

Bayshore Regional Sewerage Authority

Audit Report

December 31, 2015 and 2014

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 governmental activities, the business-type activities, the aggregate discreetly presented component units, each major fund, and the aggregate remaining fund information of the Bayshore Regional Sewerage Authority (the Authority), as of and for the years ended December 31, 2015 and 2014, 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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104 MAIN STREET
WOODBIDGE, NJ 07095
(732) 634-5680

26 MAIN STREET
KEYPORT, NJ 07735
(732) 264-5936

FAX (732) 602-1059

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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Bayshore Regional Sewerage Authority, as of December 31, 2015 and 2014, 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.

Emphasis of Matter

Adoption of New Accounting Pronouncement

As discussed in Note 1 to the financial statements, in the year ended December 31, 2015, the Bayshore Regional Sewerage Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No 68, Accounting and Financial Reporting for Pensions. Our opinion is not modified with respect to this matter.

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 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 1-4 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 1 through 4 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

To Chairperson and Members
Bayshore Regional Sewerage Authority

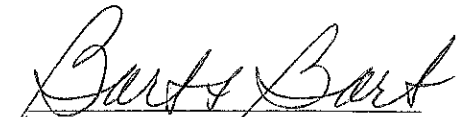
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prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, 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 March 23, 2016 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

May 11, 2016

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; Audit requirements as prescribed by the Division of Local Government Services, State of New Jersey 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, 2015, and the related notes to the financial statements, which comprise of the Authority's financial statements, and have issued our report thereon dated May 11, 2016.

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.

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.

May 11, 2016

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, 2015 and 2014. 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 are presented in the MD&A as required by GASB Statement No. 34.

Our Mission

The Bayshore Regional Sewerage Authority employees developed the mission of the Authority and consolidated the mission in the following statement in 2006; "*Dedicated to a Clean Environment for Today, Tomorrow, and Generations to Come*" the statement best describes who we are, what we do, and why we do it. The Authority staff believes 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

Since the year 2000 the quality of the water discharged from the treatment plant has improved gradually to the point where it exists today, which is nearing the maximum achievable results for the given technology. Figure 1 below illustrates this achievement.

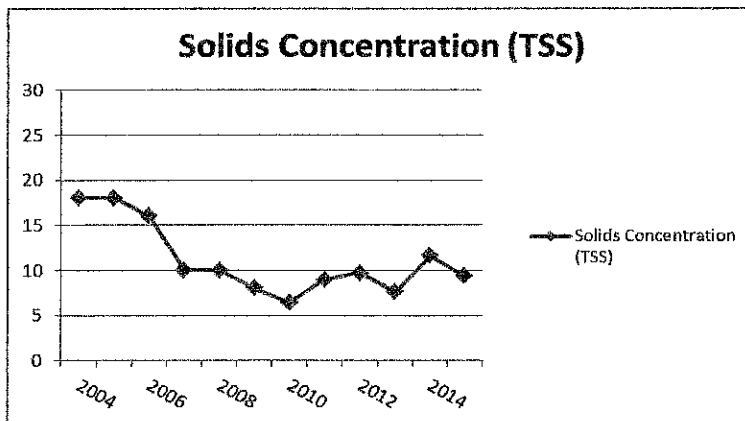


Fig. 1 Effluent total suspended solids (TSS) per liter of water discharged. State requires value to be 30 mg/l or better

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. Anything lower than 30 mg/l is an improvement on this state required limit. The Authority has achieved a level as low as 9 mg/l as a yearly average for 2015.

Operating expenditures

The Authority budget is a combination of operating, capital and debt service expenses. In 2012 the Authority eliminated its debt, and therefore the 2015 budget consists of operating and capital expenses only. The Authority focused its 2015 Capital Budget towards the rebuilding of the plant processes damaged by Sandy flooding; improvements to the interceptor piping which convey the sewage from the contributing communities to the Authority treatment plant and upgrades to the remote pump stations. The chart in figure 3 illustrates the Authority effort to maintain a stable operating environment over the past seven-(7) years.

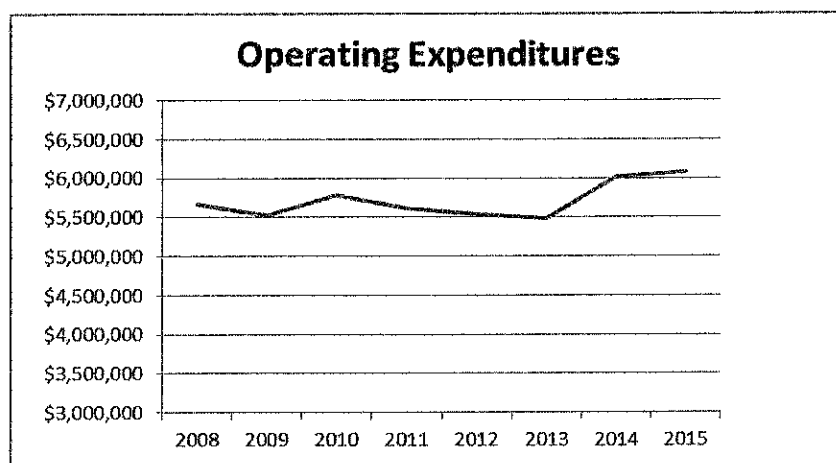


Figure 3 Graph of annual operating expenses 2008 to 2015

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 an indication of the accumulated results of all the individuals years of operating. For calendar year ending 2015 the net position of the Authority was \$66,124,417. The net

position of the Authority at calendar year end 2014 was \$64,359,650. The change in net position for the Authority in 2015 was an increase of \$1,764,767..

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

2015	2014	2013
\$66,124,417	\$64,359,650	\$68,347,037

The Decemeber 31, 2014 net position has been restated as a result of the Authority's implementation of GASB 68, effective December 31, 2015.

Internal Controls

The Authority has instituted an internal control over spending that originates in a formal requisitioning system. All operational purchasing requests are made by the requisitioning department, authorized first by the Plant Superintendent and sent to the Executive Director for approval to purchase. All purchasing is handled by our State Qualified Purchasing Agent who follows NJ local public contract laws for procurement. Certifications are received from the claimant (vendor) as well as the requisitioning department upon receipt of goods or services. A completed 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 an open public meeting. A final resolution approving the claim is required before the authority releases payment to the vendor. 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. All Operating checks require 3 signatures and payroll checks require 2 signatures.

Procurement is in accordance with 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 and 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 has increased in 2015 from \$64,359,650 to \$66,124,417 primarily due to an increase in plant property and equipment as a result of the additional \$5,552,074 in ongoing reconstruction.

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 2015 from \$1,708,672 to \$2,105,438 primarily due to an increase in connections to the sewer system. In 2014 revenue from connections was \$248,052 and in 2015 that revenue was \$994,570. The increase 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 2015 was \$12,166,917 which represents an increase over 2014 of \$328,473 which was recorded as \$11,838,444.

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 2015 the net position at December 31 were \$60,348,220 and compares to \$58,242,782 for December 31, 2014 and represents an increase of \$2,105,438, the single 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 2015. The Schedule indicates transfers made between all accounts and reconciles to the Comparative Statement of Cash Flows. Cash and Investments at December 31, 2015 were \$12,166,917 as compared to \$11,838,444 at December 31, 2014. The total Restricted Assets for December 31, 2015 were \$5,792,385 as compared to \$5,636,023 at December 31, 2014.

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 2015 were \$9,247,800 as compared to \$8,539,696 for 2014. This figure includes \$1,845,774 in depreciation. In 2015 expenditures for superintendent salaries increased by 28% due to the transfer of an employee from the plant operations category to superintendents category and the hiring of an assistant engineer to supplement the engineering staff. Health insurance costs rose by 9.7% due to the increase in premiums through the State Health Benefits Program and the added employee. Expenditures for incinerator fuel increased by 40% as compared to 2014 because the Authority ran the repaired Dorr Oliver Incinerator for most of 2015. The Dorr Oliver Incinerator which will be eliminated in 2016 was damaged after Superstorm Sandy and was not in use for more than a couple months in 2014. The incinerator uses fuel oil as supplemental fuel. After Superstorm Sandy and prior to the restart of the incinerator the Authority contracted to have its sludge hauled to different locations throughout the state for incineration. The Authority focus on the interceptor

conveyance system in 2015 meant the cleaning, televised inspection and repair of interceptor piping was increased as compared to 2014 and as a result expenditures increased by \$40,000 in the line rehabilitation line item and \$21,300 in the TV Inspection and Cleaning line item. Much of the Authority interceptor system is approaching 45 years old and will be rehabilitated over the next 10 years to improve integrity, decrease life cycle cost and prolong life expectancy.

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 \$30,000,000 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 Environmental Infrastructure Trust (NJEIT) 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. The Short term loan works on a reimbursement process whereby the Authority pays the contractor invoice and submits a request for reimbursement to the NJEIT which in turn wire 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 wire 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, 2015 the Authority has received \$3,679,017 of the \$28,113,307 and has repaid the NJEIT \$1,254,538 from FEMA as reimbursements.

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.

Two additional Sandy Restoration/Mitigation and Improvement Projects will begin in 2016 and will be funded once again through the NJEIT Sandy SAIL program with partial reimbursement from FEMA funding. The Authority will publically bid the Combined Blower Building Project and the Elevation of the Power Distribution System Project. The Combined projects have an estimated value of \$12,000,000.

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.

Bayshore Regional Sewerage Authority

Comparative Statement of Net Position

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u> Restated
<u>ASSETS</u>		
Unrestricted Assets:		
Cash and Cash Equivalents	\$ 12,166,917	\$ 11,838,444
Inventory (Note 1.G.)	419,724	413,409
Prepaid Expenses	88,702	93,901
Insurance and FEMA Claims Receivable	3,060,997	3,380,995
Other Receivables	-	9,800
Total Unrestricted Assets	<u>\$ 15,736,340</u>	<u>\$ 15,736,549</u>
Restricted Assets (Note 1.C.):		
Construction Funds	1,485,985	1,357,265
Customer Escrow Deposits:		
Rent Reserve	2,808,106	2,780,464
Due from NJEIT	1,498,294	1,498,294
Total Restricted Assets	<u>5,792,385</u>	<u>5,636,023</u>
Plant, Property and Equipment (Note 1.I.)	127,704,051	121,654,497
Less: Accumulated Depreciation	<u>71,785,016</u>	<u>69,939,232</u>
Net Plant, Property and Equipment	<u>55,919,035</u>	<u>51,715,265</u>
TOTAL ASSETS	\$ 77,447,760	\$ 73,087,837
Deferred Outflow of Resources:		
Deferred Amount of Net Pension Liability	<u>1,125,596</u>	<u>231,769</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 78,573,356</u>	<u>\$ 73,319,606</u>

See accompanying notes.

Bayshore Regional Sewerage Authority

Comparative Statement of Net Position

December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u> Restated
<u>LIABILITIES AND NET POSITION</u>		
Current Liabilities -		
Payable from Unrestricted Assets:		
Accounts Payable - Operating	\$ 400,705	\$ 388,092
Accounts Payable - Retainage	92,150	107,084
Payroll Deductions Payable	21,265	19,173
Obligation to Customers	8,316	8,316
Accrual for Unused Leave and Vacation Time	92,697	111,339
	<u>615,133</u>	<u>634,004</u>
Current Liabilities -		
Payable from Restricted Assets:		
Escrow Deposits Payable	2,808,106	2,780,464
FEMA Reimbursement due to State	1,035,316	-
	<u>3,843,422</u>	<u>2,780,464</u>
Long Term Liabilities -		
Payable from restricted assets:		
Note payable - NJEIT	1,302,246	-
Net Pension Liability	6,582,317	5,275,787
	<u>12,343,118</u>	<u>8,690,255</u>
Deferred Inflow of Resources		
Deferred Amount on Net Pension Liability	105,821	269,701
	<u>12,448,939</u>	<u>8,959,956</u>
<u>NET POSITION</u>		
Restricted for:		
Contributed capital, net	5,776,197	6,116,868
Construction	1,357,917	1,357,265
Operations	-	-
Future debt service	-	-
	<u>7,134,114</u>	<u>7,474,133</u>
Unrestricted	58,990,303	56,885,517
	<u>66,124,417</u>	<u>64,359,650</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$78,573,356</u>	<u>\$73,319,606</u>
See accompanying notes.		

Bayshore Regional Sewerage Authority

Comparative Statement of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u> Restated
Operating Revenues:		
Treatment Charges	\$ 9,458,930	\$ 9,479,332
Operating Expenses:		
Payroll and Employee Benefits	3,901,680	3,415,195
Plant Materials and Supplies	1,877,175	2,017,360
Administrative and General	376,785	581,512
Depreciation	1,845,774	1,901,937
Total Operating Expenses	<u>8,001,414</u>	<u>7,916,004</u>
Operating Income	<u>1,457,516</u>	<u>1,563,328</u>
Nonoperating Revenue (Expenses):		
Interest Income on Investments	19,918	14,182
Miscellaneous Income - Applications and Sundry	994,570	248,052
Superstorm Sandy Expense - Net	<u>(748,906)</u>	<u>(499,230)</u>
	<u>265,582</u>	<u>(236,996)</u>
Net Income (Before Transfer of Depreciation of Assets Purchased with Contributed Capital)	1,723,098	1,326,332
Transfer of Depreciation to Contributed Capital	<u>382,340</u>	<u>382,340</u>
Net Income	2,105,438	1,708,672
Net Position, January 1 st	58,242,782	61,847,829
GASB 68 Adjustment	-	(5,313,719)
Net Position, December 31 st	<u>60,348,220</u>	<u>58,242,782</u>
Contributed Capital - Net, January 1 st	6,116,868	6,499,208
FEMA Grant	41,669	-
Transfer of Depreciation from Operations	<u>(382,340)</u>	<u>(382,340)</u>
Contributed Capital - Net, December 31 st	<u>5,776,197</u>	<u>6,116,868</u>
Net Position, End of Year	<u>\$ 66,124,417</u>	<u>\$ 64,359,650</u>

EXHIBIT C

Bayshore Regional Sewerage Authority
Comparative Statement of Cash Flows
Years Ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash Provided by (Used for) Operations:		
Net Income	\$ 1,723,098	\$ 1,326,332
Adjustments to Reconcile Net Income to Net Cash:		
Depreciation	1,845,724	1,901,937
Prepaid Expenses	5,200	-
Inventory	(6,315)	(14,193)
Other Receivables	329,798	615,180
Current Liabilities Payable from Unrestricted Assets	(18,871)	209,484
Current Liabilities Payable from Restricted Assets	1,062,958	17,220
Deferred Amounts on Net Pension Liability	<u>248,823</u>	<u>-</u>
Net Cash Provided by Operations	<u>5,190,415</u>	<u>4,055,960</u>
Cash Flows Provided by (Used for) Investing Activities:		
Restricted Assets	(156,363)	(17,355)
Plant, Property and Equipment	<u>(6,049,494)</u>	<u>(570,017)</u>
Net Cash Provided by Investing Activities	<u>(6,205,857)</u>	<u>(587,372)</u>
Cash Flows provided by Financing Activities:		
Note Payable	1,302,246	-
Grant Income	<u>41,669</u>	<u>-</u>
Net Cash provided by Financing Activities	1,343,915	-
Net Increase in Cash and Cash Equivalents	328,473	3,468,588
Cash and Cash Equivalents:		
Beginning of Period	<u>11,838,444</u>	<u>8,369,856</u>
End of Period	<u>\$ 12,166,917</u>	<u>\$ 11,838,444</u>

See accompanying notes.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2015 and 2014

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

During 2015, the Authority adopted the following GASB statements:

- GASB 68, *Accounting and Financial Reporting for Pensions*, will be effective beginning with the year ending December 31, 2015. The objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria.
- GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* - an amendment of GASB Statement No. 68, should be applied simultaneously with the provisions of Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
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B. New Accounting Standards (Continued)

Other accounting standards that the Authority is currently reviewing for applicability and potential impact on the financial statements include:

- GASB 72, *Fair Value Measurement and Application*, will be effective beginning with the fiscal year ending June 30, 2016. This Statement addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.
- GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets that Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASB Statements 67 and 68, will be effective beginning with the fiscal year ending June 30, 2017. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability.
- GASB 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, will be effective beginning with the fiscal year ending June 30, 2017. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.
- GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, will be effective beginning with the fiscal year ending June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.
- GASB 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, will be effective beginning with the fiscal year ending June 30, 2016. The objective of this Statement is to identify - in the context of the current governmental financial reporting environment - the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2015 and 2014

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.

D. Due from State of New Jersey Environmental Infrastructure Trust ("NJEIT")

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 are held in trust by the NJEIT for the Authority and are remitted on a reimbursement basis.

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.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2015 and 2014

1. Summary of Significant Accounting Policies (continued)

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, 2015 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:

The following table summarizes the capital asset activity of the Authority for 2015 and 2014

<u>2015</u>	<u>Balance December 31, 2014</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance December 31, 2015</u>
Land & Buildings	\$ 1,222,762	\$ -	\$ -	\$ 1,222,762
Plant Infrastructure	92,167,207	175,010	-	92,342,217
System Infrastructure	19,764,512	204,991	-	19,969,503
Vehicle & Equipment	1,174,034	117,479	-	1,291,513
Construction in Progress	<u>7,325,982</u>	<u>5,552,074</u>	<u>-</u>	<u>12,878,056</u>
	\$121,654,497	\$ 6,049,554	-	\$127,704,051
Less: Accumulated depreciation	<u>(69,939,232)</u>	<u>(1,845,774)</u>	<u>-</u>	<u>(71,785,016)</u>
	<u>\$ 51,715,265</u>	<u>\$ 4,203,780</u>	<u>\$ -</u>	<u>\$ 55,919,035</u>

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2015 and 2014

The following table summarizes the capital asset activity of the Authority for 2015 and 2014 (Continued)

<u>2014</u>	<u>Balance December 31, 2013</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance December 31, 2014</u>
Land & Building	\$ 1,222,762	\$ -	\$ -	\$ 1,222,762
Plant Infrastructure	91,615,326	551,881	-	92,167,207
System Infrastructure	19,764,512	-	-	19,764,512
Vehicles & Equipment	1,151,240	22,794	-	1,174,034
Construction in Progress	<u>7,330,648</u>	<u>-</u>	<u>\$ 4,666</u>	<u>7,325,982</u>
	\$121,084,488	\$ 574,675	\$ 4,666	\$121,654,497
Less: Accumulated Depreciation	<u>(68,037,304)</u>	<u>(1,901,928)</u>	<u>-</u>	<u>\$(69,939,232)</u>
	<u>\$ 53,047,184</u>	<u>\$(1,327,253)</u>	<u>\$ 4,666</u>	<u>\$ 51,715,265</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.

NOTE 2. INSURANCE 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 plant and infrastructure, including its sludge incinerators and its blower building. As of December 31, 2015, the Authority has expended \$12,226,973 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 \$5,146,620 from FEMA.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2015 and 2014

NOTE 2. INSURANCE CLAIMS RECEIVABLE/FINANCING OF SUPER STORM SANDY COSTS
(Continued)

On March 3, 2014, the Authority applied to the New Jersey Environmental Infrastructure Trust (NJEIT) for a three year Note in the amount of \$40,752,500 to cover the payment of restoration and mitigation costs until FEMA reimbursements have been made and to cover other Authority led projects, as well as the 10% Authority share not reimbursed by FEMA.

On August 12, 2014, the Authority received permission from the State of New Jersey, Division of local Government Services, Local Finance Board to issue a three year Note in an amount not to exceed \$45,000,000 to the NJEIT. The proceeds of the note will be used to fund repair, replacement, and mitigation of future flood damage to those assets damaged by Super Storm Sandy. Upon maturity, the Authority expects to issue bonds to the NJEIT which will permanently finance the costs of the project not paid for by FEMA.

NOTE 3. NOTE PAYABLE - NJEIT

On May 23, 2015, the Authority sold a three year. Note to NJEIT in an amount not to exceed \$28,113,307. The proceeds of the Note are being used by the Authority to continue repairs associated with damage caused by Super Storm Sandy, as well as fund costs associated with future mitigation of damages from future storms. The terms of the Note call for the Authority to draw funds as needed to fund the completion of these projects. A majority of these costs will be reimbursed to the Authority by FEMA, or in the form of principal forgiveness of a portion of the Note by NJEIT. The Authority draws funds from the note, and as it receives reimbursements from FEMA, forwards these reimbursements back to NJEIT, thereby lowering the balance due on the Note. The Note matures on June 30, 2018, and at that time, the Authority will issue long term bonds to NJEIT for the amount borrowed on the Note, less all FEMA reimbursements and principal forgiveness. As of December 31, 2015, the Authority owed NJEIT \$1,302,246 under this Note. The Authority also owed NJEIT \$1,035,316 in FEMA reimbursements received.

NOTE 4. EMPLOYEE RETIREMENT SYSTEM

Full-time employees of the Authority are covered b 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, 2015 and 2014

NOTE 4. EMPLOYEE RETIREMENT SYSTEM (Continued)

Following is the total of the Authority's portion of the PERS net pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and the pension expense and expenditures for the fiscal year ended December 31, 2015.

Net Pension Liabilities	\$ 6,582,317
Deferred Outflow of Resources	1,125,596
Deferred Inflow of Resources	105,831
Pension Expense	479,803
Contributions Made	230,980

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.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2015 and 2014

NOTE 4. EMPLOYEE RETIREMENT SYSTEM (Continued)

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, 2015 and 2014

NOTE 4. EMPLOYEE RETIREMENT SYSTEM (Continued)

Assumptions

The total pension liability for December 31, 2015, measurement date was determined by an actuarial valuation as of June 30, 2015. The actuarial valuation used an inflation rate of 3.04%, projected salary increases from 2012 to 2021 of 2.15% to 4.40% based on age and thereafter 3.15% to 5.40% based on age and an investment rate of return of 7.90%.

The discount rate used to measure the total pension liability was 4.90% as of June 30, 2015. 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 average of the last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

The following presents the Authority's proportionate share of the PERS net pension liability calculated using the discount rate of 4.90% as of December 31, 2015, as well as what the PERS net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the assumed rate.

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

	At 1% decrease (3.90%)	At current discount rate (4.90%)	At 1% increase (5.90%)
2015	\$ 8,181,161	\$ 6,582,317	\$ 5,242,157

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2015 and 2014

NOTE 4. EMPLOYEE RETIREMENT SYSTEM (Continued)

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

Although the Division administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarially 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.

To facilitate the separate (sub) actuarial valuations, The Division maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer allocations are applied to amounts presented in the schedules of pension amount by employer. The allocation percentages for each group as of June 30, 2015 and 2014, are based on the ratio of each employer's contributions to total employer contributions of the group for the fiscal years ended June 30, 2015 and 2014, respectively.

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, collected deferred outflows of resources, collective deferred inflows of resources and collective pension expense excluding that attributable to employer-paid member contributions. The employer allocation percentage presented in the PERS schedule of employer allocations and applied to amounts presented in the PERS 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, 2015 and 2014. The Authority's proportionate share of the collective net pension liability as of December 31, 2015 was 0.0293%.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2015 and 2014

NOTE 4. EMPLOYEE RETIREMENT SYSTEM (Continued)

At December 31, 2015, the amount recognized as the Authority's proportionate share of the PERS net pension liability was \$6,582,317. For the year ended December 31, 2015, the Authority recognized PERS pension expense of \$479,803. At December 31, 2015, deferred outflows of resources and deferred inflows of resources related to the PERS pension are as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 157,031	\$ -
Change of Assumptions	706,888	-
Net Difference Between Projected and Actual Investment Earnings	-	105,831
Net Change in Proportions	<u>261,677</u>	<u>-</u>
Total	<u>\$1,125,596</u>	<u>\$ 105,831</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources to PERS pension will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Total</u>
2016	\$ 113,307
2017	113,307
2018	113,307
2019	113,307
Thereafter	<u>566,537</u>
	<u>\$1,019,765</u>

Bayshore Regional Sewerage Authority
Notes to Financial Statements
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BASIS OF ACCOUNTING

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

INVESTMENT VALUATION

Investments are reported at fair value. Securities traded on a national or international exchange are 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 the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund, Common Pension Fund A, Common Pension Fund B, Common Pension Fund D and Common Pension Fund E. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290. More information on mortality rates and other assumptions, and investment policies, can be found at www.state.nj.us/treasury/pensions/annrprts.shtml.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2015 and 2014

NOTE 5. 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, 2015 and 2014

NOTE 5. 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 year's ended December 31, 2015, 2014 or 2013.

NOTE 6. RESTATEMENT

On January 1, 2015, the Bayshore Regional Sewerage Authority implemented GASB Statement No. 68, "Accounting and Financial Reporting for Pensions". The Authority has determined that the effect of implementing this accounting change on the financial statements previously reported as of December 31, 2014, was to recognize the Authority's proportionate share of Public Employees' Retirement System's (PERS) net pension liability, contributions payable, deferred outflows of resources and deferred inflows of resources with a corresponding reduction in the unrestricted component of net position in the amount of \$5,313,719. The net effect of this restatement is a decrease in total net position at December 31, 2014, from \$63,556,501 as originally reported, to \$58,242,782.

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, 2015 through May 11, 2016, the date in which these Financial Statements became available to the public.

SUPPLEMENTARY INFORMATION

Bayshore Regional Sewerage Authority

Schedule of Revenue, Expenses and Changes in Net Position

Reserved and Unreserved

Year Ended December 31, 2015

	<u>Unreserved</u>	<u>Construction</u>	<u>2015</u>	<u>2014</u>
Operating Revenues:				
Treatment Charges	\$ 9,458,930	-	\$ 9,458,930	\$ 9,479,332
Operating Expenses:				
Payroll & Employee Benefits	3,901,680	-	3,901,680	3,415,195
Plant Materials and Supplies	1,877,175	-	1,877,175	2,017,360
Administrative and General	376,785	-	376,785	581,512
Depreciation	1,845,774	-	1,845,774	1,901,937
Total Operating Expenses	8,001,414	-	8,001,414	7,916,004
Operating Income	1,457,616	-	1,457,516	1,563,328
Nonoperating Revenues (Expenses):				
Interest Income on Investments				
- Operating	19,244	-	19,244	14,068
- Construction	-	674	674	114
Miscellaneous Income	994,570	-	994,570	248,052
Superstorm Sandy Expenses-net	(748,906)	-	(748,906)	(499,230)
Total	264,908	674	265,582	(236,996)
Net Income Before Transfers	1,722,424	674	1,723,098	1,326,332
Transfers:				
Depreciation on Assets Purchased with Contributed Capital	382,340	-	382,340	382,340
Increase (Decrease) in Retained Earnings	2,104,764	674	2,105,438	1,708,672
Net Position, January 1st	\$56,885,539	\$1,357,243	\$58,242,782	\$61,847,829
GASB 68 Adjustment	-	-	-	(5,313,719)
Net Position, December 31st	\$58,990,303	\$1,357,917	\$60,348,220	\$58,242,782

Bayshore Regional Sewerage Authority

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

Unrestricted Accounts

Year Ended December 31, 2015

	Revenue	Regular Account	Payroll Account	Petty Cash	Reserve Account	Total
Cash and Investments - December 31, 2012	\$ 197,500	\$ 160,533	\$ 108,209	\$ 300	\$11,371,902	\$11,838,444
Cash Receipts:						
Service Charges	9,458,930	-	-	-	-	9,458,930
Outfall Charges	1,003,201	-	-	-	-	1,003,201
Insurance and Reimbursements	286,331	508,083	-	-	-	794,414
Transfers from other funds	-	8,962,490	2,786,475	-	12,065,862	23,814,270
Interest Received	-	285	115	-	2,325	2,725
Miscellaneous Income	1,008,667	-	-	-	-	1,008,617
Total Cash Available	\$11,954,629	\$9,631,391	\$2,894,799	\$ 300	\$23,440,089	\$47,921,208
Cash Disbursements -						
Transfer to Other Funds	11,883,198	-	-	-	12,820,982	24,704,180
Net Payroll & Payroll Taxes	-	-	2,720,024	-	-	7,720,024
Operations	-	8,330,087	-	-	-	8,330,087
Total Cash Disbursements	11,883,198	8,330,087	-	-	12,820,982	35,754,291
Cash and Investments - December 31, 2015	71,431	1,301,304	174,775	300	10,619,107	12,166,917
Balance Comprised of:						
- Cash	71,431	1,301,304	174,775	300	10,619,107	12,166,917
	\$ 71,431	\$1,301,304	\$ 174,775	\$ 300	\$10,619,107	\$12,166,917

Bayshore Regional Sewerage Authority

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

Restricted Accounts

Year Ended December 31, 2015

	Escrow Deposits	Construction Fund	Total
Cash and Investments - December 31, 2014	\$ 2,780,464	\$ 1,357,265	\$ 4,137,729
Cash Receipts:			
Interest Received	4,145	615	4,760
Received from Customers	23,497	-	23,497
Transfer from other funds	-	3,544,724	3,544,724
Received from NJEIT	-	3,679,036	3,679,036
Received from FEMA	-	1,209,811	1,209,811
Total Cash and Investments Available	<u>2,808,106</u>	<u>9,791,451</u>	<u>12,599,557</u>
Cash Disbursements:			
Reimbursements to NJEIT	-	1,254,536	1,254,536
Construction Costs	-	7,050,930	7,050,930
Total Cash Disbursements	<u>-</u>	<u>8,305,466</u>	<u>8,305,466</u>
Cash and Investments - December 31, 2015	<u>\$ 2,808,106</u>	<u>\$ 1,485,985</u>	<u>\$ 4,294,091</u>
Balance Comprised of:			
Investments - Cash	\$ 2,808,106	\$ 1,485,985	\$ 4,294,091
- U.S. Treasury Obligations	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,808,106</u>	<u>\$ 1,485,985</u>	<u>\$ 4,294,091</u>

Bayshore Regional Sewerage Authority

Schedule of Operating Revenues and Costs Funded

By Operating Revenues Compared to Budget

For the Year Ended December 31, 2015

With Comparative Actual Amounts for the Year Ended December 31, 2014

	<u>2015</u> <u>Budget</u>	<u>2015</u> <u>Actual</u>	<u>2014</u> <u>Actual</u>
Revenues:			
Treatment Charges	\$ 9,443,007	\$ 9,458,930	\$ 9,479,332
Interest on Investments	5,000	19,918	14,182
Permits and Applications	220,000	982,706	194,661
Sundry	15,000	11,864	53,391
	<u>\$ 9,683,007</u>	<u>\$ 10,473,418</u>	<u>\$ 9,741,566</u>
Expenses:			
Salaries - Superintendents	485,000	514,634	400,101
- Plant Operations	1,595,000	1,599,903	1,593,164
- Commissioners and Project Managers	153,499	157,121	156,636
- Office Staff	105,489	108,846	112,415
Pension	235,000	479,803	207,995
Social Security Tax	175,000	175,242	169,618
Unemployment Compensation Insurance	8,000	7,489	7,257
Health Insurance	810,000	835,507	761,620
Life Insurance	7,600	3,762	5,445
Uniform and Safety Shoes	12,628	11,610	9,506
Memberships	17,600	7,999	18,642
Training and Seminars	25,810	11,083	10,251
Sick-Vacation-Holiday Pay	25,000	(18,642)	19,669
Electric Plant	780,000	561,338	639,489
Incineration Fuel	725,000	356,085	251,382
Natural Gas	80,000	37,611	53,885
Plant Telephone	4,000	3,423	5,358
Water	40,430	47,439	54,943
Gasoline	13,125	9,389	11,884
Machinery Repairs	100,000	129,429	97,994
Computer Maintenance	15,000	9,179	6,088
Service Contracts	113,000	100,969	77,780
Major Projects/Repairs	30,000	-	19,490
Electrical/Instrument Repairs	45,000	38,386	47,348
Chemicals	263,058	269,692	235,506
Operating Supplies	15,000	6,502	12,986
Grounds Maintenance	15,000	12,137	11,227
Fire and Safety Equipment	22,600	18,976	14,145
Incinerator Sand	6,000	12,750	6,020
Major Projects	14,000	22,786	8,422
Scavengers	19,468	10,544	17,433
Ash Removal	79,500	-	171,634

SCHEDULE 4
(Continued)

Bayshore Regional Sewerage Authority

Schedule of Operating Revenues and Costs Funded

By Operating Revenues Compared to Budget

For the Year Ended December 31, 2015

With Comparative Actual Amounts for the Year Ended December 31, 2014

	<u>2015</u> <u>Budget</u>	<u>2015</u> <u>Actual</u>	<u>2014</u> <u>Actual</u>
Expenses (continued):			
Lab Chemicals and Supplies	\$ 27,600	\$ 35,111	\$ 27,448
Lab Calibrations	10,000	3,312	4,423
Electric Pump Stations	55,000	35,770	44,626
Telephone - Alarm System	6,000	6,141	6,300
Line Maintenance, Parts, and Supplies	18,000	-	20,815
Truck Expense	5,500	2,536	8,332
Water - Pump Stations	20,000	28,256	19,609
Line Rehabilitation	12,000	40,912	831
TV Inspection/Cleanings	75,000	22,476	1,145
Sludge Testing	21,450	23,184	34,936
Fees and Permits	30,000	21,129	22,893
Municipal Host Benefit	10,000	11,302	11,202
Professional Fees - Legal	65,000	32,833	51,927
- Accounting	41,000	38,471	40,789
- Engineering	70,000	57,439	246,444
- Trustee Fees	3,500	6,327	3,500
- Consultants; Other	16,000	12,721	6,472
Office Expense - Office Maintenance	5,000	1,757	5,466
- Insurance	230,000	206,553	205,771
- Advertisements	4,500	2,817	2,503
- Telephone	2,350	2,936	2,448
- Office Supplies	9,000	8,974	10,139
- Printing and Postage	2,500	2,088	1,404
- Office Equip. Rental	1,800	3,185	1,200
- Promotions	3,500	500	-
- Miscellaneous	2,500	7,918	-
Other Costs Funded By Operating Revenues:			
Principal Maturities	-	-	-
Capital Outlays	2,900,000	497,480	124,462
Superstorm Sandy Expenses	-	748,906	499,230
Depreciation	-	1,845,774	1,901,937
Total Costs Funded by Operating Revenues	9,683,007	9,247,800	8,539,696
Excess (Deficit)	-	1,225,618	1,201,870
	<u>\$ 9,683,007</u>	<u>\$10,473,418</u>	<u>\$ 9,741,566</u>

ROSTER OF OFFICIALS

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

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
CONTRAL 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, 2015. 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, 2015.

104 MAIN STREET
WOODBIDGE, NJ 07095
(732) 634-5680

-33-

26 MAIN STREET
KEYPORT, NJ 07735
(732) 264-5936

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

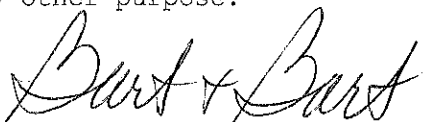
Report on Internal Control Over Compliance

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.


Bart & Bart, CPAs

Bayshore Regional Sewerage Authority

County of Monmouth, New Jersey

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2015

<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	2,797,938	\$ 2,797,938	\$ 7,436,474
Passed through State of New Jersey Department of Law and Public Safety				\$ 2,797,938	\$ 7,436,474

BAYSHORE REGIONAL SEWERAGE AUTHORITY
NOTES TO THE SCHEDULES OF EXPENDITURES OF
FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2015

1. GENERAL

The accompanying schedules of expenditures of federal awards and state financial assistance include federal and state 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 and state awards received directly from federal and state agencies, as well as federal awards and state financial assistance passed through other governmental agencies is included on the schedules or expenditures of federal awards and state financial assistance.

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 OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

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 \$1,302,246 in Notes outstanding payable to state entities at December 31, 2015.

THE BAYSHORE REGIONAL SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015

MAJOR FEDERAL AWARD PROGRAMS

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:		Unqualified dated	
		May 11, 2016	<u> </u>
Internal control over financial reporting:			
1. Material weakness(es) identified?	<u> </u> yes	<u> X </u> no	
2. Significant deficiencies identified that are not considered to be material weaknesses?	<u> </u> yes	<u> X </u> no	
Noncompliance material to general-purpose financials Statements noted?	<u> </u> yes	<u> X </u> no	

State Financial Assistance

Internal control over major programs:			
1. Material weakness(es) identified?	<u> </u> yes	<u> X </u> no	
2. Reportable condition(s) identified that are not considered to be material weaknesses?	<u> </u> yes	<u> X </u> no	

Type of auditor's report issued on compliance for Major programs:		Unqualified dated	
		May 11, 2016	<u> </u>
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133?	<u> </u> yes	<u> X </u> 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: \$300,000.00.

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, 2015

FOR THE YEAR ENDED DECEMBER 31, 2014:

There were no findings for the year ended December 31, 2014.

Bayshore Regional Sewerage Authority
General Comments and Recommendations
For the Year Ended December 31, 2015

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 11, 2016.

Internal control over financial reporting:

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

Non-Compliance material to Financial Statements noted? NO

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

NONE