

**Annual
Financial Report**

of

**The Linden Roselle
Sewerage Authority**

For the Years Ended December 31, 2017 and 2016

Prepared By

The Linden Roselle Sewerage Authority

Finance Department

THE LINDEN ROSELLE SEWERAGE AUTHORITY

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FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and
Members of the Board
The Linden Roselle Sewerage Authority
P.O. Box 4118
Linden, New Jersey 07036

Report on the Financial Statements

We have audited the accompanying financial statements of the Linden Roselle Sewerage Authority, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules related to accounting and reporting for pensions in Schedules R-1 through R-3 identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Linden Roselle Sewerage Authority's basic financial statements. The supplemental data schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental data schedules 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. 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 supplemental data schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 10, 2018 on our consideration of the Linden Roselle Sewerage Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Linden Roselle Sewerage Authority's internal control over financial reporting and compliance.

May 10, 2018

A handwritten signature in cursive script that reads "Suplee, Clooney & Company".



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**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF BASIC FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Chairman and
Members of the Board
The Linden Roselle Sewerage Authority
P.O. Box 4118
Linden, New Jersey 07036

We have audited, in accordance with the auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Linden Roselle Sewerage Authority as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the Linden Roselle Sewerage Authority's financial statements, and have issued our report thereon dated May 10, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Linden Roselle Sewerage 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 on the effectiveness of the Linden Roselle Sewerage Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Linden Roselle Sewerage 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.

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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.

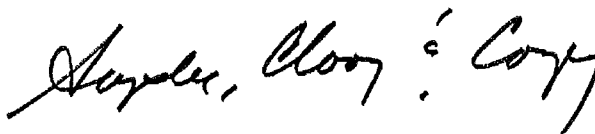
Compliance and Other Matters

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

Purpose of This Report

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

May 10, 2018

A handwritten signature in black ink that reads "Suplee, Clooney & Company". The signature is written in a cursive, flowing style.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017 UNAUDITED

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplementary information.

OVERVIEW OF ANNUAL FINANCIAL REPORT

The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's budget, bond resolutions and other management tools were used for this analysis.

The Authority's audited financial statements are presented in conformity with generally accepted accounting principles. The financial statements include: Statements of Net Position; Statements of Revenues, Expenses and Changes in Net Position; Statements of Cash Flows; and Notes to Financial Statements.

The Statements of Net Position present the Assets, Liabilities, Deferred Inflows and Outflows of Resources and Total Net Position of the Authority on a historical cost basis. Over time, increases and decreases in the components of the Authority's Total Net Position are indicators of whether the financial position of the Authority is improving or deteriorating.

While the Statements of Net Position provide information about the nature and amount of resources and obligations at year-end, the Statements of Revenues, Expenses and Changes in Net Position present the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year.

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

In 2015 the Government Accounting Standards Board (GASB) Statement 68 requires state and local governmental entities to disclose their unfunded pension liabilities. The Authority participates in the pension plan sponsored by the State of New Jersey, which has a much publicized, large unfunded liability. Although the Authority is not responsible for making pension payments to employees when they retire, GASB 68 dictates that the pro-rata share represented by Authority employees participating in PERS (Public Employee Retirement System) be reported in the audited financial statements to promote better financial clarity. Understandably, the net pension liability of \$9,047,887 – shown within long-term liabilities – is a significant number at December 31, 2017. Footnotes 2, 10 and 11 explain the pension plan accounting in greater detail.

The Notes to Financial Statements provide required disclosures and other information that are essential to an understanding of material data provided in the basic financial statements. The notes present information that include accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

AUTHORITY'S FINANCIAL REPORT

Condensed Statements of Net Position

	December 31		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current Assets	\$ 10,955,906	\$ 10,436,361	\$ 10,453,801
Capital Assets, Net of Accumulated Depreciation	<u>26,879,200</u>	<u>28,128,371</u>	<u>29,363,563</u>
Total Assets	<u>38,564,732</u>	<u>38,564,732</u>	<u>39,817,364</u>
Deferred Outflows	<u>2,845,212</u>	<u>4,082,762</u>	<u>1,330,853</u>
Total Assets and Deferred Outflows	<u>\$ 40,680,318</u>	<u>\$ 42,647,494</u>	<u>\$ 41,148,217</u>
Accounts Payable and Accrued Expenses	\$ 1,707,763	\$ 1,336,696	\$ 1,296,685
Bonds Payable	10,893,897	12,035,203	13,292,447
Net Pension Liability	<u>9,047,887</u>	<u>12,172,724</u>	<u>8,730,608</u>
Total Liabilities	<u>21,649,547</u>	<u>25,544,623</u>	<u>23,319,740</u>
Deferred Inflows	2,288,643	105,240	276,204
Net Position	<u>16,742,128</u>	<u>16,997,631</u>	<u>17,552,273</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 40,680,318</u>	<u>\$ 42,647,494</u>	<u>\$ 41,148,217</u>

Current assets is comprised largely of cash and cash equivalents and accounts receivable. Cash and cash equivalents totals \$9.9 million at December 31, 2017 and \$9.2 million at December 31, 2016. Accounts Receivable totals \$1.1 million and \$1.2 million at December 31, 2017 and 2016, respectively; a decrease of \$223 thousand or 17.30%.

Capital assets, net of accumulated depreciation, amounted to \$26.9 million and \$28.1 million at December 31, 2017 and 2016, respectively; a decrease of \$1.2 million. This decrease is the result of capital asset purchases of \$601 thousand, depreciation expense of \$1.9 million. The Authority's capital assets consist of land, buildings and improvements, machinery and equipment, furniture and fixtures, and construction in progress which aggregate \$74.5 million and \$73.9 million at December 31, 2017 and 2016, respectively. Accumulated depreciation amounts to \$47.6 million and \$45.8 million at December 31, 2017 and 2016, respectively.

Bonds payable of \$10.9 million and \$12.0 million at December 31, 2017 and 2016 decreased \$1.1 million or 9.5%.

Net position totals \$16.7 million and \$17.0 million at December 31, 2017 and 2016, respectively; a decrease of \$255 thousand in 2017. Net position includes: (i) Investments in capital assets, net of related liabilities, totaling \$16.0 million and 16.1 million at December 31, 2017 and 2016; (ii) Restricted net position totaling \$7.4 million and \$4.2 million at December 31, 2017 and 2016, respectively; and (iii) Unrestricted net position deficit of \$6.7 million and \$3.3 million at December 31, 2017 and 2016, respectively. An appropriation of \$243 thousand and \$600 thousand of unrestricted net position at December 31, 2017 and 2016 has been made to fund a portion of the Year 2017 and 2016 Operating Budgets, respectively.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	December 31		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating Revenues	\$ 10,622,710	\$ 10,654,827	\$ 10,262,477
Operating Expenses	8,242,815	8,250,728	7,941,072
Depreciation	<u>1,850,527</u>	<u>1,880,817</u>	<u>1,931,445</u>
Total Operating Expenses	10,093,342	10,131,545	9,872,517
Operating Income	<u>529,368</u>	<u>523,282</u>	<u>389,960</u>
Non-operating Revenues			
(Expenses), Net			
Interest Expense, Net	(210,089)	(279,550)	(282,541)
Other, Net	<u>(574,782)</u>	<u>(806,580)</u>	<u>(241,488)</u>
Net Income (Loss)	<u>(255,503)</u>	<u>(554,642)</u>	<u>(134,069)</u>
Net Position:			
Beginning of Year	<u>16,997,631</u>	<u>17,552,273</u>	<u>17,686,342</u>
End of Year	\$ <u><u>16,742,128</u></u>	\$ <u><u>16,997,631</u></u>	\$ <u><u>17,552,273</u></u>

Operating revenues are comprised largely of Service Charges from the City of Linden (City), the Borough of Roselle (Borough) and certain industrial and commercial customers (Major Users) for the recovery of the Authority's operating and maintenance costs, debt service costs, and required reserves appropriated in the annual budget. Operating revenues of \$10.6 million in 2017 compare to \$10.7 million in 2016, an increase of \$32 thousand or 0.03%.

Operating expenses total \$10.1 million in 2017 compared to \$10.1 million in 2016, a decrease of \$38 thousand or 0.04%.

Interest expense amounted to \$263 thousand in 2017 compared to \$280 thousand in 2016, a decrease of \$16.0 thousand or 5.88%. Interest costs are decreasing as the Authority's debt is being repaid.

The service charges to the City, the Borough and Major Users for the last five years are as follows:

<u>Year</u>	<u>City</u>	<u>Borough</u>	<u>Major Users</u>	<u>Total</u>
2017	\$5,021,012	\$2,872,175	\$1,641,877	\$9,535,064
2016	\$5,054,898	\$2,881,400	\$1,613,083	\$9,549,381
2015	\$4,720,369	\$2,881,000	\$1,572,637	\$9,174,006
2014	\$5,124,236	\$2,811,000	\$1,454,047	\$9,389,283
2013	\$4,467,023	\$2,703,510	\$1,588,326	\$8,758,859

Condensed Statements of Cash Flows

	<u>Years Ended December 31</u>		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Net Cash Provided by Operating Activities	\$2,735,356	\$2,227,986	\$1,652,770
Net Cash Used in Capital and Financing Activities	(2,006,205)	(2,434,244)	(1,607,686)
Net Cash Provided by Investing Activities	<u>13,846</u>	<u>8,206</u>	<u>3,187</u>
Net Increase (Decrease) in Cash and Cash Equivalents	742,997	(198,174)	48,271
<u>Cash and Cash Equivalents:</u>			
Beginning of Year	<u>9,146,863</u>	<u>9,345,037</u>	<u>9,296,766</u>
End of Year	<u>\$9,889,860</u>	<u>\$9,146,863</u>	<u>\$9,345,037</u>

Net cash provided by operating activities amounted to \$2.7 million and \$2.2 million in the years ended December 31, 2017 and 2016, respectively. The \$507 thousand net increase in the year 2017 was principally due to the reduced net loss.

Net cash used in capital and financing activities largely relate to principal and interest payments on the Authority's long term debt (\$1.1 million in 2017 and \$1.3 million in 2016) along with additions to capital assets (\$601 thousand and \$922 thousand in 2017 and 2016, respectively).

AUTHORITY OVERVIEW

General

The Linden Roselle Sewerage Authority (the “Authority”) is a public body politic and corporate, organized and existing under the Sewerage Authorities Law, constituting Chapter 138 of the P.L. of 1946 of the State of New Jersey and by parallel ordinances adopted in December 1947 by the City of Linden (the “City”) and the Borough of Roselle (the “Borough”).

The Authority owns and operates a sanitary sewer system providing treatment and disposal of sewerage from the City and the Borough.

Revenue is provided primarily from annual service charges collected from the City, the Borough and customers classified as major industrial users (Major Users). The service charges are based generally on the Authority’s operation and maintenance costs, debt service costs and required reserves appropriated in the annual budget.

The service charges of the City and the Borough are calculated in accordance with provisions of the Municipal Contract, as amended and supplemented, entered into by and among the Authority, the City and the Borough. The service charges to the Major Users are calculated taking into account the volume (flow in million gallons) and strength of their wastewater discharges (biological oxygen demand and suspended solids in tons).

Wastewater beneficial reuse fees are amounts collected from certain power utility companies for reservation of capacity to draw treated effluent from the Authority to be used for cooling water. These revenues are utilized by the Authority to offset the service charges.

The Authority operates in a fully developed service area. The industrial user base has changed substantially with companies relocating, reducing or ceasing manufacturing. This has resulted in a loss of revenue which has been a challenge for the Authority in avoiding large sewer rate increases. With the future reductions in revenue and the increasing costs of operations, maintenance, regulatory compliance and plant upgrades, the Authority maintains strict budgetary controls on expenditures and explores alternative sources of revenues to support its service charge rates. The Authority’s future capital projects will downsize the facility organic capacity and implement energy efficient equipment which will result in reduced operating costs for the foreseeable future.

Contacting the Authority’s Management

Questions concerning the Authority’s annual financial report should be addressed to the Authority’s Executive Director at The Linden Roselle Sewerage Authority, 5005 South Wood Avenue, Linden, New Jersey 07036.

Condensed Financial Statements**Condensed Statement of Net Position**

	<u>2017</u>	<u>2016</u>	<u>Net Change</u>	<u>%</u>	<u>2015</u>
<u>Assets and Deferred Outflows of Resources</u>					
Cash and Cash Equivalents	\$ 9,889,860	\$ 9,146,863	\$ 742,997	8.1%	\$ 9,345,037
Other Assets	1,066,046	1,289,498	(223,452)	-17.3%	1,108,764
Property, Plant and Equipment - Net	26,879,200	28,128,371	(1,249,171)	-4.4%	29,363,563
Deferred Outflows of Resources	2,845,212	4,082,762	(1,237,550)	-30.3%	1,330,853
Total Assets and Deferred Outflow of Resources	<u>\$ 40,680,318</u>	<u>\$ 42,647,494</u>	<u>\$ (1,967,176)</u>	<u>-4.6%</u>	<u>\$ 41,148,217</u>
<u>Liabilities</u>					
Accounts Payable & Accrued Expenses	\$ 1,511,655	\$ 1,127,446	\$ 384,209	34.1%	\$ 1,095,687
Other Liabilities	196,108	209,250	(13,142)	-6.3%	200,998
Bonds Payable	10,893,897	12,035,203	(1,141,306)	-9.5%	13,292,447
Net Pension Liability	9,047,887	12,172,724	(3,124,837)	-25.7%	8,730,608
Total Liabilities	<u>21,649,547</u>	<u>25,544,623</u>	<u>(3,895,076)</u>	<u>-15.2%</u>	<u>23,319,740</u>
<u>Deferred Inflows of Resources</u>					
Pension Related	<u>2,288,643</u>	<u>105,240</u>	<u>2,183,403</u>	<u>2074.7%</u>	<u>276,204</u>
<u>Net Position</u>					
Invested in Capital Assets	15,985,303	16,093,168	(107,865)	-0.7%	16,071,116
Restricted	4,378,429	4,220,024	158,405	3.8%	4,893,961
Unrestricted	(3,621,604)	(3,315,561)	(306,043)	9.2%	(3,412,804)
Total Net Position	<u>16,742,128</u>	<u>16,997,631</u>	<u>(255,503)</u>	<u>-1.5%</u>	<u>17,552,273</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 40,680,318</u>	<u>\$ 42,647,494</u>	<u>\$ (1,967,176)</u>	<u>-4.6%</u>	<u>\$ 41,148,217</u>

Condensed Statement of Revenue, Expenses, and Changes in Net Position

	<u>2017</u>	<u>2016</u>	<u>Net Change</u>	<u>%</u>	<u>2015</u>
<u>Operating Revenues</u>					
Service Charges	\$ 9,535,064	\$ 9,549,381	\$ (14,317)	-0.1%	\$ 9,174,006
Other	1,087,646	1,105,446	(17,800)	-1.6%	1,088,471
Total Operating Revenues	<u>10,622,710</u>	<u>10,654,827</u>	<u>(32,117)</u>	<u>-0.3%</u>	<u>10,262,477</u>
<u>Operating Expenses</u>					
Operating and Maintenance	8,242,815	8,250,728	(7,913)	-0.1%	7,941,072
Depreciation	1,850,527	1,880,817	(30,290)	-1.6%	1,931,445
Total Operating Expenses	<u>10,093,342</u>	<u>10,131,545</u>	<u>(38,203)</u>	<u>-0.4%</u>	<u>9,872,517</u>
Net Operating Income (Loss)	529,368	523,282	6,086	1.2%	389,960
Non Operating Revenues (Expense)	<u>(784,871)</u>	<u>(1,077,924)</u>	<u>293,053</u>	<u>-27.2%</u>	<u>(524,029)</u>
Change in Net Position	<u>(255,503)</u>	<u>(554,642)</u>	<u>299,139</u>	<u>-53.9%</u>	<u>(134,069)</u>
Net Position, Beginning of Year	<u>16,997,631</u>	<u>17,552,273</u>	<u>(554,642)</u>	<u>-3.2%</u>	<u>17,686,342</u>
Net Position, End of Year	<u>\$ 16,742,128</u>	<u>\$ 16,997,631</u>	<u>\$ (255,503)</u>	<u>-1.5%</u>	<u>\$ 17,552,273</u>

BASIC FINANCIAL STATEMENTS

THE LINDEN ROSELLE SEWERAGE AUTHORITY

STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Unrestricted Assets:		
Cash and Cash Equivalents	\$ 3,629,075	\$ 3,199,004
Accounts Receivable	979,739	1,199,445
<u>Total Unrestricted Assets</u>	<u>4,608,814</u>	<u>4,398,449</u>
Restricted Assets:		
Cash and Cash Equivalents	6,260,785	5,947,859
Escrow Deposit	86,307	90,053
<u>Total Restricted Assets</u>	<u>6,347,092</u>	<u>6,037,912</u>
Property, Plant and Equipment, at Cost	74,525,519	73,924,163
Less: Accumulated Depreciation	47,646,319	45,795,792
<u>Net Property, Plant and Equipment</u>	<u>26,879,200</u>	<u>28,128,371</u>
<u>TOTAL ASSETS</u>	<u>37,835,106</u>	<u>38,564,732</u>
<u>DEFERRED OUTFLOW OF RESOURCES</u>		
Pension Related	2,845,212	4,082,762
<u>TOTAL DEFERRED OUTFLOW OF RESOURCES</u>	<u>2,845,212</u>	<u>4,082,762</u>
<u>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</u>	<u>\$ 40,680,318</u>	<u>\$ 42,647,494</u>

The accompanying Notes are an integral part of these financial statements.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION</u>		
Current Liabilities Payable From Unrestricted Assets:		
Accounts Payable	\$ 1,182,465	\$ 744,242
Accrued Liabilities	329,190	383,204
<u>Total Current Liabilities Payable From Unrestricted Assets</u>	<u>1,511,655</u>	<u>1,127,446</u>
Current Liabilities Payable From Restricted Assets:		
Accrued Interest Payable	109,801	119,197
Escrow Deposit	86,307	90,053
Current Portion of Long-term Debt	1,146,543	1,128,036
<u>Total Current Liabilities Payable From Restricted Assets</u>	<u>1,342,651</u>	<u>1,337,286</u>
Long-Term Liabilities:		
Total Long-Term Debt, Net of Current Maturities	9,747,354	10,907,167
Net Pension Liability	9,047,887	12,172,724
<u>Total Long-Term Liabilities</u>	<u>18,795,241</u>	<u>23,079,891</u>
<u>Total Liabilities</u>	<u>21,649,547</u>	<u>25,544,623</u>
Deferred Inflow of Resources:		
Pension Related	2,288,643	105,240
<u>TOTAL DEFERRED INFLOW OF RESOURCES</u>	<u>2,288,643</u>	<u>105,240</u>
Net Position:		
Invested in Capital Assets, net of Related Liabilities	15,985,303	16,093,168
Restricted:		
Operations	3,092,366	2,935,232
Debt Service Reserve	140,307	140,059
Renewal and Replacement	1,145,756	1,144,733
Unrestricted	(3,621,604)	(3,315,561)
<u>Total Net Position</u>	<u>16,742,128</u>	<u>16,997,631</u>
<u>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION</u>	<u>\$ 40,680,318</u>	<u>\$ 42,647,494</u>

The accompanying Notes are an integral part of these financial statements.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Operating Revenues:		
Service Charges	\$ 9,535,064	\$ 9,549,381
Wastewater Beneficial Reuse Fees	260,637	465,363
Interest on Delinquent Accounts	92,360	87,955
Industrial Direct Charges	187,356	208,057
Capacity Fee	377,273	294,411
Lease Income	43,506	42,782
Miscellaneous Income	126,514	6,878
	<u>10,622,710</u>	<u>10,654,827</u>
<u>Total Operating Revenues</u>		
Operating Expenses:		
Total Operating Costs	8,242,815	8,250,728
Depreciation	1,850,527	1,880,817
	<u>10,093,342</u>	<u>10,131,545</u>
<u>Total Operating Expenses</u>		
<u>Operating Income (Loss)</u>	529,368	523,282
Nonoperating Revenues (Expenses):		
Interest Income	13,846	8,206
Interest Expense, Net	(210,089)	(279,550)
Grant Income/Loan Forgiveness	65,876	
Other Expenses	(654,504)	(806,580)
	<u>(255,503)</u>	<u>(554,642)</u>
<u>Net Income (Loss)</u>		
Net Position, Beginning of Year	16,997,631	17,552,273
Net Position, End of Year	<u>\$ 16,742,128</u>	<u>\$ 16,997,631</u>

The accompanying Notes are an integral part of these financial statements.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>Cash Flows from Operating Activities:</u>		
Receipts from Service Charges	\$ 9,754,770	\$ 9,373,392
Receipts from Wastewater Beneficial Reuse Fees	260,637	465,363
Industry Assessment Service Charges	187,356	208,057
Receipts from Leases	43,506	42,782
Interest Received on Delinquent Accounts	92,360	87,955
Miscellaneous Receipts	126,514	6,878
Payments to Employees	(3,049,247)	(2,988,496)
Payments for Employee Benefits and Payroll Taxes	(1,753,267)	(1,779,885)
Payments for Operations and Maintenance	<u>(2,927,273)</u>	<u>(3,188,060)</u>
<u>Net Cash Provided by Operating Activities</u>	<u>2,735,356</u>	<u>2,227,986</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Principal Payments on Bonds and Loans	(1,141,306)	(1,257,244)
Acquisition of Property, Plant and Equipment	(601,356)	(922,350)
Interest Paid on Bonds	<u>(263,543)</u>	<u>(254,772)</u>
<u>Net Cash Used in Capital and Financing Activities</u>	<u>(2,006,205)</u>	<u>(2,434,366)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest Received	<u>13,846</u>	<u>8,206</u>
<u>Net Cash Provided by Investing Activities</u>	<u>13,846</u>	<u>8,206</u>
Net Increase (Decrease) in Cash and Cash Equivalents	742,997	(198,174)
Cash and Cash Equivalents, Beginning of Year	<u>9,146,863</u>	<u>9,345,037</u>
Cash and Cash Equivalents, End of Year	<u>\$ 9,889,860</u>	<u>\$ 9,146,863</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>		
Operating Income	\$ 529,368	\$ 523,282
Depreciation	1,850,527	1,880,817
Changes in Operating Assets and Liabilities:		
Accounts Receivable	219,706	(175,989)
Accounts Payable and Accrued Liabilities	<u>135,755</u>	<u>(124)</u>
Net Cash Provided by Operating Activities	<u>\$ 2,735,356</u>	<u>\$ 2,227,986</u>

The accompanying Notes are an integral part of these financial statements.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

(1) GENERAL

The Linden Roselle Sewerage Authority (the "Authority") is a public body politic and corporate, organized and existing under the Sewerage Authorities Law, constituting Chapter 138 of the P.L. of 1946 of the State of New Jersey and by parallel ordinances adopted in December 1947 by the City of Linden (the "City") and the Borough of Roselle (the "Borough").

The Authority owns and operates a sanitary sewer system providing treatment and disposal of sewerage from the City and the Borough.

Revenue is provided primarily from annual service charges collected from the City, the Borough and customers classified as major industrial users. The service charges are based generally on the Authority's operation and maintenance costs, debt service costs and required reserves appropriated in the annual budget.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the accounting policies are described below.

Basis of Financial Statement Presentation

The financial statements of the Authority have been prepared on the accrual basis and in accordance with generally accepted accounting principles applicable to enterprise funds of state and local governments. An Enterprise Fund is used to account for operations: (i) that are financed primarily through user charges, or (ii) where the governing body has decided that determination of net income is appropriate.

The accounting and financial reporting applied by the Authority is determined by its measurement focus. The financial statements are reported using the economic measurement focus and the accrual basis of accounting. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included in the Statements of Net Position. Net Position (totals assets and deferred outflows net of total liabilities and deferred inflows) are segregated into invested in capital assets, restricted and unrestricted components.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity

The Authority's financial statements include the operations of the wastewater treatment plant for which the Board of Commissioners of the Authority exercises financial accountability. The Authority is considered a joint venture of the participating governments. Board members are appointed to five-year terms by their respective municipalities. There are no additional entities required to be included in the reporting entity and the Authority is not included in any other reporting entity.

Accounting and Financial Reporting for Pensions

The Authority implemented GASB 68 in the Year 2015. This Statement amends GASB Statement No. 27. It improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirement of Statement No. 27, *Accounting for Pension by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. This statement is effective for periods beginning after June 15, 2014.

The Authority has also implemented GASB Statement 71, Pension Transition for Contributions made Subsequent to the Measurement Date-an amendment to GASB No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting and Financial Reporting for Pensions (Continued)

Statement 68 requires a state or local government employer (or non-employer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or non-employer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources.

In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or non-employer contributing entity that arise from other types of events.

At transition to Statement 68, if it is not practical for an employer or non-employer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported. Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or non-employer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

Under GAAP, Authorities are required to recognize the pension liability in Statements of Revenues, Expenses, Changes in Net Assets (balance sheets) and Notes to the Financial Statements in accordance with GASB 68. The liability required to be displayed by GASB 68 is displayed as a separate line item in the Unrestricted Net Liabilities area of the balance sheet.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the Authority has only one item that qualifies for reporting in this category, deferred amounts related to pensions.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies in this category, deferred amounts related to pension.

Net Position

Equity is classified as net position and displayed in three components:

- 1) Invested in Capital Assets - consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt that are attributable to the acquisition, construction, or improvement of those assets.
- 2) Restricted - when constraints placed on net position are either a) externally imposed by creditors (such as the bond resolution), grantors, or laws or regulations of other governments or b) imposed by law.
- 3) Unrestricted - any other net position that does not meet the definition of "restricted" or "invested in capital assets."

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funds and Accounts Established by Bond Resolutions and Trust Agreement

In accordance with Bond Resolutions and Trust Agreement securing the 1992 Revenue Bonds and the 1996 Revenue Bonds, the Authority has established various cash and investment accounts with a trustee with restrictions on the use of funds, as follows:

Construction Fund – The construction fund has been established for the payment of the cost of each project for which bonds have been issued under the Trust Agreement. Upon completion of the construction project, any funds remaining and not reserved for unpaid costs shall be transferred to the renewal and replacement fund.

Revenue Fund – All pledged revenues as defined in the Trust Agreement are required to be paid over to the trustee upon receipt and deposited in the revenue fund. Transfers from the revenue fund shall be made on the first day of each month in amounts needed to establish the respective fund balances as follows:

Operating Fund – to the greater of the amount of (i) the Authority's net operating expenses for the current month and the next succeeding three months or (ii) \$1,600,000.

Debit Service Fund – to equal the interest and principal falling due on the Bonds during the fiscal year.

Sinking Fund – to equal the aggregate amount of all sinking fund installments, if any, required to be paid during the fiscal year.

Debt Service Reserve Fund – to maintain or provide an amount equal to the maximum annual net debt service requirement as defined in the Trust Agreement on the bonds for any succeeding fiscal year.

Renewal and Replacement Fund – to equal the reasonably required reserve called for by the Trust Agreement.

General Fund – to deposit therein the balance of the pledged revenues to the extent any monies are available.

Operating Fund – The operating fund is used to pay all reasonable and necessary costs of operating, maintaining and repairing the sewer system (other than the types of repairs budgeted or authorized for payment from the renewal and replacement fund).

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funds and Accounts Established by Bond Resolutions and Trust Agreement (Continued)

Debt Service Fund – The debt service fund shall be used to pay principal and interest on the bonds. When bonds are purchased or redeemed, the amount, if any, in the debt service fund representing interest thereon shall be applied to the payment of accrued interest in connection with any such redemption or purchase and any excess thereof together with any amount representing principal shall be transferred to the renewal and replacement fund.

Sinking Fund – The Trustee shall establish and maintain a separate account for each series of outstanding bonds that mature on a single date and for which sinking fund installments are established. Monies paid into the sinking fund shall be segregated and set aside in said accounts in proportion to the respective amounts of sinking fund installments payable during the next fiscal year with respect to the particular bonds for which such amount is maintained.

The Authority by resolution shall determine whether a sinking fund account established for any series of bonds shall operate as a redemption sinking fund account or as an invested sinking fund account. In addition to transfers from the revenue fund, moneys from the debt service fund may be transferred into this fund as described below.

Debt Service Reserve Fund – The debt service reserve fund is used to make up any deficiencies in the debt service fund or any other sinking fund account. In addition to transfers from the revenue fund, moneys from the renewal and replacement and the general funds may be transferred into this fund as described below.

Renewal and Replacement Fund – If the amount in the debt service reserve fund shall be less than the maximum annual net debt service requirement, the Trustee shall withdraw from the renewal and replacement fund and pay into the debt service reserve fund the amount needed to increase the amount in the debt service reserve fund so that it equals such maximum annual net debt service requirement. Monies in the fund may be applied to the reasonable and necessary expenses of the Authority with respect to the sewer system for extraordinary improvements, constructions, major repairs, renewals, replacements or maintenance items of a type not recurring annually or at shorter intervals and for costs or equipment.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funds and Accounts Established by Bond Resolutions and Trust Agreement (Continued)

General Fund – If the amount in the debt service reserve fund shall be less than the maximum annual net debt service requirement, the Trustee shall withdraw from the general fund and pay into the debt service reserve fund the amount needed to increase the amount in the debt service reserve fund the amount needed to increase the amount in the debt service reserve fund so that it equals the maximum annual net debt service requirement. Under the conditions set forth in the Trust Agreement, the Trustee may transfer monies from the general fund to the revenue fund of the Authority to be spent for any lawful purpose.

Annual Net Debt Service Reserve Requirement – Under the Trust Agreement, this represents debt service requirements for any fiscal year, including principal and interest due on all outstanding bonds and any sinking fund installments, less determinable investment income projected to be received on investment securities and other investment obligations purchased from time to time from pledged revenues and held by the trustee in the invested sinking fund.

The Authority has determined that, for purposes of funding the debt service reserve funds as required under the Trust Agreement, the maximum annual net debt service requirement amounts to \$140,059, and does not include the debt service on the loans payable to the New Jersey Environmental Infrastructure Trust and the New Jersey Economic Development Authority.

Revenue and Expense Classification

The Authority distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues consists of service charges and wastewater beneficial reuse fees derived from the operation of the Authority's sanitary sewer system and the providing of treatment and disposal of sewerage from the City, the Borough and other customers. Operating expenses consists primarily of personnel costs, administrative expenses, power, sludge removal and other plant expenses related to the operation of the sanitary sewer system and the delivery of treatment and disposal services. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Cash Equivalents

The Authority considers investments with original maturities of three months or less when acquired to be cash equivalents.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets are stated at cost which includes direct construction costs and capitalized interest (net of related interest income and other expenses related to construction). The capitalization threshold for the particular classification of capital assets is as follows:

<u>Asset</u>	<u>Threshold</u>
Land	All
Buildings and Improvements	All
Machinery and Equipment	\$5,000
Furniture and Fixtures	\$5,000
Computer Equipment	\$5,000

Depreciation is determined on a straight-line basis for all capital assets, except land and construction in progress. Depreciation is provided over the estimated useful lives of the assets ranging from 3 to 48 years.

Details of property, plant and equipment as of December 31 are as follows:

	<u>2017</u>	<u>2016</u>
Land	\$ 236,512	\$ 236,512
Buildings and Improvements	69,466,683	68,189,553
Machinery and Equipment	4,783,155	4,783,155
Furniture and Fixtures	39,169	39,169
Construction in Progress		675,774
	<u>74,525,519</u>	<u>73,924,163</u>
Less: Accumulated Depreciation	<u>47,646,319</u>	<u>45,795,792</u>
Net Property, Plant and Equipment	<u>\$26,879,200</u>	<u>\$28,128,371</u>

Accounts Receivable

The Authority has no allowance for doubtful accounts for receivables that may be uncollectible. The Authority considers all accounts receivable to be fully collectible. If amounts become uncollectible, they will be charged to operations when that determination is made.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory of spare parts and supplies is recorded as an expense when purchased and accordingly, is not included in the statements of net position.

Income Taxes

No provision for income taxes has been made as the Authority is exempt from Federal and State income taxes.

Net Position

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and unrestricted resources as needed.

Compensated Absences

The Authority permits employees to accrue unused sick pay, which may be taken at a later date as sick time off or paid at a later date at current rates of pay. Payments for accumulated sick time are limited to a maximum dollar amount at retirement.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(3) BUDGETARY PROCEDURES

The Authority follows these procedures in establishing the Operating Fund budget:

The annual budget for each fiscal year of the Authority is introduced by resolution passed by not less than a majority of the governing body. Copies are submitted to the Director of the Division of Local Government Services Director (Director) for approval prior to its adoption.

The budget must comply with the terms and provisions of loan agreements, and is to be in such form and detail as to items of revenue, expenses and other contents as required by law or by rules and regulations of the Local Finance Board.

No authority budget can be finally adopted until the Director has approved the budget.

Public hearings are conducted to obtain citizen comments on the proposed budget.

Operating expense appropriations lapse at the close of the fiscal year to the extent that they have not been expended.

The level at which expenditures cannot exceed the budget is at the total budget level.

The budget may be increased after adoption when an item of revenue has been made available after the adoption date.

(4) FUNDS HELD BY NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST ("NJEIT")

The Authority has borrowed funds from the State of New Jersey Environmental Infrastructure Trust. The aforementioned bond proceeds have been received by the Authority in full as of December 31, 2015.

As part of this financing the Authority was granted \$2,000,000 of loan forgiveness which is being treated as grant income on the financial statements.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(5) DEPOSITS AND INVESTMENTS

Cash and cash equivalents consist primarily of cash deposits and treasury money market funds. Cash on deposit (unrestricted and restricted), which totaled \$9,889,860 and \$9,146,863 in 2017 and 2016, respectively, is partially insured by federal deposit insurance in the amount of \$250,000 in each depository. Balances above the federal deposit insurance amount are insured by a collateral pool maintained by the bank as required by New Jersey statutes under the New Jersey Governmental Unit Deposit Protection Act ("GUDPA").

GASB Statement No. 40 requires that the Authority disclose whether its deposits are exposed to custodial credit risk (risk that in the event of failure of the counterparty, the Authority would not be able to recover the value of its deposit or investment). Deposits are considered to be exposed to custodial credit risk if they are: uninsured and uncollateralized (securities are not pledged to the depositor), collateralized with the securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the name of the Authority.

The Authority does not have a policy for the management of custodial credit risk, other than depositing all of its funds in banks covered by GUDPA. At December 31, 2017, the Authority was not exposed to custodial credit risk.

(6) CAPITAL ASSETS

Capital Assets are summarized as follows:

	Balance December 31, 2016	Increase (Decrease)	Balance December 31, 2017
Land	\$ 236,512		\$ 236,512
Buildings and Improvements	68,189,553	\$ 1,280,130	69,466,683
Machinery and Equipment	4,783,155		4,783,155
Furniture and Fixtures	39,169		39,169
Construction in Progress	<u>675,774</u>	<u>(675,774)</u>	<u>675,774</u>
	73,924,163	604,356	74,525,519
Less: Accumulated Depreciation	<u>45,532,846</u>	<u>1,850,527</u>	<u>47,646,319</u>
Net Property, Plant & Equipment	<u>\$28,128,371</u>	<u>\$(1,246,171)</u>	<u>\$26,879,200</u>

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(7) COMPENSATED ABSENCES

All employees are allowed to accumulate (with restrictions) unused vacation benefits and sick leave. Accrued expenses related to these costs included in current liabilities at December 31, 2017 and 2016 amounted to \$110,000.

(8) LONG TERM DEBT

Long-term debt activity for the years ended December 31, 2016 and 2015 was as follows:

	<u>2017</u>	<u>2016</u>
New Jersey Environmental Infrastructure Trust 2003 Loans	\$4,997,805	\$5,728,240
Unamortized Premium	<u>11,483</u>	<u>34,462</u>
Loan Carrying Value	5,009,288	5,762,702
New Jersey Environmental Infrastructure Trust 2012 Loans	5,884,609	6,271,501
New Jersey Economic Development Loan, Non- Interest Bearing	<u>-0-</u>	<u>-0-</u>
Total Debt	\$10,893,897	\$12,035,203
Less Current Maturities	<u>1,146,543</u>	<u>1,128,036</u>
Total Long-Term Debt	<u>\$9,747,354</u>	<u>\$10,907,167</u>

Detail information regarding Long Term Debt at December 31, 2017 and 2016 is as follows:

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(8) LONG TERM DEBT (CONTINUED)

2003 NJEIT Loans

New Jersey Environmental Infrastructure Trust ("NJEIT") financing consists of an interest-bearing loan in the amount of \$7,090,000 (the "Trust Loan") and a non-interest-bearing loan in the amount of \$6,807,579 (the "Fund Loan"). This financing completed the Authority's funding requirements of the Sludge Handling Facilities Project in 2003.

The Trust Loan consists of bonds maturing in annual installments ranging from \$385,000 to \$540,000 to 2023. The yield on these bonds ranges from 4.00% to 5.00%.

The Fund Loan consists of bonds maturing in semiannual installments through 2023.

2012 NJEIT Loans

The Authority completed financing of the Liquid End Project in 2012 with NJEIT. The financing consisted of an interest-bearing loan in the amount of \$3,715,000 (the "Trust Loan" and a non-interest-bearing loan in the amount of \$4,049,648 (the "Fund Loan").

The Trust Loan consists of bonds maturing in annual installments ranging from \$135,000 to \$275,000 from 2013 through 2031. The yields on these bonds range from 2.00% to 5.00%.

The Fund Loan consists of bonds maturing in semi-annual installments on March 1 and September 1 of each year through 2031.

Annual Debt Service on Outstanding Bonds and Loans

Aggregate long-term principal debt payment requirements during the next five years are as follows:

2018	\$1,146,543
2019	\$1,177,603
2020	\$1,206,066
2021	\$1,273,663
2022	\$1,273,663

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(9) NET POSITION

The components of net position are as follows:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Net Position:		
Invested in Capital Assets, Net of Related Liabilities	\$15,985,303	\$16,093,168
Restricted:		
Operations	3,092,366	2,935,232
Debt Service Reserve	140,307	140,059
Renewal and Replacement	<u>1,145,756</u>	<u>1,144,733</u>
Total Restricted	<u>\$4,378,429</u>	<u>\$4,220,024</u>
Unrestricted:		
Chapter 88 Reserve	\$ 400,000	\$ 300,000
Insurance Reserve	500,000	500,000
Rate Stabilization Fund	3,275,000	3,000,000
Operating	694,714	1,079,641
Net Pension Liability	<u>(8,491,318)</u>	<u>(8,195,202)</u>
	<u>\$16,742,128</u>	<u>\$16,997,631</u>

The Authority appropriated \$500,000 and \$243,000 of Unrestricted Net Position to fund a portion of its Operating Budgets for the years 2018 and 2017, respectively.

(10) PENSION PLAN

Authority employees participate in the Public Employees' Retirement System (PERS) of New Jersey, a multi-employer cost sharing plan. The Division of Pensions within the Treasury Department of the State of New Jersey is the administrator of the plan. The plan does not maintain separate records for each member in the state and, therefore, the actuarial data for the Authority is not available.

The plans provide retirement and disability benefits and death benefits to plan members and beneficiaries. The plans are cost sharing multiple-employer defined benefit plans and as such do not maintain separate records for each Authority in the state and, therefore, the actual data for the Authority is not available. The division of pensions issues publicly available financial reports for each of the plans that include financial statements and required supplementary information. The reports may be obtained by writing the State of New Jersey, Division of Pensions.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(10) PENSION PLAN (CONTINUED)

Covered employees are required by State Statute to contribute a certain percentage of their salary to the plan. In addition, the PERS may bill the Authority annually at an actuarially determinable rate for its required contribution. The current employee rate is 7.34% of base salary.

The contribution requirements of plan members and the Authority are established and may be amended by the PERS Board of Trustees. The Authority was required to contribute \$365,129 to the plan for the year ended December 31, 2017 and \$334,372 for the year ended December 31, 2016.

(11) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68

Public Employees Retirement System (PERS)

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68 "Accounting and Financial Reporting for Public Employees Pensions" and is effective for fiscal years beginning after June 15, 2014. This statement requires the State of New Jersey to calculate and allocate, for note disclosure purposes only, the unfunded net pension liability of Public Employees Retirement System (PERS) of the participating Authority as of December 31, 2017. The statement does not alter the amounts of funds that must be budgeted for pension payments under existing state law.

At June 30, 2017, the State reported a net pension liability of \$9,047,887 for the Authority's proportionate share of the total net pension liability. The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. The Authority's proportion 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 employers, actuarially determined. At June 30, 2017, the Authority's proportion was 0.0388681609 percent, which was a decrease of 0.0022321173 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2017, the State recognized an actuarially determined pension expense of \$653,644 for the Authority's proportionate share of the total pension expense. The pension expense recognized in the Authority's financial statement based on the April 1, 2017 billing was \$365,129.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(11) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Public Employees Retirement System (PERS) (Continued)

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

	<u>Deferred Inflow of Resources</u>	<u>Deferred Outflow of Resources</u>
Differences between expected and actual experience	--	\$ 213,046
Changes of assumptions	\$1,816,154	1,822,837
Net difference between projected and actual earnings on pension plan investments		61,610
Changes in proportion and differences between Authority contributions and proportionate share of contributions	<u>472,489</u>	<u>387,647</u>
	<u>\$2,288,643</u>	<u>\$2,485,140</u>

The \$2,485,140 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date (i.e. for the period ending June 30, 2017, the plan measurement date is June 30, 2016) will be recognized as a reduction of the net pension liability in the year ended December 31, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	
<u>June 30</u>	<u>Amount</u>
2018	\$220,884
2019	326,124
2020	208,359
2021	(314,946)
2022	<u>(243,924)</u>
	<u>\$196,497</u>

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(11) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions

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

	<u>6/30/2017</u>	<u>6/30/2016</u>
Inflation	2.25 Percent	3.08 Percent
Salary Increases (based on age):		
Though 2026	1.65-4.15 Percent	1.65-4.15 Percent
Thereafter	2.65-5.15 Percent	2.65-5.15 Percent
Investment Rate of Return	7.00 Percent	7.65 Percent

Preretirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Postretirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA.

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

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

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(11) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2017 and 7.65 at June 30, 2016) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2017 are summarized in the following table:

		<u>6/30/2017</u>
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute Return/Risk Mitigation	5.00%	5.51%
Cash	5.50%	1.00%
U. S. Treasuries	3.00%	1.87%
Investment Grade Credit	10.00%	3.78%
Public High Yield	2.50%	6.82%
Global Diversified Credit	5.00%	7.10%
Credit Oriented Hedge Funds	1.00%	6.60%
Debt Related Private Equity	2.00%	10.63%
Debt Related Real Estate	1.00%	6.61%
Private Real Estate	2.50%	11.83%
Equity Related Real Estate	6.25%	9.23%
U.S. Equity	30.00%	8.19%
Non-U.S. Developed Market Equity	11.50%	9.00%
Emerging Markets Equity	6.50%	11.64%
Buyouts Venture Capital	8.25%	13.08%
	<u>100.00%</u>	

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(11) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 5.00% and 3.98% as of June 30, 2017 and 2016, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and 7.65%, and a municipal bond rate of 3.58% and 2.85% as of June 30, 2017 and 2016, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 40% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate

The following presents the collective net pension liability of the participating employers as of June 30, 2017 respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	June 30, 2017		
	1% Decrease <u>4.00%</u>	At Current Discount Rate <u>5.00%</u>	1% Increase <u>6.00%</u>
Authority's proportionate share of the pension liability	\$11,224,517	\$9,047,887	\$7,234,483

Pension plan fiduciary net position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Financial Report for the State of New Jersey Public Employees Retirement System (PERS).

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(12) POST-RETIREMENT HEALTH BENEFITS

The Authority provides post-retirement health benefits to employees who retire with 25 years or more of service within the system. Employees with ten (10) or more years of service may also qualify for benefits under the Disability Retirement Provisions of the Plan. There are currently sixteen (16) retirees who meet this requirement and are receiving benefits.

Plan Description. The Authority contributes to the State Health Benefits Program (SHBP) a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq. to provide health benefits to State employees, retirees, and their dependents. The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents. The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP.

That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at <http://www.state.nj.us/treasury/pensions>.

Funding Policy. Contributions to pay for the health premiums of participating employees in the SHBP are billed to the Authority on a monthly basis. Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. In accordance with Chapter 62, P.L. 1994, post-retirement medical benefits have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis. The Authority's contributions to SHBP for the years ended December 31, 2017 and 2016 were \$997,211 and \$973,596, respectively, which equaled the required contributions for each year.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(13) RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destructions of assets; error and omission; injuries to employees; and natural disaster. The Authority contracts for commercial liability insurance for property, general liability, auto liability, public official liability, law enforcement liability, workers' compensation, employee health and life insurance. There were no significant reductions in insurance coverage for each of the past three years.

(14) SUBSEQUENT EVENTS

The Authority has evaluated subsequent events occurring after the financial statement date through May 10, 2018, which is the date the financial statements were available to be issued. Based on this evaluation, the Authority has determined that no subsequent events have occurred which require disclosure in the financial statements.

(15) COMMITMENTS AND CONTINGENCIES

The Authority has been named in an ongoing lawsuit regarding liability for the remediation of Passaic River pollution. As a result of the litigation, the Authority has approved a settlement and has deposited funds with the court and is awaiting disposition of an appeal.

The Authority is subject to extensive federal and state environmental regulations. The Authority's management is not aware of any violations that may have a material effect on the financial statements.

In the ordinary conduct of its business, the Authority may be a party to litigation. At December 31, 2017, in the opinion of management based upon consultation with legal counsel, there were no matters pending or threatened which would have a material adverse effect on the financial position of the Authority.

SUPPLEMENTARY INFORMATION

THE LINDEN ROSELLE SEWERAGE AUTHORITY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION RESERVED AND UNRESERVED
YEARS ENDED DECEMBER 31, 2017 AND 2016

	OPERATING AND REVENUE FUNDS AND INVESTMENT IN CAPITAL ASSETS, NET	OPERATIONS	RESTRICTED DEBT SERVICE RESERVE	RENEWAL AND REPLACEMENT	TOTAL 2017	TOTAL 2016
Operating Revenues:						
Service Charges	\$ 9,535,064				\$ 9,535,064	\$ 9,549,381
Wastewater Beneficial Reuse Fees	260,637				260,637	465,363
Interest on Delinquent Accounts	92,360				92,360	87,955
Industry Assessment Service Charges	187,356				187,356	208,057
Capacity Fee	377,273				377,273	294,411
Lease Income	43,506				43,506	42,782
Miscellaneous Income	126,514				126,514	6,878
	<u>10,622,710</u>				<u>10,622,710</u>	<u>10,654,827</u>
Total Operating Revenues						
Operating Expenses:						
Total Operating Costs	8,242,815				8,242,815	8,250,728
Depreciation	1,850,527				1,850,527	1,880,817
	<u>10,093,342</u>				<u>10,093,342</u>	<u>10,131,545</u>
Total Operating Expenses						
Operating Income	529,368				529,368	523,282
Nonoperating Revenues (Expenses):						
Interest Income	9,863	\$ 1,604	\$ -	\$ 2,379	13,846	8,206
Interest Expense, Net	(210,089)				(210,089)	(279,550)
Grant Income/Loan Forgiveness	65,876				65,876	-
Other Expenses	(654,504)				(654,504)	(806,580)
	<u>(259,486)</u>	<u>1,604</u>	<u>-</u>	<u>2,379</u>	<u>(255,503)</u>	<u>(554,642)</u>
Income Before Transfers						
Interfund Transactions	(154,422)	155,530	248	(1,356)	-	-
Net Position, Beginning of Year	12,777,607	2,935,232	140,059	1,144,733	16,997,631	17,552,273
Net Position, End of Year	\$ 12,363,699	\$ 3,092,366	\$ 140,307	\$ 1,145,756	\$ 16,742,128	\$ 16,997,631

THE LINDEN ROSELLE SEWERAGE AUTHORITY

SCHEDULE OF OPERATING REVENUES AND COSTS
FUNDED BY OPERATING REVENUES COMPARED TO BUDGET
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017 <u>BUDGET</u>	2017 <u>ACTUAL</u>	2016 <u>ACTUAL</u>
Revenues:			
Service Charges:			
Major Users	\$ 1,660,228	\$ 1,641,877	\$ 1,613,083
Other Users	4,851,642	5,021,012	5,054,898
Borough of Roselle	2,911,251	2,872,175	2,881,400
Industry Assessment:			
Service Charges		187,356	208,057
Wastewater Beneficial Reuse Fees	240,000	260,637	465,363
Capacity Fee	200,000	377,273	294,411
Lease Income	43,000	43,506	42,782
Interest on Delinquent Accounts	100,000	92,360	87,955
Miscellaneous		126,514	6,878
Interest Income	5,500	13,846	8,206
<u>TOTAL REVENUES</u>	<u>10,011,621</u>	<u>10,636,556</u>	<u>10,663,033</u>
Operating Expenses:			
Salaries and Wages	3,185,204	3,049,247	2,985,505
Employee Benefits	1,878,500	1,753,267	1,774,882
Office Expense	87,000	78,412	71,167
Trustee and Paying Agent Fee	4,000	2,694	2,693
Professional, Consulting and Training	263,700	169,750	143,120
Insurance	251,760	232,246	233,224
Power	961,750	831,051	932,423
Gas, Fuel, Oil and Water	166,000	81,211	86,848
Chemicals	216,797	137,567	169,564
Plant Maintenance, Supplies and Equipment	171,000	207,873	223,064
Contract Services	70,000	67,584	65,132
Lab Supplies and Equipment	65,075	12,327	50,923
Outside Labs and Permits	21,000	57,802	13,682
Disposal Costs	1,168,713	1,458,928	1,263,407
User Charge Expense	64,000	49,185	59,886
Other Environmental Enforcement Requirements	181,198	47,252	171,772
Contingency and Miscellaneous	50,000	6,419	3,436
Total Operating Expenses	<u>8,805,697</u>	<u>8,242,815</u>	<u>8,250,728</u>
Other Costs Funded by Revenues:			
Interest Expense		263,543	279,550
Principal Maturity on Notes and Bonds	1,448,924	1,141,306	1,257,244
Total Other Costs	<u>1,448,924</u>	<u>1,404,849</u>	<u>1,536,794</u>
TOTAL COSTS	10,254,621	9,647,664	9,787,522
Unrestricted Net Position Utilized	<u>(243,000)</u>	<u>(243,000)</u>	<u>(600,000)</u>
Net Total Appropriations	<u>10,011,621</u>	<u>9,404,664</u>	<u>9,187,522</u>
EXCESS OF REVENUES OVER COSTS	<u>\$ -</u>	<u>\$ 1,231,892</u>	<u>\$ 1,475,511</u>

SCHEDULE 3THE LINDEN ROSELLE SEWERAGE AUTHORITYBONDS PAYABLE2003 NJEIT LOANS PAYABLEDECEMBER 31, 2017

<u>YEAR OF MATURITY</u>	<u>INTEREST RATE</u>	<u>TRUST LOAN</u>		<u>FUND LOAN PRINCIPAL</u>	<u>TOTAL</u>
		<u>PRINCIPAL</u>	<u>INTEREST</u>		
2018	4.250%	\$ 430,000	\$ 136,900	\$ 348,404	\$ 915,304
2019	5.000%	450,000	118,625	349,464	918,089
2020	5.000%	470,000	96,125	347,928	914,053
2021	4.500%	495,000	72,625	349,849	917,474
2022	4.750%	520,000	50,350	350,524	920,874
2023	4.750%	540,000	25,650	346,636	912,286
		<u>\$ 2,905,000</u>	<u>\$ 500,275</u>	<u>\$ 2,092,805</u>	<u>\$ 5,498,080</u>

The bonds pay interest semi-annually.

SCHEDULE 4THE LINDEN ROSELLE SEWERAGE AUTHORITYBONDS PAYABLE2012 NJEIT LOANS PAYABLEDECEMBER 31, 2017

<u>YEAR OF MATURITY</u>	<u>INTEREST RATE</u>	<u>TRUST LOAN</u>		<u>FUND LOAN PRINCIPAL</u>	<u>TOTAL</u>
		<u>PRINCIPAL</u>	<u>INTEREST</u>		
2018	5.000%	\$ 155,000	\$ 126,643	\$ 213,139	\$ 494,782
2019	5.000%	165,000	118,893	213,139	497,032
2020	5.000%	175,000	110,643	213,139	498,782
2021	5.000%	180,000	101,893	213,139	495,032
2022	5.000%	190,000	92,893	213,139	496,032
2023	5.000%	200,000	83,393	213,139	496,532
2024	5.000%	210,000	73,393	213,139	496,532
2025	5.000%	220,000	62,893	213,139	496,032
2026	5.000%	230,000	51,893	213,139	495,032
2027	3.000%	245,000	40,393	213,139	498,532
2028	3.000%	250,000	33,043	213,139	496,182
2029	3.125%	260,000	25,543	213,139	498,682
2030	3.200%	265,000	17,418	213,139	495,557
2031	3.250%	275,000	8,938	93,802	377,740
		<u>\$ 3,020,000</u>	<u>\$ 947,872</u>	<u>\$ 2,864,609</u>	<u>\$ 6,832,481</u>

The bonds pay interest semi-annually.

SCHEDULE 5

THE LINDEN ROSELLE SEWERAGE AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Award Amount</u>	<u>Grant Period</u>		<u>Receipts</u>	<u>Fiscal Year</u>		<u>Subrecipient Expenditures</u>
			<u>From</u>	<u>To</u>		<u>Total</u>	<u>Expenditures</u>	
U.S. Department of Homeland Security Federal Emergency Management Agency Passed-Through: New Jersey Office of Emergency Management FEMA - Project Number FEMA-DR-4086-NJ-466-R	97.039	\$ 867,600	9/17/15	9/17/18	\$ 65,876	\$ 65,876	\$ - 0 -	

THE LINDEN ROSELLE SEWERAGE AUTHORITY
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST TEN YEARS

<u>Fiscal Year</u> <u>Ending</u> <u>June 30,</u>	<u>Authority's</u> <u>Proportion Share</u> <u>of the Net Pension</u> <u>Liability (Asset)</u>	<u>Authority's</u> <u>Proportionate</u> <u>Share of</u> <u>the Net Pension</u> <u>Liability (Asset)</u>	<u>Authority's</u> <u>Covered-Employee</u> <u>Payroll</u>	<u>Authority's</u> <u>Proportion Share</u> <u>of the Net Pension</u> <u>Liability (Asset)</u> as a percentage of it's Covered- <u>Employee Payroll</u>	<u>Plan Fiduciary</u> <u>Net Position</u> as a percentage of the total <u>Pension Liability</u>
2014	0.0377280982%	\$ 7,063,732	\$ 2,649,033	266.65%	40.71%
2015	0.0388925940%	\$ 8,730,608	\$ 2,748,334	317.67%	42.74%
2016	0.0411002781%	\$ 12,172,724	\$ 2,730,138	445.86%	40.14%
2017	0.0388681609%	\$ 9,047,887	\$ 2,776,305	325.90%	36.78%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

SCHEDULE "R-2"

THE LINDEN ROSELLE SEWERAGE AUTHORITY
SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST TEN YEARS

<u>Fiscal Year</u> <u>Ending</u> <u>June 30,</u>	<u>Contractually</u> <u>Required</u> <u>Contribution</u>	<u>Contributions in</u> <u>Relation to the</u> <u>Contractually</u> <u>Required</u> <u>Contributions</u>	<u>Contribution</u> <u>Deficiency</u> <u>(Excess)</u>	<u>Authority's</u> <u>Covered-</u> <u>Employee</u> <u>Payroll</u>	<u>Contributions as</u> <u>a Percentage of</u> <u>Covered-</u> <u>Employee</u> <u>Payroll</u>
2014	\$ 311,025	\$ 311,025	\$ -0-	2,649,033	11.74%
2015	\$ 334,372	\$ 334,372	\$ -0-	2,748,334	12.17%
2016	\$ 365,129	\$ 365,129	\$ -0-	2,730,138	13.37%
2017	\$ 360,072	\$ 360,072	\$ -0-	2,776,305	12.97%

43 Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

THE LINDEN ROSELLE SEWERAGE AUTHORITY
SCHEDULES RELATED TO ACCOUNTING AND REPORTING FOR PENSION (GASB 68)
NOTE TO RSI III
FOR THE YEAR ENDED DECEMBER 31, 2017

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Change in benefit terms

None

Change in assumptions

The calculation of the discount rate used to measure the total pension liability is dependent upon the long-term expected rate of return, and the municipal bond index rate. There was a change in the municipal bond index rate from the prior measurement date (2.85%) to the current measurement date (3.58%), resulting in a change in the discount rate from 3.98% to 5.00%. This change in the discount rate is considered to be a change in actuarial assumptions under GASB No. 68.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

DECEMBER 31, 2017

GENERAL COMMENTS AND RECOMMENDATIONS

None