bkc-cpa.com)

---

## 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, 2016 and 2015, 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, 2016 and 2015, 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 June 26, 2017 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**

June 26, 2017  
Flemington, New Jersey

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2016**

**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, 2016**

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, 2016. 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 2.0% over the course of this year's operations.
2. During the year, the CTSA's operating revenues increased by .3%.
3. Operating expenses increased by 23.5%. Accounts payable increased by 20.5%. The largest increase in expenses was for operating expenses relating to treatment costs which increased \$172,729.
4. Net position decreased by 1.8%. Part of this decrease was a result of the increased GASB 68 net pension liability, which increased to \$258,304, and the net pension expense of \$23,230.

**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 Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position presents the financial position of the Authority on a full accrual historical cost basis. The 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.

The 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.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**Management's Discussion and Analysis**  
**For the Year Ended December 31, 2016**

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

The Notes to the Financial Statements provide 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**  
**(A Component Unit of the Township of Clinton)**  
**For the Years Ended December 31, 2016 and 2015**

Condensed Statement of Net Position

Exhibit A

	December 31,		Increase (Decrease)
	2016	2015	
Assets			
Current assets			
Unrestricted assets	\$ 394,422	\$ 429,591	\$ (35,169)
Restricted assets	1,366,292	1,404,162	(37,870)
Capital assets, net	9,325,423	9,474,384	(148,961)
Total current assets	<u>11,086,137</u>	<u>11,308,137</u>	<u>(222,000)</u>
Deferred outflows of resources	<u>93,738</u>	<u>40,529</u>	<u>53,209</u>
Total assets and deferred outflows of resources	<u>\$ 11,179,875</u>	<u>\$ 11,348,666</u>	<u>\$ (168,791)</u>
Liabilities			
Current liabilities			
Unrestricted	\$ 265,032	\$ 239,767	\$ 25,265
Restricted	34,709	33,174	1,535
Non-current liabilities	1,396,283	1,419,999	(23,716)
Total liabilities	<u>1,696,024</u>	<u>1,692,940</u>	<u>3,084</u>
Deferred inflows of resources	<u>-</u>	<u>2,878</u>	<u>(2,878)</u>
Net position			
Net investment in capital assets	8,084,411	8,128,905	(44,494)
Restricted	1,331,583	1,370,988	(39,405)
Unrestricted	67,857	152,955	(85,098)
Total net position	<u>9,483,851</u>	<u>9,652,848</u>	<u>(168,997)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 11,179,875</u>	<u>\$ 11,348,666</u>	<u>\$ (168,791)</u>

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**(A Component Unit of the Township of Clinton)**  
**For the Years Ended December 31, 2016 and 2015**

Condensed Statement of Revenues, Expenses and Changes in Net Position

Exhibit B

	December 31,		Increase (Decrease)
	2016	2015	
Operating revenues	\$ 1,148,723	\$ 1,145,646	\$ 3,077
Operating expenses	1,321,177	1,069,585	251,592
Operating income (loss)	(172,454)	76,061	(248,515)
Non-operating revenues (expenses)	3,457	(26,486)	29,943
Increase (decrease) in net position	(168,997)	49,575	(218,572)
Net position beginning of year	9,652,848	9,603,273	49,575
Net position end of year	\$ 9,483,851	\$ 9,652,848	\$ (168,997)

## **Basic Financial Statements**

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

	2016	2015
Assets		
Current unrestricted assets		
Cash and cash equivalents	\$ 98,254	\$ 167,085
Certificates of deposit	193,294	141,650
Accounts receivable	102,874	120,856
Total unrestricted assets	394,422	429,591
Non-current restricted assets		
Cash and cash equivalents	40,748	39,201
Certificates of deposit	1,325,544	1,364,961
Total restricted assets	1,366,292	1,404,162
Capital assets		
Capital assets being depreciated	12,191,969	11,526,230
Capital assets not being depreciated	411,215	1,015,022
Less: accumulated depreciation	(3,277,761)	(3,066,868)
Net capital assets	9,325,423	9,474,384
Total assets	11,086,137	11,308,137
Deferred outflows of resources	93,738	40,529
Total assets and deferred outflows of resources	\$ 11,179,875	\$ 11,348,666

See accompanying notes to the financial statements.

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

	2016	2015
Liabilities		
Current liabilities		
Accounts payable	\$ 154,370	\$ 128,119
Payroll taxes and withholdings payable	-	489
Accrued sick pay	7,629	6,692
Current portion of loan payable	103,033	104,467
Total current liabilities	265,032	239,767
Current liabilities (payable from restricted assets)		
Trust funds		
Reserve for developers deposits	34,709	33,174
Total current liabilities (payable from restricted assets)	34,709	33,174
Non-current liabilities		
Long-term portion of loan payable	1,137,979	1,241,012
Net pension liability	258,304	178,987
Total non-current liabilities	1,396,283	1,419,999
Total liabilities	1,696,024	1,692,940
Deferred inflows of resources	-	2,878
Net position		
Net investment in capital assets	8,084,411	8,128,905
Restricted	1,331,583	1,370,988
Unrestricted	67,857	152,955
Total net position	9,483,851	9,652,848
Total liabilities, deferred inflows of resources, and net position	\$ 11,179,875	\$ 11,348,666

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,**

	<u>2016</u>	<u>2015</u>
Operating revenues		
Sewer charges	\$ 1,132,800	\$ 1,131,120
Late charges and fees	15,420	9,394
Interest income	341	547
Miscellaneous	162	4,585
Total operating revenues	<u>1,148,723</u>	<u>1,145,646</u>
Operating expenses		
Cost of providing services	818,565	663,531
Administrative and general	273,986	190,863
Depreciation	228,626	215,191
Total operating expenses	<u>1,321,177</u>	<u>1,069,585</u>
Operating income	<u>(172,454)</u>	<u>76,061</u>
Non-operating revenues (expenses)		
Connection fees	26,525	5,122
Interest income	12,206	8,219
NJ Environmental Infrastructure Trust credits	9,963	1,848
Interest expense	(39,325)	(41,675)
Total non-operating revenues (expenses)	<u>9,369</u>	<u>(26,486)</u>
Other financing sources (uses)		
Loss on disposal of assets	<u>(5,912)</u>	<u>-</u>
Change in net position	(168,997)	49,575
Net position, beginning	<u>9,652,848</u>	<u>9,603,273</u>
Net position, ending	<u>\$ 9,483,851</u>	<u>\$ 9,652,848</u>

See accompanying notes to the financial statements.

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

	2016	2015
Cash flows from operating activities		
Cash received from customers	\$ 1,150,944	\$ 1,104,881
Other operating cash receipts	15,420	13,979
Cash payments to suppliers and employees	(1,042,622)	(922,550)
Interest income	341	547
Net cash provided by (used for) operating activities	124,083	196,857
Cash flow from capital and related financing activities		
Connection fees	26,525	5,122
Non-operating interest income	12,206	8,219
Proceeds from developer's deposits (net)	1,535	4,518
NJ Environmental Infrastructure Trust credits	9,963	1,848
Construction in progress	(39,415)	(580,429)
Purchase of capital assets	(46,161)	(18,241)
Payment of debt principal	(104,468)	(105,901)
Payment of debt interest	(39,325)	(41,675)
Net cash provided by (used for) capital and related financing activities	(179,140)	(726,539)
Net increase (decrease) in cash and cash equivalents	(55,057)	(529,682)
Cash and cash equivalents, beginning	1,712,897	2,242,579
Cash and cash equivalents, ending	\$ 1,657,840	\$ 1,712,897
Reconciliation of balance sheet		
Unrestricted cash and cash equivalents	\$ 291,548	\$ 308,735
Restricted cash and cash equivalents	1,366,292	1,404,162
Total cash	\$ 1,657,840	\$ 1,712,897

See accompanying notes to the financial statements.

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

	2016	2015
Reconciliation of income from operations to net cash		
Provided by operating activities		
Income (loss) from operations	\$ (172,454)	\$ 76,061
Adjustments to reconcile income from operations to net cash provided by operating activities		
Depreciation	228,626	215,191
Change in assets and liabilities		
Increase (decrease) in accounts payable	26,251	(76,417)
(Increase) decrease in accounts receivable	17,982	(26,239)
Increase (decrease) in accrued sick pay	937	1,192
Increase (decrease) in deferred inflow of resources	(2,878)	(5,028)
(Increase) decrease in deferred outflow of resources	(53,209)	(32,767)
Increase (decrease) in net pension liability	79,317	46,331
Increase (decrease) in payroll taxes and withholdings payable	(489)	(1,467)
Net cash provided (used) by operating activities	\$ 124,083	\$ 196,857

See accompanying notes to the financial statements.

## **Notes to the Financial Statements**

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**(A Component Unit of the Township of Clinton)**  
**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**  
**(A Component Unit of the Township of Clinton)**  
**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 Renewals and Replacements	Renewals and replacements funded by budget appropriations and payments of connection fees
Reserve for Construction	Construction and/or reconstruction of assets including the construction of the Annandale collection system project.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**(A Component Unit of the Township of Clinton)**  
**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 in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. U.S. Treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at amortized cost.

New Jersey authorities are limited as to the types of investments and types of financial institutions they may invest in. New Jersey statutes provide a list of permissible investments that may be purchased by New Jersey authorities.

Additionally, the Authority has adopted a cash management plan that requires it to deposit public 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. 17:9-41 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.

The Authority's carrying (Statement of Net Position) amounts were \$1,657,840 and \$1,712,897 for December 31, 2016 and 2015, respectively. The bank balances were \$1,670,938 and \$1,712,747 for December 31, 2016 and 2015, respectively.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**(A Component Unit of the Township of Clinton)**  
**Notes to the Financial Statements**

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

Concentration of credit risk

The Authority maintains its cash balances in two financial institutions. These cash balances are insured by Federal Deposit Insurance Corporation, (FDIC) up to the amount of \$250,000 in each bank depository. The funds in excess of the FDIC limit are insured by the State of New Jersey’s Governmental Unit Deposit Protection Act (GUDPA).

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.

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

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**(A Component Unit of the Township of Clinton)**  
**Notes to the Financial Statements**

Note 4 - Pension plans (continued)

Public employees' retirement systems (PERS) (continued)

Plan description (continued)

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to Tiers 1 and 2 members upon reaching age 60 and to Tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to Tier 4 members upon reaching age 62 and Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, Tiers 3 and 4 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 excluding that attributable to employer-paid member contributions. The employer allocation percentages presented in the Division's 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 as an individual employer to total contributions to the PERS during the years ended June 30, 2016 and 2015. 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.

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 measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense excluding that attributable to employer-paid member contributions are determined separately for each individual employer of the state and local groups of the plan.

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 Schedule of Pension Amounts by Employer. The allocation percentages for each group as of June 30, 2016 are based on the ratio of each employer's contributions, to total employer contributions of the group for the fiscal year ended June 30, 2016.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**(A Component Unit of the Township of Clinton)**  
**Notes to the Financial Statements**

Note 4 - Pension plans (continued)

Public employees' retirement systems (PERS) (continued)

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 fiscal years 2016 and 2015, 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 policy is set by state statutes and contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Significant legislation which became effective October 1, 2011, will gradually increase the employee contribution rate for PERS members. Effective October 1, 2011, the rate increased from 5.50% to 6.50% of annual contractual compensation for employees enrolled in the PERS pension plans. The rate will increase each year on the first of July over a seven-year phase-in period until the withholding rate reaches 7.50% effective July 1, 2018. Three-year trend information detailing employer and employee contributions for PERS is summarized below:

Three-year trend information for PERS

<u>Year Funded</u>	<u>Annual Contribution</u>	
	<u>Authority</u>	<u>Employee</u>
2016	\$ 6,855	\$ 4,528
2015	5,841	4,194
2014	5,085	3,288

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**(A Component Unit of the Township of Clinton)**  
**Notes to the Financial Statements**

Note 4 - Pension plans (continued)  
Public employees' retirement systems (PERS) (continued)  
Components of net pension liability

The components of the District's allocable share of the net pension liability for PERS as of June 30, 2016 and 2015 are as follows:

	2016	2015
Total pension liability	\$ 431,490	\$ 343,731
Plan fiduciary net position	173,186	164,744
Net pension liability	\$ 258,304	\$ 178,987
Plan fiduciary net position as a percentage of the total pension liability	40.14%	47.93%

Actuarial assumptions

The collective total pension liability for the June 30, 2016 measurement date was 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:

Inflation rate	3.08%
Salary increases (based on age)	
Through 2026	1.65% - 4.15%
Thereafter	2.65% - 5.15%
Investment rate of return	7.65%

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

The actuarial assumptions used in the July 1, 2015 valuation was 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**  
**(A Component Unit of the Township of Clinton)**  
**Notes to the Financial Statements**

Note 4 - Pension plans (continued)

Public employees' retirement systems (PERS) (continued)

Long-term expected rate of return

In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016) 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, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocations</u>	<u>Long-Term Expected Rate of Return</u>
Cash	5.00%	0.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad U.S. Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (property)	2.00%	6.91%
Commodities	0.50%	5.45%
Global Debt ex U.S.	5.00%	-0.25%
REIT	5.25%	5.63%

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**(A Component Unit of the Township of Clinton)**  
**Notes to the Financial Statements**

Note 4 - Pension plans (continued)

Public employees' retirement systems (PERS) (continued)

Discount rate

The discount rate used to measure the total pension liability was 3.98% as of June 30, 2016. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016, 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 fiscal year. State employer contributed 30% 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 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, 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 collective net pension liability of the District as of June 30, 2016 and 2015, respectively, 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:

	2016
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
	2015
At current discount rate (4.90%)	\$ 178,987
At a 1% lower rate (3.90%)	222,459
At a 1% higher rate (5.90%)	142,541

Collective deferred outflows of resources and deferred inflows of resources

At June 30, 2016 and June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**(A Component Unit of the Township of Clinton)**  
**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)

	2016		2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,804	\$ -	\$ 4,270	\$ -
Changes of assumptions	53,507	-	19,222	-
Net difference between projected and actual earnings on pension plan investments	9,849	-	-	2,878
Changes in proportion and differences between Authority contributions and proportionate share of contributions	25,578	-	17,037	-
<b>Total</b>	<b>\$ 93,738</b>	<b>\$ -</b>	<b>\$ 40,529</b>	<b>\$ 2,878</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, 2016	Beginning Balance	Increases	Decreases	Ending Balance
Deferred outflows of resources				
Changes of assumptions and differences between expected and actual experience	\$ 25,696	\$ 46,455	\$ 13,840	\$ 58,311
Difference between projected and actual earnings on pension plan investments	(3,148)	14,502	1,505	9,849
<b>Total deferred outflows</b>				<b>\$ 68,160</b>
June 30, 2015	Beginning Balance	Increases	Decreases	Ending Balance
Deferred outflows of resources				
Changes of assumptions and differences between expected and actual experience	\$ 4,694	\$ 23,826	\$ 5,028	\$ 23,492
Difference between projected and actual earnings on pension plan investments	8,897	(4,744)	1,275	2,878
<b>Total deferred outflows</b>				<b>\$ 20,614</b>

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**(A Component Unit of the Township of Clinton)**  
**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)

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

<u>December 31, 2016</u>		<u>December 31, 2015</u>	
<u>Year ending June 30,</u>		<u>Year ending June 30,</u>	
2017	\$ 15,346	2016	\$ 3,753
2018	15,346	2017	3,753
2019	17,778	2018	3,753
2020	14,936	2019	5,976
2021	4,754	2020	3,379
Total	<u>\$ 68,160</u>	Total	<u>\$ 20,614</u>

Pension expense

For the year ended June 30, 2016, the District recognized net pension expense of \$37,833 which represents the District's proportionate share of allocable plan pension expense of \$24,661, plus the net amortization of deferred amounts from changes in proportion of \$6,317, and plus the actual contribution paid by the Authority in the current year of \$6,855. The components of allocable pension expense, which exclude amounts attributable to employer paid member contributions and pension expense related to specific liabilities of individual employers, for the District for the year ending June 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Service cost	\$ 8,429	\$ 7,032
Interest on total pension liability	18,405	16,760
Member contributions	(4,369)	(3,890)
Administrative expense	139	131
Expected investment return net of investment expense	(13,263)	(11,975)
Pension expense related to specific liabilities of individual employers	(25)	(70)
Recognition of deferred inflows/outflows of resources		
Amortization of assumption changes or inputs	12,605	4,124
Amortization of expected versus actual experience	1,235	905
Amortization of projected versus actual investment earnings on pension plan investments	1,505	(1,275)
Pension expense	<u>\$ 24,661</u>	<u>\$ 11,742</u>

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**(A Component Unit of the Township of Clinton)**  
**Notes to the Financial Statements**

Note 5 - Capital assets

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

<u>December 31, 2016</u>	<u>Beginning Balance</u>	<u>Additions/ Transfers</u>	<u>Disposals/ Transfers</u>	<u>Ending Balance</u>
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	<u>\$ 9,474,384</u>	<u>\$ (143,049)</u>	<u>\$ 5,912</u>	<u>\$ 9,325,423</u>

  

<u>December 31, 2015</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	4,616,207	-	-	4,616,207
Construction in progress	134,593	580,429	-	715,022
Maintenance equipment	114,160	18,244	-	132,404
Transportation equipment	41,562	-	-	41,562
Office equipment/furniture	53,004	-	-	53,004
Sewer capacity purchased	300,000	-	-	300,000
Total capital assets	11,942,579	598,673	-	12,541,252
Accumulated depreciation	(2,851,677)	(215,191)	-	(3,066,868)
Capital assets, net	<u>\$ 9,090,902</u>	<u>\$ 383,482</u>	<u>\$ -</u>	<u>\$ 9,474,384</u>

Note 6 - Long-term liabilities

Long-term liability activity for the year ended December 31, 2016 and 2015 is as follows:

<u>December 31, 2016</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reduction</u>	<u>Ending Balance</u>	<u>Due Within 1 Year</u>
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	<u>\$ 1,524,466</u>	<u>\$ 79,317</u>	<u>\$ 104,467</u>	<u>\$ 1,499,316</u>	<u>\$ 103,033</u>

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**(A Component Unit of the Township of Clinton)**  
**Notes to the Financial Statements**

Note 6 - Long-term liabilities (continued)

December 31, 2015	Beginning Balance	Additions	Reduction	Ending Balance	Due Within 1 Year
Net pension liability	\$ 132,656	\$ 46,331	\$ -	\$ 178,987	\$ -
NJ Environmental Infrastructure Trust					
2004 interest free loan	126,157	-	14,819	111,338	14,431
2006 loan	170,000	-	15,000	155,000	15,000
2010 interest free loan	500,223	-	41,082	459,141	40,036
2011 loan	655,000	-	35,000	620,000	35,000
Total	<u>\$ 1,584,036</u>	<u>\$ 46,331</u>	<u>\$ 105,901</u>	<u>\$ 1,524,466</u>	<u>\$ 104,467</u>

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

Year ending December 31,	Principal	Interest	Total
2017	\$ 103,033	\$ 36,975	\$ 140,008
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 - 2026	547,129	78,050	625,179
2027 - 2028	146,987	9,500	156,487
	<u>\$ 1,241,012</u>	<u>\$ 245,525</u>	<u>\$ 1,486,537</u>

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

	2016	2015
\$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%.	\$ 140,000	\$ 155,000
\$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.	96,907	111,338
\$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%.	585,000	620,000
\$697,714 interest free loan due in annual installments of \$38,482 to \$41,381 beginning February 1, 2010 through August 1, 2027.	419,105	459,141
	<u>\$ 1,241,012</u>	<u>\$ 1,345,479</u>

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**(A Component Unit of the Township of Clinton)**  
**Notes to the Financial Statements**

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, 2016 and 2015, the liability to the Authority would be approximately \$7,629 and \$6,692, 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.

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:

<u>Fiscal Year</u>	<u>Authority Deposits</u>	<u>Interest Earnings</u>	<u>Employee Deposits</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
2016	\$ -	\$ 11	\$ -	\$ -	\$ 6,039
2015	-	8	-	-	6,028
2014	-	3	-	-	6,020

Note 10 - Reclassification

Certain amounts in the prior year financial statements have been reclassified to conform to the 2016 presentation.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**(A Component Unit of the Township of Clinton)**  
**Notes to the Financial Statements**

Note 11 - Subsequent events

The Authority's management has determined that no material events or transactions occurred subsequent to December 31, 2016 and through June 26, 2017, the date of the Authority's financial statement issuance, which requires additional disclosure in the Authority's financial statements.

Note 12 - 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, 2016, the Authority has withheld \$548,995 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 Four Years**  
**Unaudited**

	Year Ending December 31,			
	2016	2015	2014	2013
Authority's proportion of the net pension liability	0.0008721437%	0.0007973417%	0.0007085277%	0.0006862827%
Authority's proportion of the net pension liability	\$ 258,304	\$ 178,987	\$ 132,656	\$ 131,162
Authority's covered employee payroll	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	406.78%	298.31%	241.19%	267.68%
Plan fiduciary net position as a percentage of the total pension liability	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 Four Years**  
**Unaudited**

	Year Ending December 31,			
	2016	2015	2014	2013
Contractually required contributions	\$ 7,748	\$ 6,855	\$ 5,841	\$ 5,171
Contributions in relation to the contractually required contribution	<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>\$ 86</u>
Authority's covered employee payroll	\$ 63,500	\$ 60,000	\$ 55,000	\$ 49,000
Contributions as a percentage of covered employee payroll	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, 2016**

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 3.98% as of the June 30, 2016 plan measurement date and 4.90% as of the June 30, 2015 plan measurement date. The single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65% and 7.90% and municipal bond rates of 2.85% and 3.80% for the respective plan measurement dates of June 30, 2016 and June 30, 2015.

**CLINTON TOWNSHIP SEWERAGE AUTHORITY**  
**(A Component Unit of the Township of Clinton)**  
**Schedule of Changes in Net Position - Restricted Accounts**  
**For the Year Ended December 31, 2016**

	Net Position					Total
	Trust Fund Developer's Deposits	State Unemployment Insurance	Construction Fund	Renewals & Replacements	Total Net Position	
Balance at beginning of year	\$ 33,174	\$ 6,028	\$ 503,271	\$ 861,689	\$ 1,370,988	\$ 1,404,162
Additions						
Interest income	4	11	-	-	11	15
Deposits received	5,000	-	-	-	-	5,000
Total additions	5,004	11	-	-	11	5,015
Deductions						
Capital projects and current year expenditures	-	-	39,416	-	39,416	39,416
Developers fees	3,469	-	-	-	-	3,469
Total deductions	3,469	-	39,416	-	39,416	42,885
Balance at end of year	\$ 34,709	\$ 6,039	\$ 463,855	\$ 861,689	\$ 1,331,583	\$ 1,366,292

See independent auditors' report.

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

	December 31, 2016		December 31, 2015	
	Unaudited Budget	Actual	Unaudited Budget	Actual
<b>Revenues</b>				
Net position appropriated	\$ 116,592	\$ 116,592	\$ 34,276	\$ 34,276
<b>Operating revenues</b>				
User charges and fees	1,132,800	1,132,800	1,126,560	1,131,120
Late charges and fees	10,000	15,420	18,000	9,394
Interest income	12,000	12,547	5,200	8,758
Connection fees	-	26,525	-	5,122
NJEIT credit	-	9,963	-	1,848
Miscellaneous	-	162	-	4,585
Total operating revenues	<u>1,154,800</u>	<u>1,197,417</u>	<u>1,149,760</u>	<u>1,160,827</u>
Total revenues	<u>\$ 1,271,392</u>	<u>\$ 1,314,009</u>	<u>\$ 1,184,036</u>	<u>\$ 1,195,103</u>
<b>Expenses</b>				
<b>Administrative and general</b>				
Salaries and wages	\$ 71,000	\$ 81,906	\$ 65,000	\$ 61,192
Public Employee's Retirement System	6,500	6,855	6,825	5,841
Pension net liability - GASB 68	-	23,230	-	8,536
Payroll taxes	5,400	5,878	4,200	4,274
Unemployment compensation	100	-	100	-
Health insurance	22,000	17,318	13,885	15,315
Dental insurance	1,200	402	1,250	965
Legal fees	30,000	45,040	32,400	16,518
Engineering fees	30,000	23,157	27,000	15,427
Auditing and accounting fees	22,300	19,525	22,600	15,954
Insurance	7,200	9,614	12,000	10,373
Office supplies and expenses	2,500	5,548	3,000	1,837
Postage	4,000	3,252	4,000	2,856
Computer expenses	7,500	2,937	1,500	1,100
Director's fees	6,100	5,500	6,100	6,100
Telephone	10,000	10,327	9,000	11,270
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, 2016		December 31, 2015	
	Unaudited Budget	Actual	Unaudited Budget	Actual
Expenses (continued)				
Administrative and general (continued)				
Education	\$ 2,000	\$ -	\$ 2,000	\$ -
Advertising	500	162	500	792
Debt service administrative fee	-	3,180	-	3,180
Miscellaneous - contingency	1,000	1,155	1,000	333
Total administrative and general	238,300	273,986	221,360	190,863
Cost of providing services				
Capacity reserve - Deer Meadow	2,100	2,046	2,100	2,046
Repairs and maintenance supplies	15,000	9,201	15,000	25,270
Electric	36,000	39,900	32,000	45,187
Water service	1,000	771	1,000	689
Treatment cost	550,000	573,369	520,000	400,640
Calibration	5,000	3,423	5,000	4,568
Maintenance labor - operator	138,000	133,731	122,000	127,692
Maintenance labor - contracted	40,000	53,861	30,000	55,364
Travel	2,000	862	2,000	784
NJ on-call	1,200	1,401	1,000	1,291
Geographic information system	14,000	-	-	-
Total cost of providing services	804,300	818,565	730,100	663,531
Reserves and capital outlay				
Renewals and replacements reserve	85,000	-	85,000	85,000
Debt service				
Principal	104,467	104,467	105,901	105,901
Interest	39,325	39,325	41,675	41,675
Total debt service	143,792	143,792	147,576	147,576
Total expenses	\$ 1,271,392	\$ 1,236,343	\$ 1,184,036	\$ 1,086,970

See independent auditors' report.



Certified Public Accountants, PC  
[www.bkc-cpa.com](http://www.bkc-cpa.com)

---

**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, 2016 and December 31, 2015, 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 June 26, 2017.

*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**

June 26, 2017  
Flemington, New Jersey

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

**Significant Deficiencies**

2016 - 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**

2016-01 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**

There were no prior year recommendations.

\*\*\*\*\*

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**