

**LEBANON BOROUGH SEWERAGE AUTHORITY  
(A COMPONENT UNIT OF THE  
BOROUGH OF LEBANON)  
COUNTY OF HUNTERDON**

**December 31, 2016**

**BEDARD, KUROWICKI & CO., CPA'S, PC  
CERTIFIED PUBLIC ACCOUNTANTS**

**LEBANON BOROUGH SEWERAGE AUTHORITY  
(A COMPONENT UNIT OF THE  
BOROUGH OF LEBANON)**

**For the Years Ended December 31, 2016**

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**LEBANON BOROUGH SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of Lebanon)**  
**Roster of Officials**  
**Year Ended December 31, 2016**

<u>Members of the Authority</u>	<u>Title</u>
Edward Cichone	Chairperson
Richard Burton	Vice Chairperson
Leona Burton	Member
Gregory Crawford	Member
John Saharic	Member
<u>Administration of the Authority</u>	<u>Title</u>
Anita Weingart	Secretary/Treasurer
Joseph Novak	General Counsel
Frey Engineering	Engineer

See independent auditor's report.



Certified Public Accountants, PC

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## Independent Auditors' Report

Honorable Chairman and Members of  
Lebanon Borough Sewerage Authority  
Lebanon Borough, New Jersey

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Lebanon Borough Sewerage Authority (the Authority), a component unit of the Borough of Lebanon, as of and for the years ended December 31, 2016 and 2015, and the related Notes to the Financial Statements, which collectively comprise the Authority's basic financial statements as listed in the Table of Contents.

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

Our responsibility is to express 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; and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of December 31, 2016 and 2015, and the respective changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Budgetary Comparison Information, and Roster of Officials identified in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Changes in Net Position - Restricted is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Changes in Net Position - Restricted is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Changes in Net Position - Restricted is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards and those prescribed by the Division of Local Government we have also issued our report dated May 15, 2017 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Authority's internal control over financial reporting and compliance.

*Bedard, Kurowicki & Co.*  
**BEDARD, KUROWICKI & Co, CPA'S, PC**

May 15, 2017  
Flemington, New Jersey

# Lebanon Borough Sewerage Authority

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Lebanon, New Jersey 08833  
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## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR 2016 (MD&A)

This section of the Lebanon Borough Sewerage Authority's (LBSA) annual financial report presents our discussion and analysis of the LBSA's financial performance during the fiscal year ending December 31, 2016. Please read it in conjunction with the LBSA's condensed financial statements (Exhibit A), which follow this section.

### Financial Highlights

- The LBSA's total assets decreased by about 9.6% over the course of this year's operations. The largest decrease was in current restricted assets which decreased by 14.3%.
- The LBSA's total liabilities increased by 50.1% compared to the prior year. The increase is in unrestricted liabilities. This was primarily the result of an increase in accounts payable for services or goods received in the current year but the invoice was not received or paid until the following year.
- During the year, the LBSA's operating revenues increased by 10.5%. This was attributable to an increase in sewer rate charges.
- Operating expenses increased by 5.7%.
- Non-operating expenses exceeded non-operating revenues by \$117,074 and increased 213.6% compared to last year. The increase is due to a non-recurring other financing source received in 2015 resulting from the cancellation of an intergovernmental loan amount totaling \$221,929.
- Total net position at the end of 2016 was 11% less than the prior year. The most significant change was in non-operating expenses, which increased by \$220,092 compared to last year. This was the result of a non-recurring cancellation in 2015 of an intergovernmental loan amount exceeding amounts allocated from the reserve for debt service used to offset the LBSA's debt service requirements to the Borough of Lebanon.

### Overview of Annual Financial Report

The financial statements report information about the LBSA using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The financial statements include a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; a Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position presents the financial position of the Authority on a full accrual historical cost basis. The Statement of Net Position presents information on all of the assets and liabilities of the LBSA; with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the LBSA is improving or deteriorating.

The Statement of Revenues, Expenses and Changes in Net Position present the result of the LBSA's activities over the course of the fiscal year and information as to how the net position changed during the year.

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

The Notes to the Financial Statements provide disclosures and other information that is essential to a full understanding of material data provided in the statements. Supplementary information comparing the budget to actual revenues and expenses as well as changes in restricted accounts is provided.

#### Budget and Rates For 2017

The LBSA members took into consideration the following factors when preparing the budget for 2017:

1. The continuing charges to help defray the expansion costs (debt service) of the plant.
2. The ongoing maintenance of sewer lines and manholes.
3. The annual charges from RLSA for the treatment plant.
4. The general increase in costs for services and equipment.

With the above factors taken into consideration and the amount of surplus available, it was determined that the user rate would stay the same and the connection fee would increase. The connection fee for 2017 has been calculated at \$3,082.56 per unit and the sewer rate charge remained the same as the prior year at \$426.00.

#### Financial Analysis

The attached comparative condensed financial statements serve as the key financial data and indicators for management, monitoring and planning.

#### Availability of Financial Report

This report is prepared in compliance with State mandates and will be made available to residents, taxpayers and any interested person or entity upon request to the Secretary/Treasurer at the LBSA (Telephone 908-236-2704) office located at 6 High Street, Lebanon NJ 08833, during the business hours of 9am and 12pm Monday through Friday.

**LEBANON BOROUGH SEWERAGE AUTHORITY**  
**Management's Discussion and Analysis**  
**Condensed Financial Statements**

**Condensed Statement of Net Position**

Exhibit A

	December 31,		Increase (Decrease)
	2016	2015	
Current assets			
Unrestricted assets	\$ 113,783	\$ 86,786	\$ 26,997
Restricted assets	733,465	855,921	(122,456)
Capital assets, net	367,428	401,166	(33,738)
Total assets	<u>\$ 1,214,676</u>	<u>\$ 1,343,873</u>	<u>\$ (129,197)</u>
Current liabilities			
Unrestricted	\$ 40,692	\$ 24,912	\$ 15,780
Restricted	5,266	5,712	(446)
Total liabilities	<u>\$ 45,958</u>	<u>\$ 30,624</u>	<u>\$ 15,334</u>
Net position			
Net investment in capital assets	\$ 367,428	\$ 401,166	\$ (33,738)
Restricted	728,199	850,209	(122,010)
Unrestricted	73,091	61,874	11,217
Total net position	<u>\$ 1,168,718</u>	<u>\$ 1,313,249</u>	<u>\$ (144,531)</u>

**Condensed Statement of Revenues, Expenses and Changes in Net Position**

Exhibit B

	December 31,		Increase (Decrease)
	2016	2015	
Operating revenues	\$ 622,957	\$ 563,744	\$ 59,213
Operating expenses	<u>650,414</u>	<u>615,423</u>	<u>34,991</u>
Operating income (loss)	(27,457)	(51,679)	24,222
Non-operating revenues (expenses)	<u>(117,074)</u>	<u>103,018</u>	<u>(220,092)</u>
Increase (decrease) in net position	(144,531)	51,339	(195,870)
Net position - Beginning of year	<u>1,313,249</u>	<u>1,261,910</u>	<u>51,339</u>
Net position - End of year	<u>\$ 1,168,718</u>	<u>\$ 1,313,249</u>	<u>\$ (144,531)</u>

**LEBANON BOROUGH SEWERAGE AUTHORITY**  
**Comparative Statement of Net Position**  
**December 31, 2016 and 2015**

	2016	2015
Assets		
Current assets		
Cash and cash equivalents	\$ 18,673	\$ 20,662
Accounts receivable	92,181	63,301
Interest receivable on certificates of deposit	2,929	2,823
Total current assets	113,783	86,786
Restricted assets		
Cash and cash equivalents	116,003	103,359
Certificates of deposit	617,462	752,562
Total restricted assets	733,465	855,921
Capital assets		
Capital assets	1,353,944	1,353,944
Less: accumulated depreciation	(986,516)	(952,778)
Net capital assets	367,428	401,166
Total assets	\$ 1,214,676	\$ 1,343,873

See accompanying notes to the financial statements.

**LEBANON BOROUGH SEWERAGE AUTHORITY**  
**Comparative Statement of Net Position (continued)**  
**December 31, 2016 and 2015**

	2016	2015
Liabilities		
Current liabilities		
Accounts payable	\$ 38,833	\$ 23,835
Customer overpayments	1,646	1,077
Prepaid sewer rents	213	-
Total current liabilities	40,692	24,912
Current liabilities (payable from restricted assets)		
Trust funds		
Reserve for developers deposits	4,865	5,712
Other current liabilities	401	-
Total current liabilities (payable from restricted assets)	5,266	5,712
Total liabilities	45,958	30,624
Net position		
Net investment in capital assets	367,428	401,166
Restricted	728,199	850,209
Unrestricted	73,091	61,874
Total net position	1,168,718	1,313,249
Total liabilities and net position	\$ 1,214,676	\$ 1,343,873

See accompanying notes to the financial statements.

**LEBANON BOROUGH SEWERAGE AUTHORITY**  
**Comparative Statement of Revenues, Expenses and Changes in Net Position**  
**For the Years Ended December 31, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Operating revenues		
Sewer charges	\$ 570,634	\$ 517,803
Interest income on delinquent accounts	7,968	4,938
Reserve capacity charges	43,665	39,668
Miscellaneous	690	1,335
Total operating revenues	<u>622,957</u>	<u>563,744</u>
Operating expenses		
Cost of providing services	350,187	348,179
Administrative and general	266,489	233,507
Depreciation	33,738	33,737
Total operating expenses	<u>650,414</u>	<u>615,423</u>
Operating income	<u>(27,457)</u>	<u>(51,679)</u>
Non-operating revenues (expenses)		
Interest income	5,016	4,825
Contribution to Lebanon Borough Debt Service		
Principal	(113,677)	(110,010)
Interest	(8,413)	(13,726)
Total non-operating revenues (expenses)	<u>(117,074)</u>	<u>(118,911)</u>
Other financing sources		
Intergovernmental loan payable balance canceled	<u>-</u>	<u>221,929</u>
Change in net position	(144,531)	51,339
Net position, beginning	<u>1,313,249</u>	<u>1,261,910</u>
Net position, ending	<u>\$ 1,168,718</u>	<u>\$ 1,313,249</u>

See accompanying notes to the financial statements.

**LEBANON BOROUGH SEWERAGE AUTHORITY**  
**Comparative Statement of Cash Flows**  
**For the Years Ended December 31, 2016 and 2015**

	2016	2015
Cash flows from operating activities		
Cash received from customers	\$ 594,169	\$ 550,198
Other operating cash receipts	689	1,335
Cash payments to suppliers and employees	(601,677)	(586,056)
Net cash provided by (used for) operating activities	(6,819)	(34,523)
Cash flows from investing activities		
Purchase of certificates of deposit	(617,462)	(752,562)
Proceeds from redemption of certificates of deposit	752,562	847,109
Interest income	4,910	5,465
Net cash provided by investing activities	140,010	100,012
Cash flow from capital and related financing activities		
Proceeds from developer's deposits (net)	(446)	4,742
Payment of debt principal	(113,677)	(110,010)
Payment of debt interest	(8,413)	(13,726)
Net cash used for capital and related financing activities	(122,536)	(118,994)
Net increase (decrease) in cash and cash equivalents	10,655	(53,505)
Cash and cash equivalents, beginning	124,021	177,526
Cash and cash equivalents, ending	\$ 134,676	\$ 124,021
Reconciliation of balance sheet		
Unrestricted cash and cash equivalents	\$ 18,673	\$ 20,662
Restricted cash and cash equivalents	116,003	103,359
Total cash	\$ 134,676	\$ 124,021

See accompanying notes to the financial statements.

**LEBANON BOROUGH SEWERAGE AUTHORITY**  
**Comparative Statement of Cash Flows (continued)**  
**For the Years Ended December 31, 2016 and 2015**

	2016	2015
Reconciliation of loss from operations to net cash		
Provided by operating activities		
Income (loss) from operations	\$ (27,457)	\$ (51,679)
Adjustments to reconcile income (loss) from operations to net cash provided by (used in) operating activities		
Depreciation	33,738	33,737
Change in assets and liabilities		
(Increase) decrease in accounts receivable	(28,880)	(11,875)
Increase (decrease) in accounts payable	14,998	(4,370)
Increase (decrease) in prepaid sewer rents	213	(264)
Increase (decrease) in customer overpayments	569	(72)
Net cash provided by (used in) operating activities	\$ (6,819)	\$ (34,523)

See accompanying notes to the financial statements.

**LEBANON BOROUGH SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of Lebanon)**  
**Notes to the Financial Statements**

Note 1 - Summary of significant accounting policies

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

Reporting entity

The Authority (a component unit of the Borough of Lebanon) was created in accordance with the State Municipal Utilities Authorities Law (PL 1957, Chapter 183) by ordinance of the Borough of Lebanon on August 8, 1980 to construct and operate a sanitary sewer collection system in the Borough of Lebanon, Hunterdon County, New Jersey.

The Authority consists of five officials appointed by the Borough of Lebanon and is responsible for the fiscal control of the operations of the sewer system. Since the Authority issues its own financial statements, its financial activity is not included in the financial statements of the Borough of Lebanon.

Basis of presentation - fund accounting

The operations of the Authority are recorded in a proprietary fund type. Proprietary funds are used to account for activities that are financed and operated in a manner similar to business enterprises and the intention is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis are to be financed or recovered primarily through user charges.

Basis of accounting

The Authority's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The Authority has adopted GASB statement 34 and subsequent statements and interpretations required certain changes in terminology, format and content, as well as inclusion of the management's discussion and analysis as required supplementary information.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, liabilities and deferred inflow or outflow of resources associated with the operations are included on the Statement of Net Position. The net position (i.e., total assets net of total liabilities) is segregated into invested capital assets, restricted and unrestricted components.

**LEBANON BOROUGH SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of Lebanon)**  
**Notes to the Financial Statements**

Note 1 - Summary of significant accounting policies (continued)

Basis of accounting (continued)

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of American requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent net assets and liabilities at the Statement of Net Position date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, among other accounts. Actual results may differ from those estimates.

The accrual basis of accounting is used for measuring financial position and operating results of proprietary fund types. Under this method of accounting, revenues are recorded in the accounting period in which they are earned and expenses are recorded as incurred.

Budget and budgetary accounting

At least 60 days prior to the Authority's year-end (December 31, 2016), the Authority must file its operating budget with the Director of the Division of Local Government Services for approval. Within 45 days after receipt of the Authority's budget the Director shall either approve or notify the Authority of the reasons for non-approval of the budget and to state the conditions upon which the approval will be granted. After approval, the Authority will formally adopt the budget. The budget is prepared based on the accounting principles and practices as prescribed by the Division of Local Government Services.

Income taxes

The Authority is a component unit of the Borough of Lebanon and is not required to file tax returns. Accordingly, no provision for income taxes has been made in the financial statements.

Restricted assets

The Authority has restricted the below summarized accounts which may only be utilized for the purposes indicated:

<u>Account</u>	<u>Use for which Restricted</u>
Reserve for State Unemployment	Required employee and employer contribution to State Unemployment Insurance Fund - Reimbursement Method
Reserve for Developer's Deposits	Funds required by the Authority to assure payment of performance
Reserve for Renewals & Replacements	Renewals and replacements funded by budget appropriations and payments of connection fees
Reserve for Payment of Debt Service	Future payment of debt principal funded by budget appropriations and payments of connection fees

**LEBANON BOROUGH SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of Lebanon)**  
**Notes to the Financial Statements**

Note 1 - Summary of significant accounting policies (continued)

Capital assets

Capital assets are recorded as expenditures at the time of purchase and the related assets are capitalized at cost, which includes direct construction costs and other expenditures related to construction. Depreciation on assets acquired with grants-in-aid is recorded as a reduction of contributed capital. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Building and improvements	40 years
Sewer mains and interceptors	40 years
Other equipment	5 - 15 years
Office equipment	5 years

Note 2 - Deposits and cash equivalents and investments

Cash and cash equivalents include petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. U.S. Treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at amortized cost. All other investments are stated at fair value.

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

Additionally, the Authority has adopted a cash management plan that requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey.

N.J.S.A. 17:9-41 e.t. seq establishes the requirements for the security of deposits of Governmental Units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include savings and loan institutions, banks (both state and national banks) and saving banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

The Authority's carrying (Statement of Net Position) amounts were \$134,676 and \$124,021 for December 31, 2016 and 2015, respectively. The bank balances were \$145,980 and \$128,705 for December 31, 2016 and 2015, respectively.

**LEBANON BOROUGH SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of Lebanon)**  
**Notes to the Financial Statements**

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

Concentration of credit risk

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

The State of New Jersey does not place any limit on the amount that the authority may invest with any one issuer. As of December 31, 2016, the authority had the following certificates of deposit:

<u>Fund</u>	<u>Item</u>	<u>Maturity Date</u>	<u>Cost</u>
General	Certificate of Deposit	02/08/2017	\$ 106,717
General	Certificate of Deposit	03/08/2017	21,531
General	Certificate of Deposit	07/02/2017	275,731
General	Certificate of Deposit	08/03/2017	213,483
			<u>\$ 617,462</u>

Note 3 - Authority revenues

Sewer charges are charged on a rate as approved annually by the governing body. Bills are payable in quarterly installments and delinquent accounts may be included as part of the Borough of Lebanon's annual tax sale.

Note 4 - Pension Plans

Defined contribution retirement program

The Defined Contribution Retirement Program (DCRP) was established under the provisions Ch. 92, PL 2007 and expanded under the provisions of Ch. 89, PL 2008 and Ch. 1, PL 2010 to provide eligible members with a tax sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Employees eligible to enroll in the program include the following: First, employees enrolled in the Public Employees Retirement System (PERS) on or after July 1, 2007 who earn salary in excess of maximum compensation limits. Also, employees otherwise eligible to enroll in the PERS who do not earn the minimum salary (\$8,300 for 2016) but who earn salary of at least \$5,000 annually are eligible to participate. The program administrator, Prudential Financial, makes information regarding the program available on its New Jersey Defined Contribution Program website: [www.prudential.com/njdcrp](http://www.prudential.com/njdcrp).

**LEBANON BOROUGH SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of Lebanon)**  
**Notes to the Financial Statements**

Note 4 - Pension Plans (continued)  
Contribution Requirements

The contribution policy for the DCRP is set by state statutes and contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Contribution rates for DCRP provide for employee contributions of 5.50% of annual contractual compensation as defined. Employers are required to contribute at an actuarially determined rate in DCRP. The actuarially determined contribution includes funding for cost-of-living adjustments, non-contributory death benefits and post-retirement medical premiums.

Note 5 - Capital assets

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

<u>December 31, 2016</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Sewer distribution system	\$ 1,165,310	\$ -	\$ -	\$ 1,165,310
Nitzer Avenue improvements	100,015	-	-	100,015
Manhole upgrades	84,190	-	-	84,190
Office equipment	4,429	-	-	4,429
Total capital assets	1,353,944	-	-	1,353,944
Accumulated depreciation	(952,778)	(33,738)	-	(986,516)
Capital assets, net	<u>\$ 401,166</u>	<u>\$ (33,738)</u>	<u>\$ -</u>	<u>\$ 367,428</u>

<u>December 31, 2015</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Sewer distribution system	\$ 1,165,310	\$ -	\$ -	\$ 1,165,310
Nitzer Avenue improvements	100,015	-	-	100,015
Manhole Upgrades	84,190	-	-	84,190
Office equipment	4,429	-	-	4,429
Total capital assets	1,353,944	-	-	1,353,944
Accumulated depreciation	(919,041)	(33,737)	-	(952,778)
Capital assets, net	<u>\$ 434,903</u>	<u>\$ (33,737)</u>	<u>\$ -</u>	<u>\$ 401,166</u>

Note 6 - Litigation

The Authority is a defendant in legal several proceedings that are in various stages of litigation. It is believed the outcome, or exposure to the Authority, from such litigation is either unknown or potential losses, if any, would not be material to the financial statements.

Note 7 - Compensated absences

The Authority does not have a policy which allows employees to accrue unused vacation and sick pay.

**LEBANON BOROUGH SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of Lebanon)**  
**Notes to the Financial Statements**

Note 8 - Sewerage Treatment Capacity Expansion of the Readington-Lebanon Sewerage Authority  
 On August 17, 2000, the governing body of the Borough of Lebanon passed an ordinance in the amount of \$1,506,176 authorizing the Borough's share of the expansion of the sewerage treatment capacity of the Readington-Lebanon Sewerage Authority. Although an obligation of the Borough, the Lebanon Sewerage Authority, by contract with the Borough, is obligated to pay all debt service requirements.

On April 8, 2002, the Borough issued \$1,849,000 of general obligation bonds dated April 1, 2002. The bond has an effective interest rate of 4.68% and matures from April 2003 through April 2017. A portion of the proceeds were used to finance the Borough's share of expansion costs of the sewerage treatment capacity at the Lebanon Borough Sewerage Authority.

The Authority is responsible for 73.34% of the debt service requirements. For the year ending December 31, 2017, the Authority is responsible for principal of \$120,221 and interest of \$2,857 for a total of \$123,078.

Note 9 - Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

*Property and Liability Insurance* - Risks of losses from worker's compensation, property, automobile, liability, and public official's liability are covered by insurance with New Jersey Utilities Authorities Joint Insurance Fund, plus separate policies for employee bonds and official's liability. Significant losses are covered by commercial insurance and there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current or the three prior years.

*New Jersey Unemployment Compensation Insurance* - The Authority has elected to fund its NJ Unemployment Compensation Insurance under the "Benefit Reimbursement Method." Under this plan, the Authority is required to reimburse the NJ Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The Authority is billed quarterly for amounts due to the State. The following is a summary of Authority contributions, and interest earnings, employee contributions, reimbursements to the State for benefits paid and the ending balance of the Authority's unemployment trust fund for the current and previous two years:

<u>Fiscal Year</u>	<u>Authority Deposits</u>	<u>Interest Earnings</u>	<u>Employee Deposits</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
2016	\$ -	\$ -	\$ 80	\$ -	\$ 7,544
2015	-	-	173	-	7,464
2014	-	-	161	-	7,291

**LEBANON BOROUGH SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of Lebanon)**  
**Notes to the Financial Statements**

Note 10 - Subsequent events

The Authority's management has determined that no material events or transactions occurred subsequent to December 31, 2016 and through May 15, 2017, the date of the Authority's financial statement issuance, which requires additional disclosure in the Authority's financial statements.

**LEBANON BOROUGH SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of Lebanon)**  
**Schedule of Changes in Net Position - Restricted Accounts**  
**For the Year Ended December 31, 2016**

	Net Position					Total
	Trust Fund Developer's Deposits	State Unemployment Insurance	Renewals & Replacements	Payment of Debt Service	Total Net Position	
Balance at beginning of year	\$ 5,712	\$ 7,464	\$ 597,521	\$ 245,224	\$ 850,209	\$ 855,921
Additions						
Deposits received	2,383	80	-	-	80	2,463
Deductions						
Transfer for payment of debt service	-	-	-	122,090	122,090	122,090
Developers fees	2,829	-	-	-	-	2,829
Balance canceled	401	-	-	-	-	401
Total deductions	3,230	-	-	122,090	122,090	125,320
Balance at end of year	<u>\$ 4,865</u>	<u>\$ 7,544</u>	<u>\$ 597,521</u>	<u>\$ 123,134</u>	<u>\$ 728,199</u>	<u>\$ 733,064</u>

See independent auditor's report.

**LEBANON BOROUGH SEWERAGE AUTHORITY**  
**Schedule of Budgetary Comparison Information**  
**For the Years Ended**

	December 31, 2016		December 31, 2015	
	Unaudited Budget	Actual	Unaudited Budget	Actual
Revenues				
Net position appropriated	\$ -	\$ -	\$ 55,872	\$ 55,872
Operating revenues				
User charges and fees	557,822	\$ 578,602	510,840	517,803
Reserve capacity fees	43,665	43,665	46,633	39,668
Interest income	6,000	5,016	6,000	4,825
Miscellaneous	5,000	610	5,000	6,273
Reserve for sewer capacity	122,090	122,090	123,736	123,736
Reserve for renewals and replacements	25,000	-	25,000	-
Total operating revenues	<u>759,577</u>	<u>749,983</u>	<u>717,209</u>	<u>692,305</u>
Total revenues	<u>\$ 759,577</u>	<u>\$ 749,983</u>	<u>\$ 773,081</u>	<u>\$ 748,177</u>
Expenses				
Administrative and general				
Salaries and wages	\$ 27,960	\$ 28,130	\$ 27,000	\$ 24,000
Professional fees	174,177	200,423	188,995	167,160
Employee benefits	7,750	2,929	8,250	5,470
Insurance	11,500	6,294	11,500	6,789
Miscellaneous other expenses	17,500	13,113	15,000	14,488
Facilities costs	15,600	15,600	15,600	15,600
Office equipment	1,000	-	3,000	-
Total administrative and general	<u>255,487</u>	<u>266,489</u>	<u>269,345</u>	<u>233,507</u>
Cost of providing services				
Joint authority costs	337,000	329,221	335,000	331,842
Maintenance and repairs	20,000	20,966	20,000	16,337
Total cost of providing services	<u>357,000</u>	<u>350,187</u>	<u>355,000</u>	<u>348,179</u>
Capital				
Acquisition of equipment	25,000	-	25,000	-
Debt service				
Principal	113,677	113,677	110,010	110,010
Interest	8,413	8,413	13,726	13,726
Total debt service	<u>122,090</u>	<u>122,090</u>	<u>123,736</u>	<u>123,736</u>
Total expenses	<u>\$ 759,577</u>	<u>\$ 738,766</u>	<u>\$ 773,081</u>	<u>\$ 705,422</u>

See independent auditor's report.



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

Honorable Chairman and Members of the  
Lebanon Borough Sewerage Authority  
Lebanon Borough, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements as of and for the year ended December 31, 2016 and December 31, 2015, and the related notes to the financial statements, which collectively comprise the Lebanon Borough Sewerage Authority's (the Authority) (a component unit of the Borough of Lebanon) basic financial statements, and have issued our report thereon dated May 15, 2017.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of General Comments and Recommendations that we consider to be significant deficiencies.

### Compliance and Other Matters

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

### Lebanon Borough Sewerage Authority's Response to Findings

Lebanon Borough Sewerage Authority's response to findings identified in our audit is described in the accompanying Schedule of General Comments and Recommendations. Lebanon Borough Sewerage Authority's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### Purpose of this Report

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

*Bedard, Kurowicki & Co.*  
**BEDARD, KUROWICKI & CO., CPA'S, PC**

May 15, 2017  
Flemington, New Jersey

**LEBANON BOROUGH SEWERAGE AUTHORITY**  
**Schedule of General Comments and Recommendations**

**Significant Deficiencies**

2016 - 01 Segregation of Duties

Condition:	An overall lack of segregation of duties in all accounting control processes.
Cause:	The small size of the Authority's administrative staff.
Effect:	Because of the lack of segregation of duties, errors in accounting control processes could be made and not be detected.
Recommendation:	Procedures should be implemented by the Authority to reduce the risk of errors occurring and going undetected.

Views of Responsible Officials and Planned Corrective Action (unaudited):

The management and governing body have determined that the Authority is effectively and efficiently served with a single individual performing these functions. The Authority has implemented compensating controls and continues to consider risk assessment as it relates to the likelihood of misstatement of financial statement amounts due to error or fraud.

2016 - 02 Formal Bookkeeping System

Condition:	Bank reconciliations were not prepared accurately.
Cause:	Procedures were not in place to guarantee bank reconciliations are prepared accurately.
Effect:	Bank reconciliations are not accurate.
Recommendation:	A bookkeeping system should be implemented to give the ability to maintain accurate bank reconciliations and supporting registers.

Views of Responsible Officials and Planned Corrective Action (unaudited):

The management and governing body are considering implementing accounting software to ensure accurate bank reconciliations and supporting registers.

See independent auditor's report.

**LEBANON BOROUGH SEWERAGE AUTHORITY**  
**Schedule of General Comments and Recommendations**

**Recommendations**

- 2016-01 Procedures should be implemented by the Authority to reduce the risk of errors in connection with a lack of segregation of duties.
- 2016-02 A bookkeeping system should be implemented to give the ability to maintain accurate bank reconciliations and supporting registers.

**Status of Prior Year's Audit Findings/Recommendations**

A review was performed on prior year recommendations and corrective action was taken on all with exception of the following which is included in this year's recommendations:

- 2015-01 Procedures should be implemented by the Authority to reduce the risk of errors in connection with a lack of segregation of duties.

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We would be pleased to confer on questions that might arise with respect to any matters in this report.

We wish to express our appreciation for the assistance and courtesies rendered by the Authority officials and employees during the course of the examination.

*Bedard, Kurowicki & Co.*  
**BEDARD, KUROWICKI & CO., CPA'S, PC**