

Bayshore Regional Sewerage Authority

Audit Report

December 31, 2018 and 2017

Bart & Bart
Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Bayshore Regional Sewerage Authority (the Authority), as of and for the years ended December 31, 2018 and 2017, 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 auditor's 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.

To Chairperson and Members
Bayshore Regional Sewerage Authority

Page two

We believe that 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 Bayshore Regional Sewerage Authority, as of December 31, 2018 and 2017, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 9, and schedule of proportionate share of net pension liability on page 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

To Chairperson and Members
Bayshore Regional Sewerage Authority

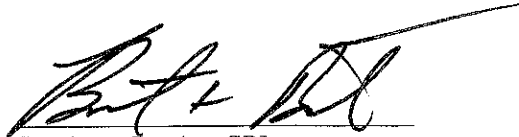
Page three

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

The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Uniform Guidance, and is also not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 16, 2019 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



Bart & Bart, CPAs

Woodbridge, NJ
July 16, 2019

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

To The Chairperson and Members
Bayshore Regional Sewerage Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements and fund information of Bayshore Regional Sewerage Authority as of and for the year ended December 31, 2018, and the related notes to the financial statements, which comprise of the Authority's financial statements, and have issued our report thereon dated July 16, 2019.

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.



Bart & Bart, CPAs

Woodbridge, NJ
July 16, 2019

MANAGEMENT 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, 2018 and 2017. This information should be read in conjunction with the basic financial statements and accompanying notes to the basic financial statements, which immediately follow this section.

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

Summary of the Bayshore Regional Sewerage Authority and its business practices

The Bayshore Regional Sewerage Authority is a public body corporate and politic of the State of New Jersey and was created pursuant to parallel ordinances adopted by the governing bodies of the member municipalities of Union Beach, Hazlet and Holmdel in September of 1968. The Authority was created pursuant to the Sewerage Authorities Law of the State of New Jersey (Laws of 1946, Chapter 138 (as amended and supplemented)) The Authority has the statutory power to acquire, construct, maintain, operate or improve works for the collection, treatment, purification or disposal of sewage or other wastes for the relief of waters in, bordering or entering the areas from pollution or threatened pollution. Subsequent to, and at different dates, the Authority contracted with the municipalities of Aberdeen, Matawan, Keansburg, Keyport and the Western Monmouth Utilities Authority (for the section of Marlboro know as Morganville) to provide this same service. Service Agreements are in place between the Authority and the aforementioned municipalities with an expiration date of 2042.

Pursuant to the provisions of the Act, the Authority consists of six-(6) commissioners, two from each municipality of Hazlet, Holmdel and Union Beach. The commissioners preside over the monthly governing body board meeting on the third Monday of each month. The Commissioners have appointed an Executive Director to exercise full authority, management and control of the day to day operations of the Authority.

Operations and Maintenance costs are funded from service fees and other charges. The acquisition and construction of capital assets are funded through Operating Revenues, Reserve Funds, Federal and State Grants, Wastewater Revenue Bonds and the New Jersey Infrastructure Bank (formerly known as the New Jersey Environmental Infrastructure Trust).

Our Mission

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) Cont'd

Water quality

Two of the best indicators of facility performance are the concentration of solids in the discharge from the facility as well as the concentration of organics in this discharge. Figures 1. and 2 below illustrate these measures and compare the operating results with State of New Jersey limits.

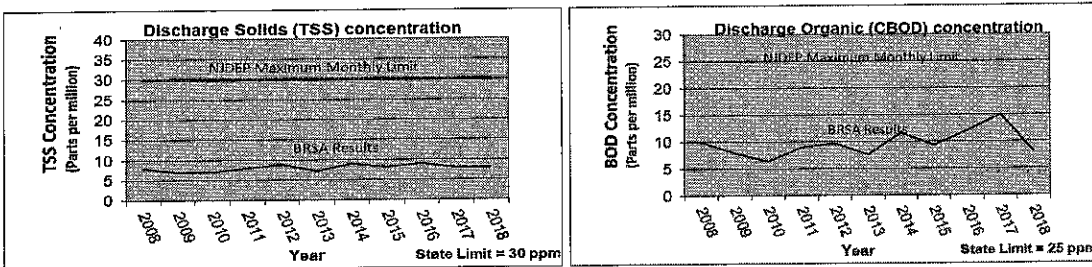


Fig. 1 Effluent total suspended solids (TSS) per liter of water discharged from 2008 to 2018. State requires value to be 30 mg/l or lower. Effluent carbonaceous biological oxygen demand (cbod) per liter of water discharged from 2008 to 2018. State requires values to be 25 mg/l or lower.

Operating expenditures

The Authority Operating budget provides for administration and cost of providing service expenses associated with a 16 million gallon per day treatment plant, regional interceptor collection system, pump stations, and meter chambers and provides an anticipated reserve.

The treatment system is comprised of a main pump station where the residential, commercial and industrial waste is removed of its larger solid material (screenings) before being pumped to a higher elevation for the removal of grit. Subsequent to grit removal the wastewater is conveyed by gravity to one of two separate treatment trains each with similar process units. The process units consist of primary sedimentation and floatation, biological reactors, secondary sedimentation and finally disinfection. The solids removed in the process units (primary sedimentation) and a portion created in the biological reactors are conveyed to a separate solid handling process for ultimate disposal. The water leaving the disinfection chambers is conveyed to the Monmouth County Bayshore Outfall Authority, a separate entity, for conveyance and ultimate discharge to the Atlantic Ocean via a 14-mile outfall pipe. The discharge of cleaned water from the Authority is regulated under the New Jersey Pollutant Discharge Elimination System Permit No. NJ 0024708. The chart in figure 3 illustrates the Authority effort to maintain a stable operating expense over the past ten-(10) years.

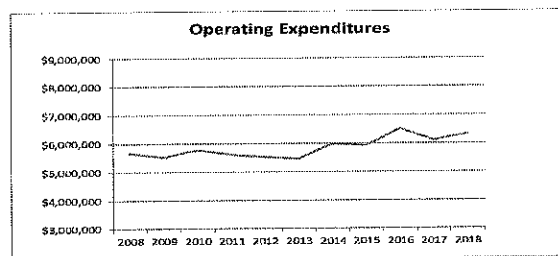


Figure 2 Graph of annual operating expenses 2008 to 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) Cont'd

Capital Expenditures

In 2018 the Authority focused its Capital Budget on improvements and upgrades to the interceptor collection system, pump stations, force mains, backup incinerator and odor control systems. Capital funding is derived primarily from unrestricted net position generated during the year as well as low interest loans from the New Jersey Infrastructure Bank (NJIB).

Net Position

The Authority's financial condition remained strong at year end, as depicted by the financial data which follows. Net Position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. In the past this measure has been called net assets, fund balance and equity. The net position of the Authority is an indication of overall financial health and is the accumulated results of all the individuals years of operating. For calendar year ending 2018 the net position of the Authority was \$70,321,099. The net position of the Authority at calendar year end 2017 was \$67,436,464. The change in net position for the Authority in 2018 was an increase of \$2,884,635.

2018	2017	2016
\$70,321,099	\$67,436,464 *	\$71,212,074

*Restated as a result of GASB 75

Internal Controls

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) Cont'd

Synopsis of General Authority Financial Procedures

The Authority has adopted and follows a cash management plan.

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. Electronic payments are permitted only after Board approval and follow a double entry and certification process. All Operating checks require 3 signatures and payroll checks require 2 signatures. The Authority does not use signature stamps. All depositories, investments and accounts are approved by resolution of the governing body. The responsibility of the petty cash fund is vested in 2 individuals. All bank statements are reconciled monthly and sequence of check numbers accounted for. Outstanding checks older than 6 months are investigated. All investments are issued in the name of the Authority and GUDPA protected. There is a separation of duties between accounts receivable and billing with each process in a separate department. Inventories and supplies are under the physical control of a designated employee. Prenumbered purchase orders are issued for all purchases and vouchers approving payment contain the signature of the person who verified quantities and services rendered. All vouchers are approved by the governing body. Payroll is approved by a responsible official outside of the payroll department and all employees are paid by check or ACH Direct deposit. Records are maintained to control and verify vacation, sick and benefit time. New employees, employee promotions and rates of pay are approved by the governing body. Detailed fixed asset records are maintained and the Authority has an Asset Management Program for the identification of equipment, its age, condition, life cycle costs, replacement costs and risk management. The Authority budget is introduced and adopted by resolution of the governing body and the Authority Treatment charges are presented at a public hearing. The Authority Operating and Capital Budgets are approved and certified by the Division of Local Government Services at the Department of Community Affairs.

Overview of Certain Financial Report

Comparative Statement of Net Position

"The Comparative Statement of Net Position" presents information on the Authority's assets and liabilities. 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 net position of the Authority was impacted by the implementation of GASB 75 which is explained in the accompanying note #7 of the Audit. Certain audited figures were restated for 2017 as a result. The Authority's Net Position increased in 2018 from \$67,436,464 to \$70,321,099 (restated 2017 figure). The increase is the result of sewer connection applications to the system created by a few major redevelopment projects in the district.

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 in 2018 is \$3,266,975 The net income is primarily the result of several multiuse redevelopment projects underway in the Bayshore area of N.J. and of operating income which includes an anticipated reserve. Reserve is one of the main sources of capital improvements and asset management funding, both of which are key components in providing rate stability and treatment plant optimal performance. Figure 4 below compares this schedule for the years 2016-2018 and provides the Authority with key financial indicators.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) Cont'd

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 2018 was \$10,729,987 as compared to \$17,202,044 for 2017 with the decrease due mainly to a much larger outlay for capital in 2017. Revenues from Treatment charges were slightly higher in 2018 as compared to 2017. Health insurance costs were lower in 2018 as a result of the change in health plan premiums from the State of NJ. Pension expense increased in 2018. Plant electrical costs increased by \$66,584 primarily due to the Authority increased use of energy while optimizing the newly installed activated sludge blower process. The Authority is part of an energy aggregate group which purchases power at a lower rate due to the aggregate size. In 2018 expenditures for incinerator fuel oil increased by \$61,540 as a result of higher fuel oil unit costs. The use and cost of natural gas remained relatively stable. Water costs for 2018 were higher as a result of additional water use in the scrubber system of the NIRO Incinerator. The increased water usage results in cleaner emissions in the air. Less ash was removed from the plant in 2018 as the authority had ample capacity to store it on site resulting in \$184,206 less in expenses for this line item. In 2018 the Authority completed over \$1,700,000 in capital improvements mostly related to odor control improvements, pipeline repair work, back-up incinerator improvements and pump station upgrades. Most other operational expenditures were in line with prior year.

Revenues, Expenses and Changes in Net Position Authority 3-Year Statement			
	2018	2017 Restated	2016
Operating Revenues	\$9,230,222	\$9,224,232	\$9,327,464
Operating Expenses	\$6,516,854	\$6,248,623	\$7,436,707
Depreciation	\$2,111,562	\$1,843,478	\$1,841,724
Total Operating Expenses	\$8,628,416	\$8,092,101	\$9,278,431
Operating Income	\$601,806	\$1,132,131	\$49,033
Non-Operating Revenue/ (Expenses)			
Interest Income	\$289,733	\$120,630	\$24,965
Misc. Income (connections and sundry)	\$2,080,800	\$5,019,743	\$4,811,271
Superstorm Sandy Expense			-\$87,016
Note Issuance costs-Ibank	-\$55,631	-\$36,196	-
Interest Ibank	-\$32,073	-\$28,642	-
Total Non-Operating Revenues/ (Expenses)	\$2,282,829	\$5,075,535	\$4,749,220
Net Income before transfer of depreciation of assets purchased with contributed capital	\$2,884,635	\$6,207,666	\$4,798,253
Transfer of Depreciation	\$382,340	\$382,340	\$382,340
Net Income	\$3,266,975	\$6,590,006	\$5,180,593
Net Position, January 1	\$62,135,543	\$65,528,813	\$60,348,220
GASB 75 Adjustment		-\$9,983,276	
Net Position, December 31	\$65,402,518	\$62,135,543	\$65,528,813
Contributed Capital-Net-January 1	\$5,300,921	\$5,683,261	\$5,776,197
NJEIT Note Principal Forgiveness			\$289,404
Transfer of depreciation from Operations	-\$382,340	-\$382,340	-\$382,340
Contributed Capital-Net-December 31	\$4,918,581	\$5,300,921	\$5,683,261
Net Position-End of Year	\$70,321,099	\$67,436,464	c

Figure 3. Revenues, Expenses and Changes in Net Position – 3 Year schedule

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) Cont'd

Ongoing Response to Hurricane Sandy

On October 29, 2012 Hurricane Sandy flooded the Borough of Union Beach, NJ where the Bayshore Regional Sewerage Authority is located. The Authority suffered significant damage to its processes. The authority has received funding from three separate insurance policies as well as the Federal Emergency Management Agency, FEMA. FEMA has obligated approximately \$35,000,000 towards the restoration and mitigation of the Authority processes. FEMA share of the funding to restore and mitigate damage has been established at 90% of cost, leaving 10% cost share for the Authority.

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

As of December 31, 2018, the Authority has requisitioned and received \$25,340,594 from the New Jersey Infrastructure Trust (NJEIT) for costs associated with the restoration, and mitigation of Authority buildings and processes damaged by Superstorm Sandy. As of December 31, 2018, the Authority has repaid NJEIT a total of \$14,116,880 from FEMA reimbursements received. In 2018 the Authority sold a 20-year bond to the NJEIT in the amount of \$11,101,075. The proceeds of the bond will be used to pay the remaining balance due.

AUTHORITY CONTACT INFORMATION

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

EXHIBIT A

Bayshore Regional Sewerage Authority

Comparative Statement of Net Position

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u> <u>Restated</u>
<u>ASSETS</u>		
Unrestricted Assets:		
Cash and Cash Equivalents	\$22,168,611	\$ 13,912,682
Inventory	548,550	517,603
Prepaid Expenses	14,492	95,844
Insurance and FEMA Claims Receivable	2,428,849	2,777,891
Claims Receivable - I-Bank	<u>60,377</u>	<u>60,377</u>
Total Unrestricted Assets	\$25,220,879	\$ 17,364,397
Restricted Assets:		
Construction Funds	3,683,525	9,604,589
Debt Service Funds	200,894	-
Customer Escrow Deposits	<u>2,756,517</u>	<u>2,721,643</u>
Total Restricted Assets	<u>6,640,936</u>	<u>12,326,232</u>
Plant, Property and Equipment	149,670,818	147,244,158
Less: Accumulated Depreciation	<u>77,581,781</u>	<u>75,470,219</u>
Net Plant, Property and Equipment	<u>72,089,037</u>	<u>71,773,939</u>
TOTAL ASSETS	\$103,950,852	\$101,464,568
Deferred Outflow of Resources:		
Deferred Amount of Net Pension Liability	<u>1,461,313</u>	<u>2,156,369</u>
Deferred Amount of Net OPEB Liability	<u>307,232</u>	<u>1,501</u>
Total Assets and Deferred Outflow of Resources	<u>\$105,719,397</u>	<u>\$103,622,438</u>

See accompanying notes.

Bayshore Regional Sewerage Authority

EXHIBIT A

Comparative Statement of Net Position

(Continued)

December 31, 2018 and 2017

<u>LIABILITIES AND NET POSITION</u>	<u>2018</u>	<u>2017</u> <u>Restated</u>
Current Liabilities -		
Payable from Unrestricted Assets:		
Accounts Payable - Operating	\$422,262	\$ 361,627
Accounts Payable - Retainage	105,480	165,867
Payroll Deductions Payable	23,006	17,778
Accrual for Unused Leave and Vacation Time	<u>88,789</u>	<u>72,805</u>
Total Current Liabilities Payable from Unrestricted Assets	<u>639,537</u>	<u>618,077</u>
Current Liabilities -		
Payable from Restricted Assets:		
Escrow Deposits Payable	2,756,517	2,721,643
FEMA Reimbursement due to State	-	1,722,847
Note payable - I-Bank - 2015 Series	-	10,671,531
I-Bank - 2016 Series	2,584,652	-
Loan Payable - Current Portion	<u>515,902</u>	<u>-</u>
Total Current Liabilities Payable from Restricted Assets	5,857,071	15,116,021
Long Term Liabilities -		
Payable from restricted assets:		
Loan payable - I-Bank -2015 Series	10,311,238	1,677,528
Net Pension Liability	6,155,334	7,303,552
Net OPEB Liability	<u>6,958,642</u>	<u>8,756,536</u>
TOTAL LIABILITIES	29,921,822	33,471,714
Deferred Inflow of Resources		
Deferred Amount on Net Pension Liability	2,078,544	1,486,019
Deferred Amount of Net OPEB Liability	<u>3,397,932</u>	<u>1,228,241</u>
Total Liabilities and Deferred Inflow of Resources	35,398,298	36,185,974
<u>NET POSITION</u>		
Restricted for:		
Contributed capital, net	4,918,581	5,300,921
Construction	<u>3,683,525</u>	<u>9,986,499</u>
	8,602,106	15,287,420
Unrestricted	<u>61,718,993</u>	<u>52,149,044</u>
Total Net Position	<u>70,321,099</u>	<u>67,436,464</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$105,719,397</u>	<u>\$103,622,438</u>

See accompanying notes.

EXHIBIT B

Bayshore Regional Sewerage AuthorityComparative Statement of Revenues, Expenses and Changes in Net PositionYears Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u> <u>Restated</u>
Operating Revenues:		
Treatment Charges	\$ 9,230,222	\$ 9,224,232
Operating Expenses:		
Payroll and Employee Benefits	3,936,791	3,974,345
Plant Materials and Supplies	2,127,678	1,886,543
Administrative and General	452,385	387,735
Depreciation	<u>2,111,562</u>	<u>1,843,478</u>
Total Operating Expenses	<u>8,628,416</u>	<u>8,092,101</u>
Operating Income	<u>601,806</u>	<u>1,132,131</u>
Nonoperating Revenue (Expenses):		
Interest Income on Investments	289,733	120,630
Miscellaneous Income - Applications and Sundry	2,080,800	5,019,743
Note Issuance Costs - I-Bank Loans and Notes	(55,631)	(36,196)
Interest- I-Bank Note	<u>(32,073)</u>	<u>(28,642)</u>
	<u>2,282,829</u>	<u>5,075,535</u>
Net Income (Before Transfer of Depreciation of Assets Purchased with Contributed Capital)	2,884,635	6,207,666
Transfer of Depreciation to Contributed Capital	<u>382,340</u>	<u>382,340</u>
Net Income	3,266,975	6,590,006
Net Position, January 1 st	62,135,543	65,528,813
GASB 75 Adjustment		(9,983,276)
Net Position, December 31 st	<u>65,402,518</u>	<u>62,135,543</u>
Contributed Capital - Net, January 1 st	5,300,921	5,683,261
Transfer of Depreciation from Operations	<u>(382,340)</u>	<u>(382,340)</u>
Contributed Capital - Net, December 31 st	<u>4,918,581</u>	<u>5,300,921</u>
Net Position, End of Year	<u>\$ 70,321,099</u>	<u>\$ 67,436,464</u>

EXHIBIT CBayshore Regional Sewerage AuthorityComparative Statement of Cash FlowsYears Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash Provided by (Used for) Operations:		
Change in Net Position	\$ 2,884,635	\$ 6,207,666
Adjustments to Reconcile Net Position to Net Cash:		
Depreciation	2,111,562	1,843,478
Prepaid Expenses	81,352	(5,562)
Inventory	30,947	(67,523)
Claims Receivable	349,042	491,328
Current Liabilities Payable from Unrestricted Assets	21,460	(8,657)
Current Liabilities Payable from Restricted Assets	(1,687,973)	1,407,673
Deferred Amounts on Net Pension and OPEB Liability	(2,946,112)	1,802,376
Net Pension and OPEB Liability	<u>3,151,541</u>	<u>(1,682,617)</u>
Net Cash Provided by Operations	<u>3,996,454</u>	<u>9,988,162</u>
Cash Flows Provided by (Used for) Investing Activities:		
Restricted Assets	5,685,296	(3,129,474)
Plant, Property and Equipment	<u>(2,426,660)</u>	<u>(9,627,930)</u>
Net Cash Provided By (Used For) Investing Activities	<u>3,258,636</u>	<u>(12,757,404)</u>
Cash Flows Provided By (Used For) Financing Activities:		
Loan Payable	9,149,612	
Note Payable	<u>(8,148,773)</u>	<u>2,624,554</u>
Net Cash Provided By Financing Activities	1,000,839	2,624,554
Net Increase in Cash and Cash Equivalents	8,255,929	(144,688)
Cash and Cash Equivalents:		
Beginning of Period	<u>13,912,682</u>	<u>14,057,370</u>
End of Period	<u>\$ 22,168,611</u>	<u>\$ 13,912,682</u>

See accompanying notes.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 1. Summary of Significant Accounting Policies

A. General

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

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

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

B. New Accounting Standards

The Authority has adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB 67 and 68* ("GASB 73"). Statement No. 73 requires the Authority to present a 10-year schedule of changes in the total net pension liability. The schedule of changes in the total net pension liability is presented in the Supplementary Information of these financial statements.

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

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 1. Summary of Significant Accounting Policies (Continued)

B. New Accounting Standards (Continued)

In March 2016, GASB issued Statement No. 82, *Pension Issues* ("GASB 82"). This Statement requires presentation of covered payroll, defined as payroll on which contributions to a pension plan are based, and ratios that use that measure, in schedules of required supplementary information. The Statement also addresses issues regarding the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The provisions of this Statement are effective for financial statements in periods beginning after June 15, 2016. The Authority has implemented GASB 82 during the year ended December 31, 2018.

C. Basis of Financial Statements

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

Cash, Cash Equivalents and Investments

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

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

Public funds are defined as the funds of any government unit. Public depositories include banks (both state and national banks), savings and loan institutions and savings banks, the deposits of which are federally insured. All public depositories pledge collateral, having a market value of five percent of the average daily balance of collected public funds, to secure the deposits of governmental units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories in the collateral pool, is available to pay the full amount of their deposits to the governmental units.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Financial Statements -Cash, Cash Equivalents and Investments (Continued)

Cash includes petty cash, change funds, cash in banks, savings accounts, money market funds, or highly liquid securities with an original maturity date of less than three (3) months from the date of purchase which may be withdrawn at any time without prior notice or penalty. Cash equivalents are defined as short-term, highly liquid securities that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only securities with an original maturity date of less than three (3) months from the date of purchase meet this definition. For the Comparative Statement of Cash Flows the Authority includes all cash and cash equivalents.

Risk Analysis

The cash, checking, savings accounts, and money market accounts are covered by the Federal Deposit Insurance Corporation ("FDIC") and the Government Unit Deposit Protection Act ("GUDPA").

D. 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.

E. Inventory

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

F. 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.

G. 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.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 1. Summary of Significant Accounting Policies (Continued)

H. Plant, Property and Equipment

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

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

The following table summarizes the capital asset activity of the Authority for 2018 and 2017:

<u>2017</u>	Balance December 31, <u>2017</u>	<u>Additions</u>	<u>Dispositions</u>	Balance December 31, <u>2018</u>
Land & Building	\$ 1,222,762	\$ 2,366	\$ -	\$ 1,225,128
Plant Infrastructure	94,088,243	1,046,525	-	95,134,768
System Infrastructure	25,403,770	637,791	-	26,041,561
Vehicles & Equipment	1,387,870	21,737	-	1,409,607
Construction in Progress	<u>25,141,513</u>	<u>718,241</u>	<u>-</u>	<u>25,859,754</u>
	\$147,244,158	\$ 2,426,660	-	<u>\$149,670,818</u>
Less:				
Accumulated Depreciation	<u>(75,470,219)</u>	<u>(2,111,562)</u>	<u>-</u>	<u>\$(77,581,781)</u>
	<u>\$ 71,773,939</u>	<u>\$ 315,098</u>	<u>\$ -</u>	<u>\$ 72,089,037</u>

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

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

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 1. Summary of Significant Accounting Policies (Continued)

I. 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 AND FEMA CLAIMS RECEIVABLE/FINANCING OF SUPERSTORM SANDY COSTS

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

The Authority sustained significant damage to its property, plant and equipment. As of December 31, 2018, the Authority has expended \$12,540,837 (exclusive of amounts spent in relation to the I-Bank note borrowings discussed in Note 3), in repairs, equipment replacement and alternative treatment methods in order to continue to service its customer base. The full extent and cost of the damage caused by this extraordinary event has yet to be finalized and measured.

Certain of the expenses incurred by the Authority and discussed above will be eligible for a combination of insurance coverage and financial assistance from the Federal Emergency Management Agency (FEMA). The Authority anticipates that many of these expenses will be reimbursable at 90%. Certain of these expenses will mitigate future storm damage, and as such, will be capital in nature and will be financed over the useful life of the repaired asset. The amount shown as Insurance Claims receivable on the balance sheet is shown net of a \$2,842,842 reimbursement from the Authority's various insurance carriers, and \$6,047,366 from FEMA.

NOTE 3. CLAIMS RECEIVABLE I-BANK

During 2018, the Authority expended \$60,377 in funds for engineering and other fees related to projects that will eventually be financed by an additional short-term note sold to the I-Bank. The Authority has made application to FEMA, and upon approval from FEMA, these funds will be reimbursed to the Authority when the additional short-term note is sold by the Authority.

NOTE 4. NOTES PAYABLE- I-BANK

2015 Series

On May 23, 2015, the authority sold a three-year note to I-Bank in an amount not to exceed \$28,113,307. The proceeds of the note were used by the Authority to fund repairs associated with damage from SuperStorm Sandy, as well as fund costs associated with future mitigation of damages from future storms. The terms of the note called for the Authority to draw funds as needed to fund completion of these projects. Most of these costs will be ultimately funded by FEMA, or in the form of

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2018 and 2017

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

2015 Series (Cont'd)

principal forgiveness of a portion of the note by I-Bank. The Authority drew funds from a construction account established by I-Bank and receives reimbursements from FEMA. These reimbursements were forwarded back to I-Bank, thereby lowering the balance due on the note. As of December 31, 2017, the Authority owed I Bank \$10,671,531. The Authority paid a one-time interest payment on this note of \$28,642 to I-Bank in 2017.

2016 Series

On June 22, 2016, the Authority sold a three-year note to I-Bank in an amount not to exceed \$11,233,343. Like the 2015 Note payable, the proceeds of the note were used by the Authority to fund repairs associated with damage from SuperStorm Sandy, as well as fund costs associated with future mitigation of damages from future storms. The terms of the note called for the Authority to draw funds as needed to fund completion of these projects. Most of these costs will be ultimately funded by FEMA, or in the form of principal forgiveness of a portion of the note by I-Bank. The Authority drew funds from a construction account established by I-Bank and receives reimbursements from FEMA. These reimbursements were forwarded back to I-Bank, thereby lowering the balance due on the note. As of December 31, 2017 and 2016, the Authority owed I Bank \$2,584,652 and \$1,677,528, respectively, under the terms of this note. The Authority paid a one-time interest payment on this note of \$32,073 to the I-Bank in 2018.

As of December 31, 2018 and 2017, the Authority owed \$0 and \$1,722,847, respectively, to the I-Bank for FEMA reimbursement received under both the 2015 and 2016 series note programs.

NOTE 5- Loans Payable- I Bank

On February 26, 2018, The Authority adopted a resolution ("General Bond Resolution") authorizing the issuance of revenue bonds. Also, on February 26, 2018, the Authority adopted supplemental resolution 1 to the General Bond Resolution authorizing the issuance to the I-Bank of an amount not to exceed \$14,000,000 (the "2018 Bonds"). The 2018 bonds consist of two portions: A Federal portion that includes principal forgiveness, and a State Portion. The Federal portion of the 2018 Bonds consist of semi-annual principal payments of 401,902 commencing on August 1, 2018, with a final maturity on August 1, 2037, at which time the total principal payments will amount to \$8,081,075. This portion does not bear interest. The State portion of the 2018 bonds in the amount of \$3,020,000 shall bear interest from their date of delivery, and semi-annually thereafter on August 1 and February 1 of each year. This portion shall bear interest at the rates and shall mature on the dates and in the principal amounts, set forth in an I-Bank Loan Agreement; provided that (i) each maturity date shall be February 1 or August 1; (ii) the final maturity date shall not be later than August 1, 2040; and (iii) no interest shall exceed six percent (6%) per annum. The proceeds of the 2018 bonds were used to refund the balance due on the 2015 notes payable, and pay for the cost of issuance of the 2018 loans

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2018 and 2017

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

Annual repayments are due as follows:

Year ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2019	\$ 515,902	\$116,631	\$ 632,533
2020	520,902	111,381	632,283
2021	525,902	105,881	631,783
2022	530,902	100,131	631,003
2023	535,902	94,131	630,003
2024 - 2028	2,789,511	369,156	3,158,616
2029 - 2033	2,949,511	218,524	3,169,034
2034 - 2039	<u>2,458,608</u>	<u>69,618</u>	<u>2,517,796</u>
	<u>\$10,827,140</u>	<u>\$1,185,955</u>	<u>\$12,013,095</u>

NOTE 5. EMPLOYEE RETIREMENT SYSTEM

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

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, 2018 and 2017

NOTE 5. EMPLOYEE RETIREMENT SYSTEMS AND PENSION PLANS (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.

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

Public Employees Retirement System (PERS)

At December 31, 2018 and 2017, the Authority had a liability of \$6,155,334 and \$7,303,552, respectively, for its proportionate share of the PERS net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2018 and 2017, respectively. The Authority's proportionate share of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating governmental entities, actuarially determined. As of the measurement date of June 30, 2018, the Authority's proportionate share was 0.00312 percent, which was a decrease of 0.0001 percent from its proportionate share measured as of June 30, 2017 of 0.00313.

For the years ended December 31, 2018 and 2017, respectively, the pension system has determined the Agency's pension expense to be \$471,183 and \$662,912, respectively, for PERS based on the actuarial valuation which is more than the actual contributions made by the Agency of \$295,984 and \$270,981, respectively. At December 31, 2018 and 2017, the Agency's deferred outflows of resources and deferred inflows of resources related to the PERS pension are from the following sources:

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2018 and 2017

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

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

	<u>2018</u>	<u>2017</u>	<u>2017</u>	<u>2017</u>
	<u>Deferred</u>	<u>Deferred</u>	<u>Deferred</u>	<u>Deferred</u>
	<u>Outflows</u>	<u>Inflows</u>	<u>Outflows</u>	<u>Inflows</u>
	<u>of Resource</u>	<u>of Resources</u>	<u>of Resources</u>	<u>of Resources</u>
Difference Between Expected and Actual Experience	\$ 117,383	\$ 31,739	\$ 171,973	
Changes of Assumptions	1,014,297	1,968,148	1,471,414	\$1,486,019
Net Difference Between Projected and Actual Earning on Pension Plan Investments	-	57,737	49,732	
Changes in Proportion and Differences Between Authority Contributions and Proportionate Share of Contributions	<u>329,633</u>	<u>20,920</u>	<u>463,250</u>	_____
Total	<u>\$1,461,313</u>	<u>\$2,078,544</u>	<u>\$2,156,369</u>	<u>\$1,486,019</u>

At December 31, 2018, the amounts reported as deferred outflows of resources and deferred inflows of resources related to PERS pension will be recognized expense as follows:

<u>Year Ending</u>	<u>Total</u>
<u>December 31,</u>	
2019	81,184
2020	81,184
2021	81,194
2022	81,194
2023	
Thereafter	<u>1,136,577</u>
	<u>\$1,461,313</u>

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2018 and 2017

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

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

Actuarial Assumptions

The Authority's total pension liability reported for the year ended December 31, 2018 was based on the June 30, 2018 measurement date as determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018. The total pension liability reported for the year ended December 31, 2017 was based on the June 30, 2017 measurement date as determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement date:

<u>PERS</u>	<u>2018</u>	<u>2017</u>
Inflation Rate	2.25%	2.25%
Salary Increases:		
2012 - 2021		1.65 - 4.40%
		Based on Age
Through 2026	1.65 - 4.15%	
	Based on Age	
Thereafter	2.65 - 5.15%	2.65 - 5.15%
	Based on Age	Based on Age
Investment Rate of Return	7.00%	7.00%

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rate of return (expected returns, net of pension plans investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plans' target asset allocation as of June 30, 2017 and 2016 are summarized in the following tables:

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2018 and 2017

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

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

<u>2018</u>			<u>2017</u>		
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash Equivalents	5.50%	1.00%	Absolute return/ risk mitigation	5.00%	5.51%
U.S. Treasuries	3.00%	1.87%	Cash equivalents	5.50%	1.00%
Investment Grade Credit	10.00%	3.78%	U.S. Treasuries	3.00%	1.87%
High Yield	2.50%	6.82%	Investment grade credit	10.00%	3.78%
Global diversified credit	5.00%	7.10%	Public high yield	2.50%	6.82%
Credit-oriented			Global diversified credit	5.00%	7.10%
Hedge funds	1.00%	6.60%	Credit-oriented		
Debt-related			Hedge funds	1.00%	6.60%
private equity	2.00%	10.63%	Debt-related		
Debt-related real estate	1.00%	6.61%	private equity	2.00%	10.63%
Private real asset	2.50%	11.83%	Debt-related real estate	1.00%	6.61%
Equity-related			Private real asset	2.50%	11.83%
real estate	6.25%	9.23%	Equity-related		
U.S. Equity	30.00%	8.19%	real estate	6.25%	9.23%
Non-US developed			U.S. Equity	30.00%	8.19%
Markets equity	11.50%	9.00%	Non-US developed		
Emerging markets equity	6.50%	11.64%	Markets equity	11.50%	9.00%
Buyouts/venture capital	8.25%	13.08%	Emerging markets equity	6.50%	11.64%
			Buyouts/venture capital	8.25%	13.08%

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

<u>Year</u>	<u>Measurement Date</u>	<u>Discount Rate</u>
2018	June 30, 2018	5.66%
2017	June 30, 2017	5.00%

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2018 and 2017

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

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

Discount Rate:

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

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

*The municipal bond rate used is 3.87% and 3.58% as of the measurement dates of June 30, 2017 and 2016, respectively. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Sensitivity of Net Pension Liability:

The following present the Authority's proportionate share of the PERS net pension liability as of December 31, 2018 and 2017, calculated using the discount rate of 5.66% and 5.00%, respectively, as well as what the Authority's proportionate share of the PERS net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.66% and 4.00%, respectively) or 1-percentage-point higher (6.66% or 6.00%, respectively) than the current rate:

	<u>1%</u> <u>Decrease</u> <u>(4.66%)</u>	<u>2018</u> <u>Current</u> <u>Discount Rate</u> <u>(5.66%)</u>	<u>1%</u> <u>Increase</u> <u>(6.66%)</u>
Authority's Proportionate Share of The PERS Net Pension Liability	<u>\$7,386,400</u>	<u>\$ 6,155,334</u>	<u>\$5,170,480</u>
	<u>1%</u> <u>Decrease</u> <u>(4.00%)</u>	<u>2017</u> <u>Current</u> <u>Discount Rate</u> <u>(5.00%)</u>	<u>1%</u> <u>Increase</u> <u>(6.00%)</u>
Authority's Proportionate Share of The PERS Net Pension Liability	<u>\$ 8,691,266</u>	<u>\$ 7,303,552</u>	<u>\$ 6,134,982</u>

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2018 and 2017

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

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

Sensitivity of Net Pension Liability (Continued):

The sensitivity analysis was based on the proportionate share of the Authority's net pension liability at December 31, 2018 and 2017. A sensitivity analysis specific to the Authority's net pension liability was not provided by the pension system.

Pension Plan Fiduciary Net Position:

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

NOTE 6. ACCOUNTING AND FINANCIAL REPORTING FOR POST-RETIREMENT BENEFITS OTHER THAN PENSION - GASB 75

Plan Description and Benefits Provided

The State Health Benefit Retired Employees Plan is a multiple-employer defined benefit OPEB plan, with that is administered on a pay-as-you-go basis. Accordingly, no assets are accumulated in a qualifying trust that meets the criteria in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The State Health Benefit Local Education Retired Employees Plan provides medical, prescription, drug, and Medicare Part B reimbursement to retirees and their covered dependents of local employers.

The employer contributions for the participating local employers are legally required to be funded by the State of New Jersey in accordance with N.J.S.A. 52:14-17.32f. Therefore, these local participating employers are considered to be in a special funding situation as defined by GASB Statement No. 75 and the State is treated as a nonemployer contributing entity. According to N.J.S.A. 52:14-17.32f, the State provides employer-paid coverage to employees who retire from a board of education or county college with 25 years or more of service credit in, or retires on a disability pension from, one or more of the following plans: Teachers' Pension ANnuity Fund (TPAF), the Public Employees' Retirement System (PERS), the Police and Firemen Retirement SYstem (PFRS), or the Alternate Benefit Program (ABP). Pursuant to Chapter 78, P.L. 2011, the future retirees eligible for postretirement medical coverage who have less than 20 years of creditable service on June 28, 2011 will be required to pay a percentage of the cost of their health coverage in retirement provided they retire with 25 or more years of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level of coverage.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 6. ACCOUNTING AND FINANCIAL REPORTING FOR POST-RETIREMENT BENEFITS OTHER THAN PENSION - GASB 75 (Continued)

Total Nonemployer OPEB Liability

The portion of the Total Nonemployer OPEB Liability that was associated with the Authority at December 31 was as follows:

	<u>2018</u>	<u>2017</u>
Nonemployer OPEB Liability:		
Authority's proportionate share	\$6,958,642	\$8,756,536

The Total Nonemployer OPEB Liability as of December 31, 2018 and 2017 was determined by an actuarial valuation as of June 30, 2018 and 2017.

The Total Nonemployer OPEB Liability was determined separately based on actual data of the District.

On December 31, 2018, the District's proportion was 0.044417 percent, which was an increase of 0.000178 from its proportion measured as of December 31, 2017.

The State, a Nonemployer contributing entity, is the only entity that has a legal obligation to make employer contributions to OPEB for qualified retired PERS, TPAF/ABP and PFRS participants.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2018 actuarial valuation reported by the State in the State's most recently issued CAFR was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified.

Inflation 2.5 %	
Salary increases Through 2026	1.65% - 8.98% Based on Age
Thereafter	2.65% - 9.98% Based on Age

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 6. ACCOUNTING AND FINANCIAL REPORTING FOR POST-RETIREMENT BENEFITS OTHER THAN PENSION - GASB 75 - Actuarial Assumptions and Other Inputs (Continued)

Pre-retirement mortality rates were based on the RP-2006 Headcount-Weighted Healthy Employee Male/Female mortality table with fully generational mortality improvement projections from the central year using the MP-2017 scale. Post-Retirement mortality rates were based on the RP-2006 Headcount-Weighted Healthy Employee Male/Female mortality table with fully generational mortality improvement projections from the central year using the MP-2017 scale. Disability mortality was based on the RP-2006 Headcount-Weighted Healthy Employee Male/Female mortality table with fully generational mortality improvement projections from the central year using the MP-2017 scale.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies for the periods July 1, 2012 - June 30, 2015, July 1, 2010 - June 30, 2013, and July 1, 2011 - June 30, 2014 for TPAF, PFRS and PERS, respectively.

Health Care Trend Assumptions

For pre-Medicare preferred provider organization (PPO) medical benefits, this amount initially is 5.8% and decreases to a 5.0% long-term trend rate after eight years. For self-insured post-65 PPO medical benefits, the trend rate is initially 4.5%. For prescription drug benefits, the initial trend rate is 8.0% decreasing to a 5.0% long-term trend rate after seven years. For the Medicare Plan B reimbursement, the trend rate is 5.0%. The Medicare Advantage trend rate is 4.5% and will continue in all future years.

Discount Rate

the discount rate for June 30, 2018 and 2017 was 3.7% and 3.855, respectively. This represents the municipal bond return rate as chosen by the Division. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 6. ACCOUNTING AND FINANCIAL REPORTING FOR POST-RETIREMENT BENEFITS OTHER THAN PENSION - GASB 75 - (Continued)

Sensitivity of the Total Nonemployer OPEB Liability to Changes in the Discount Rate

The following presents the total nonemployer OPEB liability associated with the Authority as of December 31, 2018 calculated using the discount rate as disclosed above as well as what the total nonemployer OPEB liability would be if it was calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	<u>December 31, 2018</u>		
	<u>1.00%</u> <u>Decrease (2.87%)</u>	<u>At Discount</u> <u>Rate (3.87%)</u>	<u>1.00%</u> <u>Increase(4.87%)</u>
State of New Jersey's Nonemployer OPEB Liability Associated with the Authority	\$8,162,487	\$6,958,642	\$5,984,432

	<u>December 31, 2017</u>		
	<u>1.00%</u> <u>Decrease (2.58%)</u>	<u>At Discount</u> <u>Rate (3.58%)</u>	<u>1.00%</u> <u>Increase(4.58%)</u>
State of New Jersey's Nonemployer OPEB Liability Associated with the Authority	\$10,245,147	\$8,756,536	\$7,530,620

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

As of June 30, 2018, the State reported deferred outflows of resources and deferred inflows of resources related to retired Authority employee's OPEB associated with the following sources:

	<u>2018</u>		<u>2017</u>	
	<u>Deferred</u> <u>Inflow of</u> <u>Resources</u>	<u>Deferred</u> <u>Outflow of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflow of</u> <u>Resources</u>	<u>Deferred</u> <u>Outflow of</u> <u>Resources</u>
Changes of assumptions	\$1,765,151	\$ -	\$971,901	-
Difference Between Expenditures and Actual	1,412,853	3,677	-	1,501
Changes in Proportion	<u>219,928</u>	<u>303,555</u>	<u>256,340</u>	<u> </u>
	<u>\$3,397,932</u>	<u>\$ 307,232</u>	<u>\$1,228,241</u>	<u>\$ 1,501</u>

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2018 and 2017

NOTE 6. ACCOUNTING AND FINANCIAL REPORTING FOR POST-RETIREMENT BENEFITS OTHER THAN PENSION - GASB 75 - OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to retired school employee's OPEB associated with the District will be recognized in OPEB expense as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2019	\$ (343,411)
2020	(343,411)
2021	(343,411)
2022	(343,411)
2023	(343,411)
Total Thereafter	<u>(1,373,645)</u>
	<u>\$ (3,090,700)</u>

In accordance with GASB No. 75, the Authority's proportionate share of retiree's OPEB is zero. There is no recognition of the allocation of proportionate share of deferred outflows of resources and deferred inflows of resources in the financial statements.

State Health Benefit Local Education Retired Employee Plan Information

The New Jersey Division of Pension and Benefits issues publicly available reports on the OPEB plan. Those reports may be obtained by writing to the Division of Pension and Benefits, PO Box 295, Trenton, NJ 08625-029 or on their website at <http://www.state.nj.us/treasury/pensions/gasb-notices-opeb.shtml>.

NOTE 7. RESTATEMENT

On January 1, 2018, the Bayshore Regional Sewerage Authority implemented GASB Statement No. 75, "Financial Reporting for Post Employment Benefit Plans Other Than Pensions." The Authority has determined the effect of implementing this accounting change on the financial statements previously reported as of December 31, 2017, was to recognize the Authority's proportionate share of Public Employees' OPEB benefit plans other than pensions. net 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 \$9,983,276. The net effect of this restatement is a decrease in total net position at December 31, 2017, from \$72,118,819 as originally reported, to \$62,135,543.

NOTE 8. SUBSEQUENT EVENTS

In Management's opinion, there were no other transactions or events which would require recognition or disclosure in the Financial Statements from January 1, 2018 through July 16, 2019, the date in which these Financial Statements became available to the public.

SUPPLEMENTARY INFORMATION

Schedule 1

Bayshore Regional Sewerage AuthoritySCHEDULE OF PROPORTIONATE SHARE OF PERS NET PENSION LIABILITY (NPL)
DETERMINED AS OF JUNE 30, 2018, PERS MEASUREMENT DATE

Fiscal Year	Authority's Proportion	Authority's Proportionate	Authority's Covered Payroll	Authority's Proportionate Share of NPL as a % of Covered Payroll
2018	0.03 %	\$ 6,135,334	\$ 2,393,527	257%
2017	0.03 %	7,303,532	2,122,092	344%
2016	0.03 %	8,986,184	2,125,099	422%
2015	0.03 %	6,582,319	7,088,779	315%

SCHEDULE OF CONTRIBUTIONS

Fiscal Year	Required Contribution	Contributions Recognized by PERS	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 471,183	\$ 295,984	\$ 175,199	\$ 2,393,527	12.36%
2017	662,912	290,654	372,258	2,122,042	13.69%
2016	950,420	269,456	680,964	2,155,099	12.67%
2015	487,968	252,095	235,873	2,088,779	12.06%

SCHEDULE OF CHANGES IN TOTAL NET PENSION LIABILITY

Fiscal Year	Beginning Balance Total Net Pension	Difference between Expected & Actual	Change of Assumptions	Difference between Expected & Actual Earnings	Change in Proportion & Actual Less Proportionate Share	Other Changes and Reclassifications	Ending Balance Total Net Pension Liability
2018	\$7,303,552	\$117,383	\$ 853,851	\$ 57,732	\$ 329,633	\$ (2,606,817)	\$ 6,155,334
2017	8,986,164	171,973	5,395	49,732	463,250	(2,372,962)	7,303,552
2016	6,582,317	167,115	1,861,453	342,651	371,502	(338,694)	8,986,164
2015	5,275,787	157,031	706,888	-	261,677	180,934	6,582,317

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

Bayshore Regional Sewerage Authority

Schedule of Revenue, Expenses and Changes in Net Position

Reserved and Unreserved

Year Ended December 31, 2018
Totals

	Unreserved	Construction	2018	2017
	\$	\$	\$	Restated
			\$	\$
Operating Revenues:				
Treatment Charges	9,230,222		9,230,222	9,224,232
Operating Expenses:				
Payroll & Employee Benefits	3,936,791	-	3,936,791	3,974,345
Plant Materials and Supplies	2,127,678	-	2,127,678	1,886,543
Administrative and General	452,385	-	452,385	387,735
Depreciation	2,111,562		2,111,562	1,843,478
Total Operating Expenses	8,628,416		8,628,416	8,092,101
Operating Income	601,806		601,806	1,132,131
Nonoperating Revenues (Expenses):				
Interest Income on Investments				
- Operating	235,171		235,171	71,457
- Construction	-	54,562	54,562	49,173
Miscellaneous Income	2,080,800		2,080,800	5,019,743
Note Issuance Costs	(55,631)		(55,631)	(36,696)
Interest - I Bank Notes	(32,073)		(32,073)	(28,642)
Net Income Before Transfers	2,228,267	54,562	2,282,829	5,075,535
Transfers:				
Depreciation on Assets Purchased with Contributed Capital	382,340		382,340	382,340
Increase (Decrease) in Retained Earnings	3,212,413	54,562	3,266,975	6,590,006
Net Position, January 1st	\$60,721,947	\$1,413,596	\$62,135,543	\$65,528,813
GASB 75 Adjustment				(9,983,276)
Net Position, December 31st	\$63,934,360	\$1,468,158	\$65,402,518	\$62,135,543

SCHEDULE 3

Bayshore Regional Sewerage Authority

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

Unrestricted Accounts

Year Ended December 31, 2018

	<u>Revenue</u>	<u>Regular Account</u>	<u>Payroll Account</u>	<u>Petty Cash</u>	<u>Reserve Account</u>	<u>Total</u>
Cash and Investments -						
December 31, 2017	\$ 321,938	\$ 1,751,922	\$ 733,760	\$ 300	\$ 11,104,762	\$ 13,912,682
Cash Receipts:						
Service Charges	9,229,516	-	-	-	-	9,229,516
Outfall Charges	967,528	-	-	-	-	967,528
Insurance and Reimbursements	-	-	-	-	-	-
Transfers from other funds	-	10,120,186	2,678,394	-	21,099,129	33,897,709
Interest Received	2,480	18,643	6,617	-	207,431	235,171
Miscellaneous Income	<u>2,080,800</u>				<u>207,431</u>	<u>2,080,800</u>
Total Cash Available	\$ 12,602,262	\$ 11,890,751	\$ 3,418,771	\$ 300	\$ 32,411,322	\$ 60,323,406
Cash Disbursements -						
Transfer to Other Funds	12,513,368	-	-	-	12,826,643	25,340,011
Net Payroll & Payroll Taxes	-	-	2,741,251	-	-	2,741,251
Operations	<u>10,074,533</u>	<u>10,074,533</u>	<u>2,741,251</u>	<u>300</u>	<u>12,826,643</u>	<u>10,074,533</u>
Total Cash Disbursements	12,513,268	10,074,533	2,741,251	300	12,826,643	38,155,795
Cash and Investments -						
December 31, 2016	<u>89,894</u>	<u>1,816,218</u>	<u>677,520</u>	<u>300</u>	<u>19,584,679</u>	<u>22,167,611</u>
Balance Comprised of:						
- Cash	<u>\$ 89,894</u>	<u>\$ 1,816,218</u>	<u>\$ 677,520</u>	<u>\$ 300</u>	<u>\$ 19,584,679</u>	<u>\$ 22,167,611</u>

Bayshore Regional Sewerage Authority

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

Restricted Accounts

Year Ended December 31, 2018

	Escrow Deposits	Construction Fund	Bond Service Fund	Total
Cash and Investments - December 31, 2016	\$ 2,721,643	\$ 9,604,159	\$ - 0 -	\$12,325,802
Cash Receipts:				
Interest Received	6,391	47,905	1,081	55,377
Received from Customers	28,483	-	-	28,483
Transfer from other funds	-	-	510,351	510,351
Received from NJEIT	-	7,518,727	-	7,518,727
Received from FEMA	-	3,757,154	-	3,757,154
Total Cash and Investments Available	<u>2,756,517</u>	<u>20,927,945</u>	<u>511,432</u>	<u>24,195,894</u>
Cash Disbursements:				
Debt Service	-	11,567,050	310,538	310,538
Reimbursements to NJEIT	-	-	-	11,567,050
Construction Costs	-	5,677,370	-	5,677,370
Total Cash Disbursements	<u>17,244,420</u>	<u>17,244,420</u>	<u>310,538</u>	<u>17,554,958</u>
Cash and Investments - December 31, 2018	\$ 2,756,517	\$ 3,683,525	\$ 200,894	\$ 6,640,936
Balance Comprised of:				
Investments - Cash	<u>\$ 2,756,517</u>	<u>\$ 3,683,525</u>	<u>\$ 200,894</u>	<u>\$ 6,640,936</u>

Bayshore Regional Sewerage Authority
Schedule of Operating Revenues and Costs Funded
By Operating Revenues Compared to Budget

For the Year Ended December 31, 2018
With Comparative Actual Amounts for the Year Ended December 31, 2017

	<u>2018</u> <u>Budget</u>	<u>2018</u> <u>Actual</u>	<u>2017</u> <u>Actual</u>
Revenues:			
Treatment Charges	\$ 9,241,436	\$ 9,230,222	\$ 9,224,232
Interest on Investments	5,000	289,733	120,630
Permits and Applications	610,000	2,052,995	5,019,743
Sundry	<u>15,000</u>	<u>25,057</u>	<u> </u>
Total Operating Revenues	<u>\$ 9,871,436</u>	<u>\$ 11,598,007</u>	<u>\$ 14,364,605</u>
Expenses:			
Salaries - Superintendents	602,053	607,600	591,219
- Plant Operations	1,744,372	1,564,032	1,624,219
- Commissioners and Executive Director	172,863	174,000	169,123
- Office Staff	120,423	74,720	101,595
Pension	289,000	466,536	390,740
Social Security Tax	195,320	172,508	176,652
Unemployment Compensation Insurance	9,500	7,500	8,304
Health Insurance	999,000	821,774	872,838
Life Insurance	6,895	7,982	8,945
Uniform and Safety Shoes	5,100	2,753	3,923
Memberships	19,500	14,210	4,010
Training and Seminars	22,170	16,443	21,269
Sick-Vacation-Holiday Pay	20,000	15,983	(7,144)
Electric Plant	725,000	660,585	594,001
Incineration Fuel	160,000	178,323	116,783
Natural Gas	120,000	90,524	98,377
Plant Telephone	4,116	4,047	3,849
Water	90,000	112,068	70,575
Gasoline	9,400	9,307	8,172
Machinery Repairs	129,000	98,392	85,807
Computer Maintenance	45,000	28,999	11,923
Service Contracts	125,000	122,863	98,700
Major Projects/Repairs	97,000	-	15,407
Electrical/Instrument Repairs	47,000	44,688	24,456
Chemicals	305,000	298,714	221,381
Operating Supplies	16,000	7,106	10,360
Grounds Maintenance	20,700	13,660	16,713
Fire and Safety Equipment	21,000	13,813	12,291
Incinerator Sand	6,000	-	2,254
Major Projects	20,000	9,686	4,082
Scavengers	18,284	10,710	15,935
Ash Removal	100,000	63,482	247,688

Bayshore Regional Sewerage Authority

Schedule of Operating Revenues and Costs Funded
By Operating Revenues Compared to Budget

For the Year Ended December 31, 2018

With Comparative Actual Amounts for the Year Ended December 31, 2017

	<u>2019</u>	<u>2018</u>	<u>2017</u>
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
Expenses (continued):			
Lab Chemicals and Supplies	\$ 27,600	\$ 25,525	\$ 27,374
Lab Calibrations	10,000	3,904	6,340
Electric Pump Stations	75,000	62,566	74,493
Telephone - Alarm System	8,800	6,840	6,721
Line Maintenance, Parts, and Supplies	26,000	47,873	219
Truck Expense	12,500	10,993	4,365
Water - Pump Stations	40,000	21,151	58,874
Line Rehabilitation	35,000	21,085	159
TV Inspection/Cleanings	25,000	-	-
Sludge Testing	112,300	101,112	8,379
Fees and Permits	45,000	36,071	29,549
Municipal Host Benefit	13,000	11,919	11,302
Professional Fees - Legal	55,000	20,925	20,550
- Accounting	40,628	33,381	32,341
- Engineering	130,000	75,713	50,773
- Trustee Fees	5,000	4,530	-
- Consultants; Other	85,000	75,260	52,683
- Payroll Services	9,000	8,175	8,670
Office Expense - Office Maintenance	3,000	2,381	3,540
- Insurance	240,000	212,823	204,876
- Advertisements	3,200	1,575	3,192
- Telephone	3,500	3,698	3,720
- Office Supplies	9,300	11,580	8,596
- Printing and Postage	2,600	1,466	1,391
- Office Equip. Rental	2,500	552	552
- Promotions	1,500	-	-
- Miscellaneous	3,000	-	5,517
 Other Costs Funded By Operating Revenues:			
Principal Maturities	-	278,465	-
Capital Outlays	2,124,091	1,738,150	6,045,105
Superstorm Sandy Expenses	-	-	-
Depreciation	-	2,111,562	1,843,478
Note Issuance Costs	-	55,631	36,196
Interest on Note	<u>459,221</u>	<u>32,073</u>	<u>28,642</u>
Total Costs Funded by Operating Revenues	9,871,436	10,729,987	14,202,044
 Excess	 <u>\$ 9,871,436</u>	 <u>868,020</u>	 <u>162,561</u>
	<u>\$ 9,871,436</u>	<u>\$11,598,007</u>	<u>\$14,364,605</u>

ROSTER OF OFFICIALS

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

Other Officials

Robert C. Fischer	Executive Director	50,000
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All Other

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

Surety Company

NJ Utility Authorities Joint Insurance Fund
Selective Insurance Company, Inc.

SINGLE AUDIT SECTION

BART & BART *Certified Public Accountants*

104 Main Street, Woodbridge, NJ 07095
-1059

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

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

Report on Compliance for Each Major Federal Program

We have audited Bayshore Regional Sewerage Authority (the "Authority") compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2018. 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, 2018.

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

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

Report on Internal Control Over Compliance


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

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

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

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

Woodbridge, NJ
July 16, 2019



Bart & Bart, CPAs

Bayshore Regional Sewerage Authority

County Of Monmouth, New Jersey

Schedule of Expenditures of Federal Awards

For the Year Ended December 31, 2018

<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	\$3,757,154	\$3,757,154	\$16,496,097
Passed through State of New Jersey Department of Law and Public Safety				\$3,757,154	\$16,496,097

BAYSHORE REGIONAL SEWERAGE AUTHORITY
NOTES TO THE SCHEDULES OF EXPENDITURES OF
FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2018

1. GENERAL

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

2. BASIS OF ACCOUNTING

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

3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

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

4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

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

5. FEDERAL AND STATE LOANS OUTSTANDING

The Authority had \$13,411,792 in Notes and Loans outstanding payable to state entities at December 31, 2018.

THE BAYSHORE REGIONAL SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018

MAJOR FEDERAL AWARD PROGRAMS

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified dated
July 16, 2019

Internal control over financial reporting:

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

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

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

State Financial Assistance

Internal control over major programs:

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

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

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

Unqualified dated
July 16, 2019

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

Identification of major programs:

<u>Federal Grant Number:</u>	<u>Name of Program or Cluster</u>
<u>97.036</u>	<u>Emergency Management</u>
_____	_____
_____	_____

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

Auditee qualified as low-risk auditee? X yes ___ no

THE BAYSHORE REGIONAL SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2018

FOR THE YEAR ENDED DECEMBER 31, 2018:

There were no findings for the year ended December 31, 2018.

Bayshore Regional Sewerage Authority
General Comments and Recommendations
For the Year Ended December 31, 2018

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 July 16, 2019.

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 FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS.**

NONE