

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

December 31, 2017

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

For the Year Ended December 31, 2017

TABLE OF CONTENTS

	Page
Roster of Officials	1
Independent Auditors' Report	2 - 4
Management's Discussion and Analysis	5 - 7
Basic Financial Statements	
Comparative Statement of Net Position	8 - 9
Comparative Statement of Revenues, Expenses and Changes in Net Position	10
Comparative Statement of Cash Flows	11 - 12
Notes to the Financial Statements	13 - 19
Supplementary Schedules	
Schedule of Changes in Net Position - Restricted Accounts	20
Schedule of Budgetary Comparison Information	21 - 22
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	23 - 24
Schedule of General Comments and Recommendations	25

LEBANON BOROUGH SEWERAGE AUTHORITY
(A Component Unit of the Borough of Lebanon)
Roster of Officials
Year Ended December 31, 2017

<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

www.bkc-cpa.com

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, 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.

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, 2017 and 2016, 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 March 30, 2018 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

March 30, 2018
Flemington, New Jersey

Lebanon Borough Sewerage Authority

6 High Street
Lebanon, New Jersey 08833
Tel: 908-236-2704
Fax: 908-236-2029

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE YEAR 2017

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, 2017. Please read it in conjunction with the LBSA's condensed financial statements (Exhibit A and B), which follow this section.

Financial Highlights

- The LBSA's total assets decreased by about 9.7% over the course of this year's operations. The largest decrease was in current restricted assets which decreased by 16.8%.
- The LBSA's total liabilities decreased by 58.1% compared to the prior year. The decrease is in unrestricted liabilities. This was attributable to a decrease in accounts payable.
- During the year, the LBSA's operating revenues increased by .6%. This was attributable to an increase in interest income on delinquent accounts.
- Operating expenses decreased by 5.6%. The decrease was a result of a decrease in professional fees.
- Non-operating expenses exceeded non-operating revenues by \$104,374 and decreased 10.8% compared to the prior year. The decrease was a result of connections fees that offset contributions to Lebanon Borough for debt service.
- Total net position at the end of 2017 was 7.8% less than the prior year. This was primarily a result of the repayment of debt.

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 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 2018

The LBSA members took into consideration the following factors when preparing the budget for 2018:

1. The ongoing maintenance of sewer lines and manholes.
2. The annual charges from Readington-Lebanon Sewer Authority for the treatment plant.
3. 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 2018 has been calculated at \$3,123.16 per unit and the sewer rate charge at \$446.00.

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)
	2017	2016	
Current assets			
Unrestricted assets	\$ 152,589	\$ 113,783	\$ 38,806
Restricted assets	610,180	733,465	(123,285)
Capital assets, net	333,690	367,428	(33,738)
Total assets	<u>\$ 1,096,459</u>	<u>\$ 1,214,676</u>	<u>\$ (118,217)</u>
Current liabilities			
Unrestricted	\$ 14,224	\$ 40,692	\$ (26,468)
Restricted	5,037	5,266	(229)
Total liabilities	<u>\$ 19,261</u>	<u>\$ 45,958</u>	<u>\$ (26,697)</u>
Net position			
Net investment in capital assets	\$ 333,690	\$ 367,428	\$ (33,738)
Restricted	605,143	728,199	(123,056)
Unrestricted	138,365	73,091	65,274
Total net position	<u>\$ 1,077,198</u>	<u>\$ 1,168,718</u>	<u>\$ (91,520)</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

Exhibit B

	December 31,		Increase (Decrease)
	2017	2016	
Operating revenues	\$ 626,570	\$ 622,957	\$ 3,613
Operating expenses	613,716	650,414	(36,698)
Operating income (loss)	12,854	(27,457)	40,311
Non-operating revenues (expenses)	(104,374)	(117,074)	12,700
Increase (decrease) in net position	(91,520)	(144,531)	53,011
Net position - Beginning of year	1,168,718	1,313,249	(144,531)
Net position - End of year	<u>\$ 1,077,198</u>	<u>\$ 1,168,718</u>	<u>\$ (91,520)</u>

Basic Financial Statements

LEBANON BOROUGH SEWERAGE AUTHORITY
Comparative Statement of Net Position
December 31,

	2017	2016
Assets		
Current assets		
Cash and cash equivalents	\$ 76,362	\$ 18,673
Accounts receivable	73,952	92,181
Interest receivable on certificates of deposit	2,275	2,929
Total current assets	152,589	113,783
Restricted assets		
Cash and cash equivalents	116,051	116,003
Certificates of deposit	494,129	617,462
Total restricted assets	610,180	733,465
Capital assets		
Capital assets	1,353,944	1,353,944
Less: accumulated depreciation	(1,020,254)	(986,516)
Net capital assets	333,690	367,428
Total assets	\$ 1,096,459	\$ 1,214,676

See accompanying notes to the financial statements.

LEBANON BOROUGH SEWERAGE AUTHORITY
Comparative Statement of Net Position (continued)
December 31,

	2017	2016
Liabilities		
Current liabilities		
Accounts payable	\$ 12,705	\$ 38,833
Customer overpayments	1,084	1,646
Prepaid sewer rents	34	213
Other current liabilities	401	-
Total current liabilities	14,224	40,692
Current liabilities (payable from restricted assets)		
Trust funds		
Reserve for developers deposits	5,037	4,865
Other current liabilities	-	401
Total current liabilities (payable from restricted assets)	5,037	5,266
Total liabilities	19,261	45,958
Net position		
Net investment in capital assets	333,690	367,428
Restricted	605,143	728,199
Unrestricted	138,365	73,091
Total net position	1,077,198	1,168,718
Total liabilities and net position	\$ 1,096,459	\$ 1,214,676

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,

	2017	2016
Operating revenues		
Sewer charges	\$ 571,098	\$ 570,634
Interest income on delinquent accounts	10,527	7,968
Reserve capacity charges	43,665	43,665
Miscellaneous	1,280	690
Total operating revenues	626,570	622,957
Operating expenses		
Cost of providing services	352,759	350,187
Administrative and general	227,219	266,489
Depreciation	33,738	33,738
Total operating expenses	613,716	650,414
Operating income (loss)	12,854	(27,457)
Non-operating revenues (expenses)		
Interest income	4,810	5,016
Connection fees	13,872	-
Miscellaneous	78	-
Contribution to Lebanon Borough Debt Service		
Principal	(120,277)	(113,677)
Interest	(2,857)	(8,413)
Total non-operating revenues (expenses)	(104,374)	(117,074)
Change in net position	(91,520)	(144,531)
Net position, beginning	1,168,718	1,313,249
Net position, ending	\$ 1,077,198	\$ 1,168,718

See accompanying notes to the financial statements.

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

	2017	2016
Cash flows from operating activities		
Cash received from customers	\$ 643,519	\$ 594,169
Other operating cash receipts	1,280	689
Cash payments to suppliers and employees	(606,446)	(601,677)
Net cash provided by (used for) operating activities	38,353	(6,819)
Cash flows from investing activities		
Purchase of certificates of deposit	(494,129)	(617,462)
Proceeds from redemption of certificates of deposit	617,462	752,562
Interest income	5,464	4,910
Net cash provided by (used for) investing activities	128,797	140,010
Cash flow from capital and related financing activities		
Proceeds from developer's deposits (net)	(229)	(446)
Connection fees	13,872	-
Miscellaneous	78	-
Payment of debt principal	(120,277)	(113,677)
Payment of debt interest	(2,857)	(8,413)
Net cash provided by (used for) capital and related financing activities	(109,413)	(122,536)
Net increase (decrease) in cash and cash equivalents	57,737	10,655
Cash and cash equivalents, beginning	134,676	124,021
Cash and cash equivalents, ending	\$ 192,413	\$ 134,676
Reconciliation of balance sheet		
Unrestricted cash and cash equivalents	\$ 76,362	\$ 18,673
Restricted cash and cash equivalents	116,051	116,003
Total cash	\$ 192,413	\$ 134,676

See accompanying notes to the financial statements.

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

	2017	2016
Reconciliation of income (loss) from operations to net cash		
Provided by (used for) operating activities		
Income (loss) from operations	\$ 12,854	\$ (27,457)
Adjustments to reconcile income (loss) from operations to net cash provided by (used for) operating activities		
Depreciation	33,738	33,738
Change in assets and liabilities		
(Increase) decrease in accounts receivable	18,229	(28,880)
Increase (decrease) in accounts payable	(26,128)	14,998
Increase (decrease) in other current liabilities	401	-
Increase (decrease) in prepaid sewer rents	(179)	213
Increase (decrease) in customer overpayments	(562)	569
Net cash provided by (used for) operating activities	\$ 38,353	\$ (6,819)

See accompanying notes to the financial statements.

Notes to the Financial Statements

LEBANON BOROUGH SEWERAGE AUTHORITY
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 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
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), 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
Reserve for Payment of Debt Service	Future payment of debt principal funded by budget appropriations and payments of connection fees

LEBANON BOROUGH SEWERAGE AUTHORITY
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 and certificates of deposit in banks. As of December 31, 2017 and 2016, the Authority had no investments.

New Jersey Governmental Units are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or in the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of investments which may be purchased by New Jersey Governmental Units. In addition, other state statutes permit investments in obligations issued by local authorities and other state agencies. The State of New Jersey does not place any limit on the amount that the District may invest with any one issuer.

New Jersey Governmental Units are limited as to the types of investments and types of financial institutions they may invest in. New Jersey Statute 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey Governmental Units.

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.

LEBANON BOROUGH SEWERAGE AUTHORITY
Notes to the Financial Statements

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

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a policy for custodial credit risk. New Jersey statutes require cash be deposited only in New Jersey based banking institutions that participate in the New Jersey Governmental Unit Deposit Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. Under the act, the first \$250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the Authority in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds, employee salary withholdings, or funds that may pass to the Authority relative to the happening of a future condition.

As of December 31, 2017 and 2016, the Authority's bank balances were exposed to custodial credit risk as follows:

	2017	2016
Deposits Insured by the FDIC	\$ 420,367	\$ 395,980
Deposits Insured by GUDPA	244,129	367,462
Total bank balances	\$ 664,496	\$ 763,442

The Authority's carrying (Statement of Net Position) amounts were \$686,542 and \$752,138 for December 31, 2017 and 2016, respectively.

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 2017) 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/njdcprp.

LEBANON BOROUGH SEWERAGE AUTHORITY
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. The actuarially determined contribution includes funding for cost-of-living adjustments, non-contributory death benefits and post-retirement medical premiums. For the year ending December 31, 2017 and 2016, the Authority contributed \$783 and \$749, respectively.

Note 5 - Capital assets

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

<u>December 31, 2017</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	(986,516)	(33,738)	-	(1,020,254)
Capital assets, net	<u>\$ 367,428</u>	<u>\$ (33,738)</u>	<u>\$ -</u>	<u>\$ 333,690</u>

<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>

Note 6 - Litigation

The Authority is a defendant in a legal proceeding. 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
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. As of December 31, 2017, the Authority is no longer responsible for debt service. As of December 31, 2016, the Authority was responsible for principal of \$120,277 and interest of \$2,857 for a total of \$123,134.

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>
2017	\$ -	\$ -	\$ 78	\$ -	\$ 7,544
2016	-	-	80	-	7,544
2015	-	-	173	-	7,464

LEBANON BOROUGH SEWERAGE AUTHORITY
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, 2017 and through March 30, 2018, the date of the Authority's financial statement issuance, which requires additional disclosure in the Authority's financial statements.

Supplementary Schedules

LEBANON BOROUGH SEWERAGE AUTHORITY
Schedule of Changes in Net Position - Restricted Accounts
For the Year Ended December 31, 2017

	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	\$ 4,865	\$ 7,544	\$ 597,521	\$ 123,134	\$ 728,199	\$ 733,064
Additions						
Deposits received	1,500	78	-	-	78	1,578
Deductions						
Transfer for payment of debt service	-	-	-	123,134	123,134	123,134
Developers fees	1,328	-	-	-	-	1,328
Total deductions	1,328	-	-	123,134	123,134	124,462
Balance at end of year	\$ 5,037	\$ 7,622	\$ 597,521	\$ -	\$ 605,143	\$ 610,180

See independent auditor's report.

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

	December 31, 2017		December 31, 2016	
	Unaudited Budget	Actual	Unaudited Budget	Actual
Revenues				
Net position appropriated	\$ -	\$ -	\$ -	\$ -
Operating revenues				
User charges and fees	567,530	581,625	557,822	578,602
Reserve capacity fees	43,665	43,665	43,665	43,665
Miscellaneous	5,000	1,280	5,000	610
Reserve for sewer capacity	123,078	123,134	122,090	122,090
Reserve for renewals and replacements	-	-	25,000	-
Total operating revenues	<u>739,273</u>	<u>749,704</u>	<u>753,577</u>	<u>744,967</u>
Non-operating revenues				
Interest income	6,000	4,810	6,000	5,016
Connection fees	-	13,872	-	-
Total non-operating revenues	<u>6,000</u>	<u>18,682</u>	<u>6,000</u>	<u>5,016</u>
Total revenues	<u><u>\$ 745,273</u></u>	<u><u>\$ 768,386</u></u>	<u><u>\$ 759,577</u></u>	<u><u>\$ 749,983</u></u>
Expenses				
Administrative and general				
Salaries and wages	\$ 29,210	\$ 26,106	\$ 27,960	\$ 28,130
Employee benefits	7,250	2,806	7,750	2,929
Professional fees				
Legal	69,620	45,869	56,036	68,449
Engineering	83,305	82,841	81,965	100,298
Auditor	35,310	32,310	34,676	31,676
Other	1,500	-	1,500	-
Insurance	11,500	5,976	11,500	6,294
Miscellaneous other expenses	17,500	14,199	17,500	13,113
Facilities costs	16,000	15,600	15,600	15,600
Office equipment and supplies	1,000	1,512	1,000	-
Total administrative and general	<u>272,195</u>	<u>227,219</u>	<u>255,487</u>	<u>266,489</u>

See independent auditor's report.

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

	December 31, 2017		December 31, 2016	
	Unaudited Budget	Actual	Unaudited Budget	Actual
Expenses (continued)				
Cost of providing services				
Joint authority costs	\$ 320,000	\$ 335,354	\$ 337,000	\$ 329,221
Maintenance and repairs	30,000	17,405	20,000	20,966
Total cost of providing services	<u>350,000</u>	<u>352,759</u>	<u>357,000</u>	<u>350,187</u>
Capital				
Acquisition of equipment	-	-	25,000	-
Debt service				
Principal	120,221	120,277	113,677	113,677
Interest	2,857	2,857	8,413	8,413
Total debt service	<u>123,078</u>	<u>123,134</u>	<u>122,090</u>	<u>122,090</u>
Total expenses	<u>\$ 745,273</u>	<u>\$ 703,112</u>	<u>\$ 759,577</u>	<u>\$ 738,766</u>

See independent auditor's report.



Certified Public Accountants, PC
www.bkc-cpa.com

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

Honorable Chairman and Members of the
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, 2017 and December 31, 2016, 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 March 30, 2018.

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.

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.

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

March 30, 2018
Flemington, New Jersey

LEBANON BOROUGH SEWERAGE AUTHORITY
Schedule of General Comments and Recommendations

Significant Deficiencies

None noted.

Recommendations

No recommendations have been developed as a result of this audit.

Status of Prior Year's Audit Findings/Recommendations

A review was performed on prior year recommendations and corrective action was taken.

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

See independent auditor's report.