

**THE LANDIS SEWERAGE AUTHORITY**  
**AUDIT REPORT**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**



**THE LANDIS SEWERAGE AUTHORITY  
AUDIT REPORT  
YEARS ENDED DECEMBER 31, 2015 AND 2014**

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## INDEPENDENT AUDITOR'S REPORT

Chairman and Commissioners of  
The Landis Sewerage Authority  
Vineland, New Jersey

### Report on the Financial Statements

We have audited the accompanying financial statements of The Landis Sewerage Authority as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and audit requirements as prescribed by the 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 of 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 includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Landis Sewerage Authority as of December 31, 2015 and 2014, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *Adoption of New Accounting Principles*

As discussed in note 1 to the financial statements, during the fiscal year ended December 31, 2015, the Authority adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

### *Prior Period Restatement*

Because of the implementation of GASB Statements No. 68 and No. 71, net position as of January 1, 2014 on the statement of revenues, expenses and changes in net position has been restated, as discussed in Note 17 to the financial statements. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of proportionate share of net pension liability and schedule of employer contributions, as listed 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*

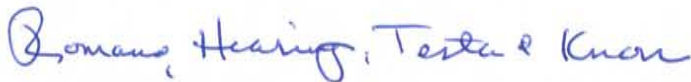
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Landis Sewerage Authority's basic financial statements. The accompanying supplementary schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary schedules as listed in the table of contents 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 supplementary schedules as listed in the table of contents 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 September 19, 2016 on our consideration of The Landis 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 and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The Landis Sewerage Authority's internal control over financial reporting and compliance.

ROMANO, HEARING, TESTA & KNORR



Certified Public Accountants

September 19, 2016

**INDEPENDENT AUDITOR'S 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**

Chairman and Commissioners of  
The Landis Sewerage Authority  
Vineland, 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; and audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of The Landis Sewerage Authority as of and for the years ended December 31, 2015 and 2014, and the related notes to the financial statements, which collectively comprise The Landis Sewerage Authority's basic financial statements, and have issued our report thereon dated September 19, 2016. Our report on the financial statements included an emphasis of matter paragraph describing the restatement of the prior period financial statements resulting from the adoption of new accounting principles.

**Internal Control Over Financial Reporting**

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

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 Landis Sewerage Authority's financial statements are free of 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* and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

### **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 *Governmental Auditing Standards*, and the audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, in considering The Landis Sewerage Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purposes.

ROMANO, HEARING, TESTA & KNORR



Certified Public Accountants

September 19, 2016

**REQUIRED SUPPLEMENTARY INFORMATION  
PART I**





## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of The Landis Sewerage Authority's (the Authority) annual financial report presents the analysis of the Authority's overall financial position and results of operation for the year that ended on December 31, 2015. Please read it in conjunction with the financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

The Authority's Net Capital Assets total \$54.72 million, which is a \$1.58 million or 2.81% decrease from 2014.

- The Authority's Total Assets are \$67.20 million, which is a \$1.42 million or 2.08% decrease from 2014.
- During the year, the Authority's operating revenues were \$10.39 million, which is a \$.172 million or 1.68% increase from 2014 and operating expenses were \$10.69 million, which is a \$.65 million or 6.4% increase from 2014.
- The Authority's Net Position decreased by \$.509 million.

During 2015, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB 68) and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (GASB 71). As a result of the implementation of GASB 68 and 71, beginning unrestricted net position as of January 1, 2014 was decreased by \$8.6 million. The notes to the financial statements provide a more thorough discussion of the implementation of GASB 68 and 71 and the effects to the financial statements.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority is a single enterprise fund. The Authority's Audit Report includes the required Basic Financial Statements, as described below, the Notes to Financial Statements, required supplementary information, which consists of this Management Discussion and Analysis and required Pension Schedules and finally, supplementary information.

## REQUIRED FINANCIAL STATEMENTS

The financial statements report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities.

The **Statement of Net Position** includes all of the Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the **Statement of Revenues, Expenses and Changes in Net Position**. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its wastewater treatment user fees and other charges. This statement also measures the Authority's profitability and credit worthiness. The other required financial statement is the **Statement of Cash Flows**. The primary purpose of this statement is to provide information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing and financing activities, and provides answers to such questions as "where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period?"

## FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

One of the most important questions asked about the Authority's finances is "Is the Authority, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the Authority's activities in a way that will help answer this question. These two statements report the net position of the Authority, and changes in net position. You can think of the Authority's net position – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, customer growth, and legislative mandates.

The analysis below focuses on the Authority's net position (Table 1) and changes in net position (Table 2) during the year.

Table 1  
**Net Position**  
(Dollars in Thousands)

	2015	2014 (Restated)	2013*	2015 - 2014 Increase (Decrease)	
				\$	%
Current Assets	\$ 9,701	\$ 9,342	\$ 8,237	\$ 359	3.84
Noncurrent Assets	57,495	59,283	59,788	(1,788)	(3.02)
Total Assets	<u>67,196</u>	<u>68,625</u>	<u>68,025</u>	<u>(1,429)</u>	2.08
Deferred Outflows of Resources	<u>1,571</u>	<u>597</u>	<u>138</u>	<u>974</u>	163.15
Current Liabilities:					
Payable from Unrestricted Assets	779	822	560	(43)	(5.25)
Payable From Restricted Assets	1,395	1,420	1,405	(25)	(1.76)
Long-Term Liabilities	13,770	13,298	5,834	472	3.55
Total Liabilities	<u>15,943</u>	<u>15,540</u>	<u>7,799</u>	<u>403</u>	2.60
Deferred Inflows of Resources	<u>4,611</u>	<u>4,960</u>	<u>4,349</u>	<u>(349)</u>	(7.03)
Investment in Capital Assets	51,382	52,039	51,228	(657)	(1.26)
Restricted Net Position:					
Debt Service	568	531	542	37	6.97
Operating	1,393	1,348	1,357	45	3.34
Renewal & Replacement	500	600	600	(100)	(16.67)
Unrestricted	(5,630)	(5,796)	2,288	166	(2.86)
Total Net Position	<u>\$ 48,213</u>	<u>\$ 48,722</u>	<u>\$ 56,015</u>	<u>\$ (509)</u>	(1.05)

\*2013 has not been restated to comply with GASB 68. See Note 17.

Table 2  
**Statement of Revenues,  
and Changes in Net  
Position Expenses**  
(Dollars in Thousands)

	2015	2014 Restated	2013*	2015 - 2014 Increase(Decrease)	
				\$	%
<b>Operating Revenues:</b>					
User Charges & Fees	\$ 10,098	\$ 9,910	\$ 9,523	\$ 188	1.90
Connection Fees	118	188	154	(70)	(37.23)
Other Operating	177	124	122	53	42.74
Nonoperating Revenues	57	196	191	(139)	(70.92)
<b>Total Revenues</b>	<b>10,450</b>	<b>10,418</b>	<b>9,990</b>	<b>3.0</b>	<b>.31</b>
<b>Operating Expenses:</b>					
Cost of Providing Services	6,583	6,099	6,168	484	7.94
Administrative and General	1,958	1,820	1,793	138	7.57
Depreciation	2,148	2,125	2,101	23	1.10
<b>Non-Operating Expense:</b>					
Interest	330	388	441	(58)	(15.02)
Appropriation to COV		50	435	50	(100)
Other			240		
<b>Total Expenses</b>	<b>11,019</b>	<b>10,482</b>	<b>11,178</b>	<b>53.7</b>	<b>5.12</b>
Loss Before Capital Contributions	(569)	(64)	(1,188)	(505)	787.05
Capital Contributions	60	1,323	498	(1,263)	(95.47)
Change in Net Position	(509)	1,259	(690)	(1,768)	(140.46)
Total Net Position-Beginning	48,722	56,015	57,705	(7,293)	(13.02)
Cumulative Effect of Change In Accounting Principle		(8,552)		8,552	(100.00)
Total Net Position-Beginning (As Restated)	48,722	47,463	56,705	1,258	2.65
Total Ending Net Position	\$ 48,213	\$ 48,722	\$ 56,015	\$ (509)	(1.05)

\*2013 has not been restated to comply with GASB 68. See Note 17.

## REVENUES

The Authority's total revenues are approximately \$10.45 million for the year ended December 31, 2015. User Charges & Fees were \$10.1 million accounting for 97% of total revenue. Operating expenses include cost of providing services, which totaled \$6.6 million and administrative and general of \$1.9 million.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of December 2015 the Authority had \$54.72 million invested in a broad range of capital assets. More detailed information about capital assets can be found in Note 5 to the financial statements. Total depreciation expense for the year was \$2.15 million.

The following tables summarize the Authority's capital assets, net of accumulated depreciation, and changes therein, for the year ended December 31, 2015.

Table 3  
Capital Assets, Net of Accumulated Depreciation  
(Dollars in Thousands)

	2015	2014	2013	2015- 2014	
				Increase(Decrease) \$	%
Land	\$ 1,984	\$ 1,971	\$ 1,937	\$ 13	.66
Treatment Plant and Pumping Stations	26,294	27,563	28,451	(1,269)	(4.60)
Mains & Accessories	23,193	23,570	22,562	(377)	(1.60)
Machinery & Equipment	3,026	3,072	3,195	(46)	(1.50)
Office Furniture & Fixtures	20	16	13	4	25.0
Construction in Progress	202	108	191	94	87.04
	<u>\$ 54,719</u>	<u>\$ 56,300</u>	<u>\$ 56,349</u>	<u>\$ (1,581)</u>	<u>(2.81)</u>

This year's additions (in thousands) include:

Land Improvements	\$ 13
Treatment Plant and Pumping Stations	102
Mains & Accessories	107
Machinery and Equipment	74
Construction in Progress	168
Office Furniture & Fixtures	10

The Authority's FY 2016 capital budget plans for investing another \$2.736 million in capital projects, including the following (in thousands):

Collection	\$ 1,531
Truck, Vehicles	70
Pump Stations	142
Communication/Safety	25
Plant & Process Equipment	778
Office Equipment	35
Lab Equipment	20
Farm Equipment	135
TOTAL	<u>\$ 2,736</u>

The Authority plans on funding those capital projects using a combination of existing cash and year 2016 revenue and borrowing.

## **Debt Administration**

At December 31, 2015, the outstanding balance of the Series 1993 Bonds consists of Term Bonds in the amount of \$4,500,000 that mature in various amounts through the year 2019 with interest rates of 5.65%. More detailed information about long-term liabilities can be found in Note 7 to the financial statements.

## **NEXT YEAR'S BUDGETS AND RATES**

The 2016 adopted budget did not include a rate increase.

## **CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the Authority's customers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact the Authority's Executive Director at The Landis Sewerage Authority, 1776 South Mill Road, Vineland, NJ.

## **BASIC FINANCIAL STATEMENTS**

**THE LANDIS SEWERAGE AUTHORITY  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2015 AND 2014**

	<b>2015</b>	<b>2014 (Restated)</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS - UNRESTRICTED:</b>		
Cash and Cash Equivalents	\$ 884,809	\$ 904,644
Accounts Receivable	1,293,374	1,530,607
Grant Receivables		124,660
Other Receivables	14,642	8,181
Due from Restricted Assets	1,268	18,253
Prepaid Expenses	96,280	115,273
Inventory	399,701	352,336
	<b>Total Current Assets - Unrestricted</b>	<b>3,053,954</b>
<b>CURRENT ASSETS - RESTRICTED:</b>		
Accounts Required by the Authority's Bond Resolution:		
Cash and Cash Equivalents	6,840,971	6,061,669
Interest Receivable	40,566	41,641
Other Accounts:		
Cash and Cash Equivalents	129,133	184,274
	<b>Total Current Assets - Restricted</b>	<b>6,287,584</b>
<b>NONCURRENT ASSETS:</b>		
Accounts Required by the Authority's Bond Resolution:		
Investments	2,775,535	2,983,177
Capital Assets, Net	54,719,248	56,299,896
	<b>Total Noncurrent Assets</b>	<b>59,283,073</b>
<b>TOTAL ASSETS</b>	<b>67,195,527</b>	<b>68,624,611</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Deferred Loss on Defeasance of Debt	65,225	99,600
Deferred Amount Relating to Pensions	1,505,976	497,007
	<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>596,607</b>

(Continued)



**THE LANDIS SEWERAGE AUTHORITY  
STATEMENTS OF NET POSITION  
DECEMBER 31, 2015 AND 2014**

	<b>2015</b>	<b>2014 (Restated)</b>
<b>LIABILITIES AND NET POSITION</b>		
<b>CURRENT LIABILITIES PAYABLE FROM UNRESTRICTED ASSETS:</b>		
Accounts Payable - Operations	\$ 278,735	\$ 324,839
Accrued Liabilities	500,338	497,428
Sewer Rent Overpayments	113	113
	<b>779,186</b>	<b>822,380</b>
<b>CURRENT LIABILITIES PAYABLE FROM RESTRICTED ASSETS:</b>		
Accounts Payable - Construction	78,411	46,456
Contracts Payable - Construction	89,397	46,140
Retainage Payable - Construction	2,000	2,000
Due to Unrestricted Assets	1,268	18,253
Revenue Bonds Payable - Current Portion	1,000,000	1,000,000
Accrued Interest Payable - Bonds	5,573	22,987
Escrow - 1989 Sewer Bond	1,444	1,444
Escrow - Developers	105,766	164,479
Due to Developers	110,834	117,874
	<b>1,394,693</b>	<b>1,419,633</b>
<b>LONG-TERM LIABILITIES:</b>		
Accrued Liability Pension - Non-Current Portion	186,523	186,523
Revenue Bonds Payable - Non-Current Portion	3,497,362	4,495,973
Accrued Compensated Absences	345,240	340,645
Net Pension Liability	9,740,378	8,274,531
	<b>13,769,503</b>	<b>13,297,672</b>
<b>TOTAL LIABILITIES</b>	<b>15,943,382</b>	<b>15,539,685</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Deferred User Charge Revenue	3,219,121	3,322,547
Deferred Connection Fees Revenue	1,107,354	1,144,066
Deferred Amount Relating to Pensions	284,356	493,117
	<b>4,610,831</b>	<b>4,959,730</b>
<b>NET POSITION (DEFICIT):</b>		
Net Investment in Capital Assets	51,382,105	52,039,354
Restricted:		
Debt Service	567,568	531,035
Operating	1,393,170	1,347,500
Renewal and Replacement	500,000	600,000
Unrestricted	(5,630,328)	(5,796,086)
	<b>\$ 48,212,515</b>	<b>\$ 48,721,803</b>

The accompanying Notes to Financial Statements are an integral part of these statements

**THE LANDIS SEWERAGE AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET POSITION**  
**YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<b>2015</b>	<b>2014 (Restated)</b>
<b>OPERATING REVENUE:</b>		
User Charges and Fees	\$ 10,098,336	\$ 9,910,502
Connection Fees	118,222	187,589
Other	176,750	123,711
<b>Total Operating Revenue</b>	10,393,308	10,221,802
<b>OPERATING EXPENSES:</b>		
Cost of Providing Services	6,582,635	6,098,624
Administrative and General	1,957,798	1,820,005
Depreciation	2,148,848	2,125,429
<b>Total Operating Expenses</b>	10,689,281	10,044,058
<b>OPERATING INCOME (LOSS)</b>	(295,973)	177,744
<b>NON-OPERATING REVENUE (EXPENSES):</b>		
Miscellaneous Income	9,718	7,234
Interest Income	137,308	148,045
Interest Expense	(329,888)	(388,205)
Appropriation to City of Vineland		(50,000)
Increase (Decrease) in Fair Value of Investments	(97,136)	41,004
Gain on Disposal of Capital Asset	6,683	
<b>Total Non-Operating Revenue (Expenses)</b>	(273,315)	(241,922)
<b>LOSS BEFORE CAPITAL CONTRIBUTIONS</b>	(569,288)	(64,178)
<b>CAPITAL CONTRIBUTIONS</b>	60,000	1,323,064
<b>CHANGE IN NET POSITION</b>	(509,288)	1,258,886
<b>TOTAL NET POSITION- BEGINNING</b>	48,721,803	56,015,273
<b>CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE</b>		(8,552,356)
<b>TOTAL NET POSITION- BEGINNING (AS RESTATED)</b>	48,721,803	47,462,917
<b>TOTAL NET POSITION- ENDING</b>	\$ 48,212,515	\$ 48,721,803

The accompanying Notes to Financial Statements are an integral part of these statements

**THE LANDIS SEWERAGE AUTHORITY  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<u>2015</u>	<u>2014</u> <i>(Restated)</i>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash Received from Customers and Users	\$ 10,356,305	\$ 9,879,643
Cash Payments to Suppliers for Goods and Services	(2,762,882)	(2,304,126)
Cash Payments for Employee Services	(5,657,470)	(5,437,467)
Other Operating Receipts (Payments)	41,107	158,472
	<u>1,977,060</u>	<u>2,296,522</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:</b>		
Grant Funds Received - Net of Capital Contributions	124,660	
Other Non-Operating Revenue and Expenses	2,484	(42,766)
	<u>127,144</u>	<u>(42,766)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and Construction of Capital Assets	(338,516)	(1,932,900)
Principal Paid on Bonds	(1,000,000)	(900,000)
Interest Paid on Bonds	(311,538)	(336,987)
Decrease in Escrow Accounts	(58,713)	(11,025)
Capital Contributions	60,000	1,208,612
	<u>(1,648,767)</u>	<u>(1,972,300)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from Sale and Maturities of Investments	110,506	496,920
Interest Received on Investments	138,383	152,907
	<u>248,889</u>	<u>649,827</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	704,326	931,283
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>7,150,587</u>	<u>6,219,304</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 7,854,913</u>	<u>\$ 7,150,587</u>

(Continued)

The accompanying Notes to Financial Statements are an integral part of these statements

**THE LANDIS SEWERAGE AUTHORITY  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED DECEMBER 31, 2015 AND 2014**

	<b>2015</b>	<b>2014 (Restated)</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating Income (Loss)	\$ (295,973)	\$ 177,744
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation	2,148,848	2,125,429
Increase (Decrease) in Cash Resulting From Changes in:		
Accounts Receivable	237,233	(180,869)
Grant and Other Receivables	118,199	(92,653)
Prepaid Expenses	18,993	21,886
Inventories	(47,365)	(64,010)
Accounts Payable - Operations	(46,217)	64,234
Accrued Liabilities	(14,075)	133,208
Due to Developers	(7,040)	(8,325)
Deferred User Charge Revenue	(103,426)	113,240
Deferred Connection Fees	(36,712)	5,801
Accrued Compensated Absences	4,595	837
Total Adjustments	2,273,033	2,118,778
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 1,977,060</b>	<b>\$ 2,296,522</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENT OF NET POSITION:</b>		
Cash and Cash Equivalents - Unrestricted	\$ 884,809	\$ 904,644
Cash and Cash Equivalents - Restricted Accounts Required by Authority's Bond Resolutions	6,840,971	6,061,669
Cash and Cash Equivalents - Other Restricted Accounts	129,133	184,274
	<b>\$ 7,854,913</b>	<b>\$ 7,150,587</b>

The accompanying Notes to Financial Statements are an integral part of these statements

## **NOTES TO THE FINANCIAL STATEMENTS**

**THE LANDIS SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014**

**NOTE 1 GENERAL**

The Landis Sewerage Authority, a public body corporate and politic organized and existing under the laws of the State of New Jersey, owns and operates certain sewerage collection, transmission, treatment and disposal facilities and is presently responsible for providing sanitary sewerage service to the City of Vineland and to neighboring areas. The Authority bills and collects its revenue from the users of the system.

The Authority was established on July 15, 1946, by an ordinance of the Township Committee of the former Landis Township, now part of the City of Vineland pursuant to the Act. The Authority has been in continuous existence since it was established.

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

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of the more significant accounting policies:

A. Financial Reporting Entity

The commissioners of the Authority are appointed by the City Council of the City of Vineland and therefore, the Authority is a related organization of the City as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, as amended by GASB Statement No. 34 and GASB Statement No.61, but not a component unit of the City. The Authority does not have any component units for which it is accountable.

B. Basis of Presentation

The accounts of the Authority are an enterprise fund. An enterprise fund is a Proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises- where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or the change in net position is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

The accompanying financial statements are reported using the “economic resources measurement focus,” and the “accrual basis of accounting.” Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund’s principal ongoing operations.

**THE LANDIS SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2015 AND 2014**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

The principal operating revenues of the Authority are user charges and fees for sewerage treatment. The Authority also recognizes income from the sale of crops raised in its farm operations, lab testing fees, connection fees and receiving station income as operating revenue. Operating expenses include cost of providing services, administrative and general expenses, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

D. Budgets and Budgetary Accounting

The Authority must adopt an annual budget in accordance with N.J.A.C. 5:31-2. The budget must be introduced by the governing body at least 60 days prior to end of the current fiscal year, and adopted no later than the beginning of the Authority's fiscal year. The budget is adopted on the accrual basis of accounting with provision for cash payments for bond principal. Depreciation and amortization expense are not included as budget appropriations. The Authority may make budget transfers and amendments at any time, which must be approved by resolution of the Authority and by the State of New Jersey Division of Local Government Services if the legal level line items are affected. Detailed line item transfers not affecting the legal level line items may be made by management at any time. There are no statutory provisions that budgetary line items not be over-expended.

E. Grants

Contributions received from various sources as grants are recorded in the period earned. Developer financed construction is recorded in the period in which applicable construction costs are incurred. Donated assets are recorded at fair market value at the date of the gift. Grants not externally restricted and utilized to finance operations are identified as non-operating revenue.

Grants externally restricted for non-operating purposes are recorded as capital contributions.

F. Accounts Receivable

The Authority has provided for doubtful accounts by the allowance method. The allowance for doubtful accounts is based upon management's estimate of potentially uncollectible accounts.

G. Capital Assets

Capital assets, which consist of property, plant and equipment, are stated at cost which includes direct construction costs and other expenditures related to construction.

**THE LANDIS SEWERAGE AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2015 AND 2014**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

G. Capital Assets (Continued)

Capital assets are defined by the Authority as assets with an initial, individual cost of \$1,000 or more and an estimated useful life in excess of one year.

System construction costs are charged to construction in progress until such time as given segments of the system are completed and put into operation. Construction in progress is stated at cost, which includes interest expense incurred during construction.

The Authority reduces the capitalized project costs by the amount of interest earned from the investment of project funds and amortization of the premium received in connection with the issuance of debt; which has the effect of reducing the cost of borrowing.

Plant and equipment is depreciated using the straight line method over the following estimated useful lives:

Treatment plant and pumping stations	40 years
Sewer mains, improvements and accessories	75 years
Machinery and equipment	5 - 15 years
Office furniture	5 - 10 years
Vehicles	5 years

H. Restricted and Unrestricted Accounts

In accordance with the 1993 Bond Resolution, the Authority has established the following cash and investment accounts for the deposit, in the priority of the order listed, of all revenue received by the Authority:

<u>Account</u>	<u>Amount</u>	<u>Use for Which Restricted if any</u>
Revenue Fund	All revenue received by the Authority.	As of the first business day of each month transfers to the various accounts described below.
Operating Fund	An amount equal to the amount necessary to provide for the payment of operating expenses for a two month period.	Payment of operating expenses.
Bond Service Fund	An amount equal to a daily accrual of interest and principal based upon a computation detailed in the resolution.	Principal and interest on the bonds.
Sinking Fund	An amount equal to all prior Sinking Fund installments then due and unpaid plus an accrual based upon a computation detailed in the resolution.	Purchase or redemption of certain term bonds in the manner described in the resolution.



**THE LANDIS SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

H. Restricted and Unrestricted Accounts (Continued)

<u>Account</u>	<u>Amount</u>	<u>Use for Which Restricted if any</u>
Bond Reserve Fund	An amount equal to the greatest sum of maturing principal and interest on all bonds outstanding which will become due and payable during the then current or any future Bond year.	Transfers to meet minimum levels required in the Bond Service Fund. Any excess shall be transferred to the General Fund by the Trustee.
Renewal and Replacement	The amount which is reasonably necessary as a reserve for expenses for major repairs, renewals, replacements or maintenance items of a type not recurring annually or at shorter intervals.	Transfers to the Bond Service Fund, Sinking Fund or Bond Reserve Fund if needed to meet the minimum required balances in those accounts. Funds also may be used for reasonable and necessary expenses with respect to the system for major repairs, replacements or maintenance items of a type not recurring annually or at shorter intervals.
General Fund	Any amounts in excess of minimum requirements in the above accounts.	Transfers into the above funds if needed to meet the minimum required balances in those accounts. When certain additional requirements are met, the Trustee may pay to the Authority any amount in excess of the required amount, which will be free and clear of any lien or pledge created by the resolution.
Construction Fund	Any moneys received by the Authority from any source for payment of costs related to the construction, acquisition or restoration of the system.	Costs related to the construction, acquisition or restoration of the system.
Rebate Fund	Amounts subject to rebate to the United States Government pursuant to the provisions of the Internal Revenue Code.	Rebates of Arbitrage Earnings to the United States Government.

**THE LANDIS SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2015 AND 2014**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

H. Restricted and Unrestricted Accounts (Continued)

In addition to the above, the Authority has also established the following restricted accounts:

Engineer Developer Custodian Account and Developer Escrow Accounts for deposits by developers for costs to be incurred by the Authority on their behalf.

1989 Bond Escrow Surplus Account for transfers from the escrow agent of amounts deemed to be in excess of the amounts needed to refund the defeased bonds of the Authority.

I. Bond Discounts

Bond discounts are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable bond discount.

J. Deferred Amount on Refunding

The deferred amount on refunding is recorded as a deferred outflow of resources. It is amortized over the shorter of the remaining life of the old debt or new debt based upon the interest method as a component of interest expense.

K. Inventory

Inventory consists principally of chemicals, fuels, materials and supplies used in the treatment process and farm operation and are stated at cost determined on a first-in, first-out basis.

L. Cash and Cash Equivalents

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. Investments are stated at fair value.

New Jersey governmental units are required by N.J.S.A. 40A:5-14 to adopt a cash management plan and to deposit and/or invest its funds pursuant to that plan. The governing body of the Authority has adopted a cash management plan ("the plan") and, as required, approves the plan annually. The plan includes the designation of the public depositories to be utilized by the Authority to deposit public funds.

Eligible depositories are defined in section 1 of P.L. 1970, c.236 (C. 17.9-41) and are limited to banks or trust companies having their 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 with 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 governments and their component units.

**THE LANDIS SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2015 AND 2014**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

L. Cash and Cash Equivalents (Continued)

N.J.S.A. 17:9-41 et. seq., which establishes the requirements for the security of deposits of governmental units, requires that governmental units shall 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. Public depositories include state or federally chartered banks, savings banks or associations located in the State of New Jersey or state or federally chartered banks, savings banks or associations located in another state with a branch office in the State of New Jersey, the deposits of which are federally insured. All public depositories must pledge collateral, having a market value of at least five percent (5%) 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 cash management plan adopted by the Landis Sewerage Authority requires it to deposit funds in public depositories protected from loss under the provisions of GUDPA.

M. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. The estimates and assumptions affect the amounts reported in the financial statements. The actual results may differ from these estimates.

N. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Public Employees' Retirement System ("PERS") and additions to/deductions from PERS's fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. Deferred Outflows and Deferred Inflows of Resources

The Schedule of Net Position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources, reported after Total Assets, represents a reduction of net position that applies to a future period(s) and will be recognized as an outflow of resources (expense) at that time. Deferred inflows of resources, reported after Total Liabilities, represents an acquisition of net position that applies to a future period(s) and will be recognized as an inflow of resources (revenue) at that time.

Transactions are classified as deferred outflows of resources and deferred inflow of resources only when specifically prescribed by the Governmental Accounting Standards Board (GASB) standards.

**THE LANDIS SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2015 AND 2014**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

O. Deferred Outflows and Deferred Inflows of Resources (Continued)

The Authority is required to report the following as deferred outflows of resources and deferred inflows of resources:

**Defined Benefit Pension Plans** – The difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension plan investments, changes in the Authority's proportion of expenses and liabilities to the pension as a whole, differences between the Authority's pension contribution and its proportionate share of contributions, and the Authority's pension contributions subsequent to the pension valuation measurement date.

P. Subsequent Events

Management has evaluated subsequent events through September 19, 2016, the date the financial statements were available for issue.

Q. Adoption of Accounting Pronouncements

The Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (GASB 68). GASB 68 addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to pensions. Note disclosures and required supplementary information requirements about pensions are also addressed.

The Authority also adopted GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68* (GASB 71). GASB 71 amends paragraph 137 of GASB 68 to require that, at transition, a government recognize a beginning deferred outflow or resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability.

The provisions of GASB Statements No. 68 and No. 71 have been applied to the beginning of the 2014 net position and the 2014 financial statements have been restated. As a result of the implementation of GASB 68 and 71, beginning unrestricted net position as of January 1, 2014, was decreased by \$8,552,356. See Note 17 for a reconciliation of the 2014 amounts as previously reported to the total restated amounts.

R. Recent Accounting Pronouncements not Yet Effective

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). The statement addresses accounting and financial reporting issues related to fair value measurements of assets and liabilities. GASB 72 identifies various approaches to measuring fair value and levels of inputs based on the objectivity of the data used to measure fair value. GASB 72 will be effective for periods beginning after June 15, 2015. Management is evaluating the impact of this new statement.

**THE LANDIS SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2015 AND 2014**

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

R. Recent Accounting Pronouncements not Yet Effective (Continued)

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB 73). This statement establishes requirements for defined benefit pensions and defined contribution pensions that are not within the scope of GASB 68 and amends certain provisions of GASB Statement No. 67, *Financial Reporting for Pension Plans*, and GASB 68. GASB 73 will be effective for periods beginning after June 15, 2016. Management is evaluating the impact of this new statement.

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. GASB 74 will be effective for periods beginning after June 15, 2016. Management does not expect this statement will have an impact on the financial statements.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). This statement addresses accounting and financial reporting for other postemployment benefits (OPEB) that are provided to the employees of state and local governmental employers. GASB 75 establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenses related to OPEB in the basic financial statements, in addition to requiring more extensive note disclosures and required supplementary information. GASB 75 will be effective for periods beginning after June 15, 2017. Management is evaluating the impact of this new statement.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. GASB 76 will be effective for periods beginning after June 15, 2015. Management is evaluating the impact of this new statement.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This statement establishes the criteria for identifying the applicable pension plans and addresses measurement and recognition of pension liabilities, expense, and expenditures; note disclosures of descriptive information about the plan, benefit terms, and contribution terms; and required supplementary information presenting required contribution amounts for the past 10 fiscal years. GASB 78 will be effective for periods beginning after December 15, 2015. Management is evaluating the impact of this new statement.

**THE LANDIS SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2015 AND 2014**

**NOTE 3 CASH AND CASH EQUIVALENTS**

At December 31, 2015 the carrying amount and bank balance of the Authority's time and demand deposits were \$4,288,086 and \$4,311,612, respectively. All of the time and demand deposits were covered by either federal deposit insurance or by the Governmental Unit Deposit Protection Act (GUDPA).

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. Although the Authority does not have a formal policy regarding custodial credit risk, as described in Note 2, N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act. Under the Act, the first \$250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). The Authority's public funds in excess of the FDIC insured amounts are protected by GUDPA. As of December 31, 2015, \$250,000 of the Authority's bank balance of \$4,311,612 was insured and \$4,061,612 was uninsured and collateralized.

At December 31, 2015 the Authority had \$3,566,827 invested in the New Jersey Cash Management Fund ("the Fund") which is not covered by either federal deposit insurance or by GUDPA. The Fund is governed by regulations of the State Investment Council, who prescribe standards designed to insure the quality of investments in order to minimize risk to the Funds participants. Deposits with the New Jersey Cash Management Fund are not subject to custodial credit risk as defined above.

**NOTE 4 INVESTMENTS**

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority, and are held by either the counterparty or the counterparty's trust department or agent but not in the Authority's name. All of the Authority's \$2,775,535 investments are held in the name of the counterparty, as trustee for the Authority, not in the name of the Authority.

Interest Rate Risk- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. N.J.S.A. 40A:5-15.1 limits the investments that the Authority may purchase in order to limit the exposure of governmental units to credit risk. The Authority's Cash Management Plan also limits its investment choices to those permitted by N.J.S.A. 40A:5-15.1.

Concentration of Credit Risk – The Authority does not place a limit on the amount that may be invested in any one issuer.

**THE LANDIS SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014**

**NOTE 4 INVESTMENTS (CONTINUED)**

As of December 31, 2015, the Authority had the following investments and maturities:

	<u>Quality/Rating</u>		<u>Total Fair Value</u>	<u>Maturities (in Years)</u>		
				<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>
	AA	\$	222,154			
	Aaa		321,222			
	Aa2		1,068,165			
	A3		910,719			
	Baa1		253,275			
		\$	<u>2,775,535</u>			
Total Investments		\$	<u>2,775,535</u>	\$ -	\$ <u>2,553,381</u>	\$ <u>222,154</u>

As of December 31, 2014, the Authority had the following investments and maturities:

	<u>Quality/Rating</u>		<u>Total Fair Value</u>	<u>Maturities (in Years)</u>		
				<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>
	AA	\$	334,719			
	Aaa		327,759			
	Aa2		1,088,398			
	A2		977,291			
	A3		255,010			
		\$	<u>2,983,177</u>			
Total Investments		\$	<u>2,983,177</u>	\$ -	\$ <u>2,648,458</u>	\$ <u>334,719</u>

**THE LANDIS SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2015 AND 2014**

**NOTE 5 PROPERTY, PLANT AND EQUIPMENT**

Capital asset activity for the year ended December 31, 2015 was as follows:

	Balance January 1, 2015	Additions	Reductions	Balance December 31, 2015
Non-Depreciable Capital Assets:				
Land	\$ 1,970,917	\$ 13,361	\$	\$ 1,984,278
Construction in Progress	107,725	168,154	73,681	202,198
Total Non-Depreciable Capital Assets	<u>2,078,642</u>	<u>181,515</u>	<u>73,681</u>	<u>2,186,476</u>
Depreciable Capital Assets:				
Treatment Plant and Pumping Stations	59,237,877	101,609		59,339,486
Mains and Accessories	34,032,813	106,564		34,139,377
Machinery and Equipment	13,264,495	74,033		13,338,528
Office Furniture and Fixtures	452,640	9,941		462,581
Total Depreciable Capital Assets	<u>106,987,825</u>	<u>292,147</u>	<u>-</u>	<u>107,279,972</u>
Less Accumulated Depreciation for:				
Treatment Plant and Pumping Stations	31,675,077	1,370,896		33,045,973
Mains and Accessories	10,463,267	483,103		10,946,370
Machinery and Equipment	10,192,112	120,501		10,312,613
Office Furniture and Fixtures	436,115	6,129		442,244
Total Accumulated Depreciation	<u>52,766,571</u>	<u>1,980,629</u>	<u>-</u>	<u>54,747,200</u>
Depreciable Capital Assets, Net	<u>54,221,254</u>	<u>(1,688,482)</u>	<u>-</u>	<u>52,532,772</u>
Total Capital Assets, Net	<u>\$ 56,299,896</u>	<u>\$ (1,506,967)</u>	<u>\$ 73,681</u>	<u>\$ 54,719,248</u>

**NOTE 7 PENSIONS**

Substantially all of the Authority's employees participate in the Public Employees' Retirement System (the System) which is administered and/or regulated by the New Jersey Division of Pensions and Benefits. The System's Board of Trustees is primarily responsible for the administration of the System.

The State of New Jersey, Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about PERS, please refer to Division's Comprehensive Annual Financial Report (CAFR) which can be found at:

State of New Jersey  
Division of Pensions and Benefits  
P.O. Box 295  
Trenton, New Jersey 08625-0295  
<http://www.state.nj.us/treasury/pensions>



**THE LANDIS SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2015 AND 2014**

**NOTE 7 PENSIONS (CONTINUED)**

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS. The following represents the membership tiers for PERS:

**Tier Definition**

- 1 Members who were enrolled prior to July 1, 2007
- 2 Members who were eligible to enroll on or after July 1, 2007 and prior to November 2, 2008
- 3 Members who were eligible to enroll on or after November 2, 2008 and prior to May 22, 2010
- 4 Members who were eligible to enroll on or after May 22, 2010 and prior to June 28, 2011
- 5 Members who were eligible to enroll on or after June 28, 2011

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 before age 62 with 25 or more years of service credit and tier 5 with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

The contribution policy for PERS is set by N.J.S.A. 15A and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid. For fiscal year 2015 and 2014, the State's pension contribution was less than the actuarial determined amount. The local employers' contribution amounts are based on an actuarially determined rate which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

**THE LANDIS SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014**

**NOTE 7 PENSIONS (CONTINUED)**

Covered Authority employees are required to contribute a percentage of their salary toward their pension benefits. P.L. 2011, c78, effective June 28, 2011, increased the active member contribution rate from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in July 2012. Employee contributions were \$219,734, \$204,490 and \$203,050 for the years ended December 31, 2015, 2014, and 2013, respectively. The payroll subject to pension for the Authority's employees covered by PERS was \$3,126,640, \$2,940,410 and \$3,026,210 for the years ended December 31, 2015, 2014 and 2013, respectively.

The Authority is required by statute to contribute to the employee's pension benefits based on an annual actuarial calculation. The valuation is a determination of the financial condition of the retirement system. The Authority's required annual contributions to the PERS were \$373,045, \$364,338 and \$330,654 for the years ended December 31, 2015, 2014, and 2013, respectively, and is included in the accompanying financial statements. The percentage of employer's contribution rate as a percentage of covered payroll for 2015, 2014 and 2013 was 11.93%, 12.39% and 10.93%, respectively.

At December 31, 2015, the Authority reported a liability of \$9,740,378 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. At June 30, 2015, the Authority's proportion was 0.0433908573%, which was an increase of 0.000804239% from its proportion measured as of June 30, 2014.

At December 31, 2015 and 2014, respectively, the Authority reported deferred outflows and deferred inflows of resources related to pensions from the following sources:

	2015		2014	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 232,371	\$	\$	\$
Changes of Assumptions	1,046,039		260,196	
Net Difference Between Projected and Actual Earnings on Pension Plan Investments		156,607		493,117
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions	41,043	127,749	50,288	
Authority Contributions Subsequent to the Measurement Date	186,523		186,523	
<b>Total</b>	<b>\$ 1,505,976</b>	<b>\$ 284,356</b>	<b>\$ 497,007</b>	<b>\$ 493,117</b>

**THE LANDIS SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014**

**NOTE 7 PENSIONS (CONTINUED)**

The Authority will amortize the above other deferred outflow of resources and deferred inflows of resources related to pensions over the following number of years:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between Expected and Actual Experience		
Year of Pension Plan Deferral:		
June 30, 2014	-	-
June 30, 2015	5.72	-
Changes of Assumptions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	-
June 30, 2015	5.72	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments		
Year of Pension Plan Deferral:		
June 30, 2014	-	5.00
June 30, 2015	-	5.00
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	6.44
June 30, 2015	5.72	5.72

Deferred outflows of resources related to pensions in the amount of \$186,523 will be included as a reduction of the net pension liability in the year ended December 31, 2016. 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 Ending December 31:	
2016	\$ 186,713
2017	186,713
2018	186,712
2019	309,991
Thereafter	<u>164,968</u>
	<u>\$ 1,035,097</u>

**THE LANDIS SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014**

**NOTE 7 PENSIONS (CONTINUED)**

**Actuarial Assumptions**

The total pension liability for the June 30, 2015 and 2014 measurement dates were determined by actuarial valuations as of July 1, 2014 and 2013, respectively, which were rolled forward to June 30, 2015 and 2014, respectively.

These actuarial valuations used the following actuarial assumptions, applied to all periods in the measurement.

	<u>2015</u>	<u>2014</u>
Inflation Rate	3.04%	3.01%
Salary Increases:		
2012-2021	2.15% - 4.40% Based on Age	2.15% - 4.40% Based on Age
Thereafter	3.15% - 5.40% Based on Age	3.15% - 5.40% Based on Age
Investment Rate of Return	7.90%	7.90%
Mortality Rate Table	RP-2000	RP-2000
Period of Actuarial Experience:		
Study upon which Actuarial Assumptions were Based	July 1, 2008 – June 30, 2011	July 1, 2008 – June 30, 2011

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirement and beneficiaries of former members with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA.

In accordance with State statute, the long-term expected rate of return on plan investments (7.90% at June 30, 2015 and 2014) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pension and Benefits, the board of trustees and the actuaries.

**THE LANDIS SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014**

**NOTE 7 PENSIONS (CONTINUED)**

**Actuarial Assumptions (Continued)**

Best estimates of arithmetic real rates of returns for each major asset class included in PERS's target asset allocation as of June 30, 2015 and 2014 are summarized in the following table:

<u>Asset Class</u>	<u>2015</u>		<u>2014</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	1.04%	6.00%	.80%
Core Bonds	-	-	1.00%	2.49%
U.S. Treasuries	1.75%	1.64%	-	-
Intermediate-Term Bonds	-	-	11.20%	2.26%
Investment Grade Credit	10.00%	1.79%	-	-
Mortgages	2.10%	1.62%	2.50%	2.17%
High Yield Bonds	2.00%	4.03%	5.50%	4.82%
Inflation-Indexed Bonds	1.50%	3.25%	2.50%	3.51%
Broad US Equities	27.25%	8.52%	25.90%	8.22%
Developed Foreign Equities	12.00%	6.88%	12.70%	8.12%
Emerging Market Equities	6.40%	10.00%	6.50%	9.91%
Private Equity	9.25%	12.41%	8.25%	13.02%
Hedge Funds / Absolute Return	12.00%	4.72%	12.25%	4.92%
Real Estate (Property)	2.00%	6.83%	3.20%	5.80%
Commodities	1.00%	5.32%	2.50%	5.35%
Global Debt ex US	3.50%	-0.40%	-	-
REIT	4.25%	5.12%	-	-
	<u>100.00%</u>		<u>100.00%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability was 4.90% and 5.39% as of June 30, 2015 and 2014, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.90%, and a municipal bond rate of 3.80% and 4.29% as of June 30, 2015 and 2014, 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 LANDIS SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014**

**NOTE 7 PENSIONS (CONTINUED)**

**Discount Rate (Continued)**

The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of 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 2033.

Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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

The following presents the Authority's proportionate share of the net pension liability at June 30, 2015 and 2014, respectively, calculated using the discount rate as disclosed above, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rates used:

	<b>2015</b>		
	At 1% decrease (3.90%)	At current discount rate (4.90%)	At 1% increase (5.90%)
Authority's Proportionate Share of the Net Pension Liability	\$ <u>12,106,098</u>	\$ <u>9,740,378</u>	\$ <u>7,756,975</u>
	<b>2014</b>		
	At 1% decrease (4.39%)	At current discount rate (5.39%)	At 1% increase (6.39%)
Authority's Proportionate Share of the Net Pension Liability	\$ <u>10,409,641</u>	\$ <u>8,274,531</u>	\$ <u>6,481,581</u>

**NOTE 7 LONG-TERM LIABILITIES**

A. Bond Payable

In April 1993, the Authority issued its Sewer Revenue Bonds (Refunding Series 1993), in the principal amount of \$22,940,000. The proceeds derived from the issuance and sale of the Bonds were used to (a) advance refund the Authority's Sewer Revenue Bonds (Series 1976) then outstanding in the aggregate principal amount of \$5,200,000 and the Authority's second lien Sewer Revenue Bonds (Series 1989), then outstanding in the aggregate principal amount of \$15,855,000, (b) make a deposit into the Bond Reserve Fund established under the Resolution and (c) pay the premium for the municipal bond insurance policy and the costs and expenses incidental to the authorization, issuance and delivery of the Bonds. The outstanding balance of the Series 1993 Bonds consists of \$2,250,000 of Short-Term Auction Rate Securities – Series 1993B, and \$2,225,000 of Complimentary Auction Rate Securities – Series 1993C, which are term bonds with a maturity date of September 19, 2019, bearing interest at a combined or linked coupon rate of 5.65% per annum. The term bonds are subject to mandatory redemption in annual amounts ranging from \$1,000,000 to \$1,200,000.

**THE LANDIS SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2015 AND 2014**

**NOTE 7 LONG-TERM LIABILITIES**

Compensated Absences

Current policy allows employees who retire from the Authority via PERS to be reimbursed for fifty percent (50%) of accrued sick leave up to a maximum of \$10,000, calculated at the then current rate. Employees may carry vacation time into the subsequent year; however, the time must be used within the first 90 days of the subsequent year.

The following is a summary of changes in long-term liabilities for the year ended December 31, 2015:

<u>Type of Debt</u>	<u>Balance</u> <u>January 1, 2015</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>December 31, 2015</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Bonds Payable:					
Term Bonds	\$ 5,500,000	\$	\$ 1,000,000	\$ 4,500,000	\$ 1,000,000
Less:					
Unamortized Original Discount	( 4,027)	_____	( 1,389)	( 2,638)	_____ -
Total Bonds Payable	5,495,973		998,611	4,497,362	1,000,000
Accrued Compensated Absences	340,645	4,595	_____	345,240	_____ -
Accrued Liability Pension	186,523	_____	_____	186,523	_____ -
Net Pension Liability	8,274,531	1,465,847	_____	9,740,378	_____ -
Total Long-Term Liabilities	<u>\$ 14,297,672</u>	<u>\$ 1,470,442</u>	<u>\$ 998,611</u>	<u>\$ 14,769,503</u>	<u>\$ 1,000,000</u>

The annual debt service requirements to maturity, including principal and interest, for term bonds payable as of December 31, 2015 are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	1,000,000	268,182	1,268,182
2017	1,100,000	189,623	1,289,623
2018	1,200,000	130,027	1,330,027
2019	1,200,000	71,515	1,271,515
Total	<u>\$ 4,500,000</u>	<u>\$ 659,347</u>	<u>\$ 5,159,347</u>
Less:			
Unamortized Original Issue Discount	(2,638)		
	<u>\$ 4,497,362</u>		

**THE LANDIS SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2015 AND 2014**

**NOTE 8 COMMITMENTS AND CONTINGENCIES**

Commitments:

As of December 31, 2015, the Authority has entered into various commitments for construction related professional services and construction contracts in the amount of \$341,143. Costs incurred to December 31, 2015 totaled \$120,861.

Contingencies:

The Authority is contesting the amount of certain permit fees assessed by the New Jersey Department of Environmental Protection (NJDEP) for the years 2014 and 2015. The amounts being contested are \$75,539 for 2014 and \$17,520 for 2015 which have not been recorded in the Authority's financial statements. The ultimate resolution of this matter is unknown as of the date of the financial statements.

**NOTE 9 AMOUNTS REQUIRED BY BOND RESOLUTION**

The following cash and investment accounts are required by the 1993 Bond Resolution:

	<u>Operating Fund</u>	<u>Bond Service Fund</u>	<u>Sinking Fund</u>	<u>Bond Reserve Fund</u>
Cash and Investments	\$ 1,394,139	\$ 34,675	\$ 333,510	\$ 1,911,890
Required Amount	<u>1,393,167</u>	<u>29,802</u>	<u>250,000</u>	<u>1,330,027</u>
Excess	\$ <u>969</u>	\$ <u>4,873</u>	\$ <u>83,510</u>	\$ <u>581,863</u>

**NOTE 10 INTEREST EXPENSE**

	<u>2015</u>	<u>2014</u>
Interest on Bonds	\$ 294,124	\$ 348,086
Amortization of Deferred Amount on Refunding	<u>35,764</u>	<u>40,119</u>
Total Interest Expense	\$ <u>329,888</u>	\$ <u>388,205</u>

**NOTE 11 ACCOUNTS RECEIVABLE**

Accounts receivable consists of user charges and fees due the Authority as follows:

	<u>2015</u>	<u>2014</u>
Accounts Receivable	\$ 1,152,363	\$ 1,381,800
Municipal Liens Receivable	21,900	21,900
Interest Receivable on	119,096	126,892
Due from Bank	<u>15</u>	<u>15</u>
	\$ <u>1,293,374</u>	\$ <u>1,530,607</u>



**THE LANDIS SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014**

**NOTE 12 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. The Authority purchases commercial insurance for risks of loss. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 13 UNRESTRICTED NET POSITION**

The balance of the Authority's unrestricted net position (deficit) as of December 31, 2015 and 2014 is \$(5,630,328) and \$(5,796,086), respectively is comprised of the following:

	2015	2014
Amount Related to Pensions (GASB 68 and 71)	\$ (9,078,326)	\$ (8,821,502)
Undesignated before GASB 68 and 71 Pension Related Items	3,447,998	3,025,416
	\$ (5,630,328)	\$ (5,796,086)

All of the unrestricted net position as of December 31, 2015 and 2014 is undesignated.

**NOTE 14 RESTRICTED NET POSITION**

The Authority has restricted net position for the following purposes in accordance with the requirements of its Bond Resolution.

	2015	2014
Debt Service	\$ 567,568	\$ 531,035
Operating	1,393,170	1,347,500
Renewal and Replacement	500,000	600,000

**NOTE 15 COMPLIANCE WITH THE AUTHORITY'S BOND RESOLUTION**

Section 610 of the Authority's Series 1993 Bond Resolution requires that the Authority make, impose, charge and collect Revenues, as defined in the Resolution, in an amount which will be at least sufficient (a) to provide in each fiscal year an amount at least equal to the Operating Fund Requirement, (b) to provide in each fiscal year an amount which is equal to 110% of the Bond Service Requirement, (c) to provide in each fiscal year the amount, if any, which is needed so that the amount which is on deposit in the Bond Reserve Fund will equal the Bond Reserve Requirement, (d) to provide in each fiscal year the amount, if any, which is needed so that the amount which is on deposit in the Renewal and Replacement Fund will equal the System Reserve Requirement, (e) to provide for the payment of all other charges or liens which are related to the System whatsoever which are payable by the Authority out of such rents, fees and charges during such fiscal year, and (f) to provide in such fiscal year for payment of any additional amounts which are necessary to comply with the provisions of this Resolution and all other statutory and legal obligations of the Authority.

Revenues for the year 2015, as defined in the Authority's Bond Resolution, were greater than the amount necessary to meet those provisions and therefore the Authority met the rate covenant contained in Section 610 of the Authority's Bond Resolution.

**THE LANDIS SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014**

**NOTE 16 LEASE AGREEMENT WITH RELATED ENTITY**

On April 3, 2009, the Authority entered into a lease agreement with the City of Vineland (“City”) to lease 15.87 acres of land owned by the Authority to the City, who then sublet the land to Conectiv Vineland Solar, LLC, for the purpose of constructing and operating a solar photovoltaic electric generating facility. The term of the lease shall end on the date the City’s Power Purchase and Sale Agreement with Conectiv Vineland Solar, LLC ends, or such date the City and the Authority may agree upon. The maximum term shall not exceed thirty (30) years without written approval of the Authority. The Authority will receive a percentage of the City’s savings from the solar energy delivered both on a monthly and annual basis during the term of the agreement. As described in Note 2A, the Authority is a related organization to the City of Vineland, but not a Component Unit of the City.

**NOTE 17 RESTATEMENT OF PRIOR PERIOD NET POSITION**

As indicated in Note 2R to the financial statements, the Authority adopted GASB Statement 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, for the fiscal year ended December 31, 2015. As a result of implementing these two Statements, a restatement of the January 1, 2014 unrestricted net position was required to record the Authority’s proportionate share of its net pension liability.

The cumulative effect on the financial statements as reported as of January 1, 2014, is as follows:

	Net Position As Previously Reported January 1, 2014	GASB 68 and 71 Implementation			Net Position As Restated January 1, 2014
		Deferred Outflows	Accounts Payable and Accrued Expenses	Net Pension Liability	
Net Investment in Capital Assets	\$ 51,228,072	\$	\$	\$	\$ 51,228,072
Restricted	2,499,473				2,499,473
Unrestricted	<u>2,287,728</u>	<u>182,169</u>	<u>(347,496)</u>	<u>(8,387,029)</u>	<u>(6,264,628)</u>
	<u>\$ 56,015,273</u>	<u>\$ 182,169</u>	<u>\$ (347,496)</u>	<u>\$ (8,387,029)</u>	<u>\$ 47,462,917</u>

**THE LANDIS SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2015 AND 2014**

**NOTE 17 RESTATEMENT OF PRIOR PERIOD NET POSITION (CONTINUED)**

Reconciliation of the 2014 amounts as previously reported to the total restated amounts:

**Summary Statement of Net Position**

	2014 Amounts as Previously Reported	Adjustments	2014 Amounts as Restated
<b>Assets</b>			
Current Assets	\$ 9,341,538	\$ -	\$ 9,341,538
Noncurrent Assets	59,283,073		59,283,073
Total Assets	68,624,611	-	68,624,611
<b>Deferred Outflows of Resources</b>			
Deferred Loss on Defeasance of Debt	99,600		99,600
Deferred Amount Relating to Pensions		497,007	497,007
Total Deferred Outflow s of Resources	99,600	497,007	596,607
<b>Liabilities</b>			
Current Liabilities	2,059,659	182,354	2,242,013
Noncurrent Liabilities	4,836,618	8,461,054	13,297,672
Total Liabilities	6,896,277	8,643,408	15,539,685
<b>Deferred Inflows of Resources</b>			
Deferred User Charge Revenue	3,322,547		3,322,547
Deferred Connection Fees Revenue	1,144,066		1,144,066
Deferred Amount Relating to Pensions		493,117	493,117
Total Deferred Inflow s of Resources	4,466,613	493,117	4,959,730
<b>Net Position</b>			
Net Investment in Capital Assets	52,039,354		52,039,354
Restricted	2,478,535		2,478,535
Unrestricted	2,843,432	(8,639,518)	(5,796,086)
Total Net Position	\$ 57,361,321	\$ (8,639,518)	\$ 48,721,803

**THE LANDIS SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2015 AND 2014**

**NOTE 17 RESTATEMENT OF PRIOR PERIOD NET POSITION (CONTINUED)**

Summary of Revenues, Expenses and Changes in Net Position

	2014 Amounts as Previously Reported	Adjustments	2014 Amounts as Restated
Operating Revenues	\$ 10,034,213	\$ -	\$ 10,034,213
Operating Expenses	(9,956,896)	(87,162)	(10,044,058)
Non-Operating Expenses	(54,333)		(54,333)
Income Before Contributions	22,984	(87,162)	(64,178)
Capital Contributions	1,323,064		1,323,064
Change in Net Position	1,346,048	(87,162)	1,258,886
Net Position January 1,	56,015,273	(8,552,356)	47,462,917
Net Position December 31,	<u>\$ 57,361,321</u>	<u>\$ (8,639,518)</u>	<u>\$ 48,721,803</u>

**NOTE 18 RECLASSIFICATIONS**

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements. The reclassifications have no effect on the Authority's prior year net position or change in net position.

**NOTE 19 SUBSEQUENT EVENTS**

On August 11, 2016, the Authority issued its Sewer System Revenue Bonds, Series 2016 in the amount of \$25,000,000 maturing in December of 2046 at a fixed interest rate of 3.95%. Interest will be capitalized for the first three (3) years and five (5) months. The purpose of the bonds is to finance various capital improvements to the Authority's wastewater treatment plant, pumping stations, and collection system as well as the acquisition of various pieces of equipment, including related soft costs and capitalized interest.

The Authority's largest industrial customer announced in 2016 it plans to close its plant in the summer of 2017. The revenues derived from this customer's user charges, including surcharge fees in 2015 were approximately \$710,000. In 2015 this represented approximately seven percent (7%) of the Authority's user charge fees. Management is evaluating the impact to the Authority's revenues, rate structure and operations should this occur as announced.

**REQUIRED SUPPLEMENTARY INFORMATION  
PART II**

**THE LANDIS SEWERAGE AUTHORITY  
REQUIRED SUPPLEMENTARY INFORMATION - PART II  
SCHEDULES OF PROPORTIONATE SHARE, EMPLOYER CONTRIBUTIONS AND NOTES  
STATE OF NEW JERSEY PUBLIC EMPLOYEES' RETIREMENT SYSTEM (PERS)**

**Schedule of Proportionate Share of Net Pension Liability at June 30 (measurement date)**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Authority's Proportion of the Net Pension Liability	0.0433908573%	0.0441950963%	0.0438836049%
Authority's Proportionate Share of the Net Pension Liability	\$ 9,740,378	\$ 8,274,531	\$ 8,387,029
Authority's Covered-Employee Payroll	\$ 2,863,016	\$ 3,056,348	\$ 3,014,168
Authority's Proportionate Share of the Net Pension Liability as a Percentage of it's Covered-Employee Payroll	340.21%	270.73%	278.25%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	47.93%	52.08%	48.72%

**Schedule of Employer Contributions**

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Contractually Required Contribution	\$ 373,045	\$ 364,338	\$ 330,654
Contributions in Relation to the Contractually Required Contribution	<u>(373,045)</u>	<u>(364,338)</u>	<u>(330,654)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's Covered-Employee Payroll	\$ 3,126,640	\$ 2,940,410	\$ 3,026,210
Contributions as a Percentage of Authority's Covered-Employee Payroll	11.93%	12.39%	10.93%

**Notes**

- Changes in Benefit Terms* - There were no significant changes in benefits for the July 1, 2014 and 2013 actuarial valuation.
- Changes in Assumptions* - The discount rate changed from 5.55% as of June 30, 2013, to 5.39% as of June 30, 2014, and to 4.90% as of June 30, 2015 in accordance with Paragraph 44 of GASB Statement No. 67.
- Schedule Presentation* - These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

## **SUPPLEMENTARY INFORMATION**

**THE LANDIS SEWERAGE AUTHORITY**  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION-**  
**NET INVESTMENT IN CAPITAL ASSETS, RESTRICTED AND UNRESTRICTED**  
**YEAR ENDED DECEMBER 31, 2015**  
**WITH COMPARATIVE TOTALS FOR 2014**

NET INVESTMENT IN CAPITAL ASSETS	UNRESTRICTED		RESTRICTED				TOTAL	
	UNDESIGNATED	DESIGNATED	DEBT SERVICE	CONSTRUCTION	RENEWAL AND REPLACEMENT	OPERATING	2015 (MEMO)	2014 (Restated) (MEMO)
<b>OPERATING REVENUE:</b>								
User Charges and Fees	\$ 10,098,336	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,098,336	\$ 9,910,502
Connection Fees	118,222						118,222	187,589
Other	176,750						176,750	123,711
	<u>10,393,308</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,393,308</u>	<u>10,221,802</u>
<b>OPERATING EXPENSES:</b>								
Cost of Providing Services	6,582,635						6,582,635	6,098,624
Administrative and General	1,957,798						1,957,798	1,820,005
Depreciation	2,148,848						2,148,848	2,125,429
	<u>10,689,281</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,689,281</u>	<u>10,044,058</u>
<b>OPERATING INCOME (LOSS)</b>	<u>(295,973)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(295,973)</u>	<u>177,744</u>
<b>NON-OPERATING REVENUE (EXPENSES):</b>								
Miscellaneous Income	9,718						9,718	7,234
Interest Income	31,737		92,481	13,090			137,308	148,045
Interest Expense	(329,888)						(329,888)	(388,205)
Appropriation to City of Vineland	-						-	(50,000)
Increase (Decrease) in Fair Value of Investments	(97,136)						(97,136)	41,004
Gain (Loss) on Disposal of Capital Asset	6,683						6,683	
	<u>(378,886)</u>	<u>-</u>	<u>92,481</u>	<u>13,090</u>	<u>-</u>	<u>-</u>	<u>(273,315)</u>	<u>(241,922)</u>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<u>(674,859)</u>	<u>-</u>	<u>92,481</u>	<u>13,090</u>	<u>-</u>	<u>-</u>	<u>(569,288)</u>	<u>(64,178)</u>
<b>CAPITAL CONTRIBUTIONS</b>		60,000					60,000	1,323,064
<b>TRANSFERS AND ADJUSTMENTS:</b>								
Interest Income		105,571	(92,481)	(13,090)			-	-
Other Transfers	(657,249)	675,046	36,533		(100,000)	45,670	-	-
<b>INCREASE (DECREASE) IN NET POSITION</b>	<u>(657,249)</u>	<u>165,758</u>	<u>-</u>	<u>36,533</u>	<u>-</u>	<u>(100,000)</u>	<u>45,670</u>	<u>1,258,886</u>
<b>NET POSITION - JANUARY 1,</b>	52,039,354	(5,796,086)	-	531,035	-	600,000	1,347,500	48,721,803
<b>CUMULATIVE EFFECT OF CHANGE IN AN ACCOUNTING PRINCIPLE</b>								(8,552,356)
<b>NET POSITION - JANUARY 1, (AS RESTATED)</b>	52,039,354	(5,796,086)	-	531,035	-	600,000	1,347,500	47,462,917
<b>NET POSITION - DECEMBER 31,</b>	<u>\$ 51,382,105</u>	<u>\$ (5,630,328)</u>	<u>\$ -</u>	<u>\$ 567,568</u>	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ 1,393,170</u>	<u>\$ 48,212,515</u>
<b>UNRESTRICTED NET POSITION (DEFICIT)- UNDESIGNATED-</b>								
Related to Pensions (GASB 68 and 71)		(9,078,326)						
Before GASB 68 and 71 Pension Related Items		3,447,998						
		<u>\$ (5,630,328)</u>						



**THE LANDIS SEWERAGE AUTHORITY**  
**SCHEDULE OF REVENUES AND COSTS FUNDED BY**  
**REVENUES COMPARED TO BUDGET - BUDGETARY BASIS**  
**YEAR ENDED DECEMBER 31, 2015**  
**WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014**

	<b>2015 BUDGET</b>	<b>2015 ACTUAL</b>	<b>2014 ACTUAL (Restated)</b>
<b>REVENUE:</b>			
User Charges and Fees	\$ 9,352,000	\$ 10,098,336	\$ 9,910,502
Connection and Lateral Fees	30,000	118,222	187,589
Other Revenue	150,000	186,468	130,945
Interest Income	218,000	137,308	148,045
<b>Total Revenue</b>	<b>9,750,000</b>	<b>10,540,334</b>	<b>10,377,081</b>
<b>EXPENSES:</b>			
Cost of Providing Services:			
Salaries - Supervision	1,060,000	1,117,045	1,002,216
Salaries and Wages	1,701,000	1,863,326	1,773,060
Employee Benefits	1,380,800	1,269,682	1,408,276
Payroll Taxes	227,400	228,745	217,611
Utilities and Telephone	893,000	984,068	782,836
Miscellaneous Materials and Supplies	184,000	160,964	115,769
Repairs and Maintenance	224,000	222,289	159,040
Laboratory Testing	23,000	24,805	21,671
Grit and Grease Disposal	6,000	7,823	20,639
Mobile Equipment Expense	120,500	131,786	116,700
Chemicals	232,000	206,159	188,263
Industrial Pretreatment	16,000	13,632	14,007
Farm Supplies, Maintenance and Utilities	170,000	159,425	200,532
	<b>6,237,700</b>	<b>6,389,749</b>	<b>6,020,620</b>
Administrative and General Expenses:			
Salaries and Wages	915,000	856,518	831,458
Employee Benefits	369,000	388,344	328,441
Payroll Taxes	73,800	71,623	63,018
Professional Services	178,400	199,760	213,947
Insurance	162,000	154,073	152,986
Travel	5,000	3,938	4,325
Public Relations	1,000	600	525
City of Vineland - Health Department	4,000		
City of Vineland - Tax Office	7,500	7,500	7,500
Permit Fees	65,000	61,279	48,483
Miscellaneous Expense	57,500	63,447	57,258
Office Expenses	83,100	77,873	77,363
Chairman's Expenses	5,000	4,920	4,700
Household Hazardous Waste Clean-Up Day	4,000	4,000	4,000
	<b>1,930,300</b>	<b>1,893,875</b>	<b>1,794,004</b>
Interest Expense	264,600	294,124	348,086

(Continued)

**THE LANDIS SEWERAGE AUTHORITY**  
**SCHEDULE OF REVENUES AND COSTS FUNDED BY**  
**REVENUES COMPARED TO BUDGET - BUDGETARY BASIS**  
**YEAR ENDED DECEMBER 31, 2015**  
**WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2014**

	<u>2015 BUDGET</u>	<u>2015 ACTUAL</u>	<u>2014 ACTUAL (Restated)</u>
<b>OTHER COSTS FUNDED BY REVENUE:</b>			
Principal Maturities	\$ 1,000,000	\$ 1,000,000	\$ 900,000
Appropriation to City of Vineland			50,000
Debt Service Coverage Requirement	126,400		
Capital Outlays	<u>191,000</u>	<u>108,328</u>	<u>96,020</u>
	<u>1,317,400</u>	<u>1,108,328</u>	<u>1,046,020</u>
<b>TOTAL COSTS FUNDED BY REVENUE</b>	<u>9,750,000</u>	<u>9,686,076</u>	<u>9,208,730</u>
<b>REVENUES OVER COSTS FUNDED BY REVENUES</b>	<u><u>-</u></u>	854,258	1,168,351
<b>Reconciliation of Budgetary Basis to Change in Net Position:</b>			
Adjustments to Budgetary Basis:			
Principal Maturities		1,000,000	900,000
Capital Outlays		108,328	96,020
Depreciation		(2,148,848)	(2,125,429)
Amortization Charged to Interest Expense		(35,764)	(40,119)
Increase (Decrease) in Fair Value of Investments		(97,136)	41,004
Capital Contributions		60,000	1,323,064
Gain on Disposal of Capital Asset		6,683	-
Pension Expense - Difference of GAAP vs. Budgetary Basis		<u>(256,809)</u>	<u>(104,005)</u>
<b>CHANGE IN NET POSITION PER EXHIBIT B</b>		<u><u>\$ (509,288)</u></u>	<u><u>\$ 1,258,886</u></u>

**THE LANDIS SEWERAGE AUTHORITY  
SCHEDULE OF TERM BONDS PAYABLE  
DECEMBER 31, 2015**

DESCRIPTION	ORIGINAL ISSUE	DATE OF ISSUE	MATURITIES		INTEREST RATE	BALANCE JANUARY 1, 2015	ISSUED 2015	PRINCIPAL PAID 2015	BALANCE DECEMBER 31, 2015	
			DATE	AMOUNT						
Short Term Auction Rate Securities-Series 1993-B	(2)	\$ 6,500,000	4/1/93	9/19/2019	\$ 6,500,000	VARIOUS (1)	\$ 2,750,000	\$ 500,000	\$ 2,250,000	
Complimentary Auction Rate Securities-Series 1993-C	(2)	6,500,000	4/1/93	9/19/2019	6,500,000	VARIOUS (1)	2,750,000	500,000	2,250,000	
							<u>\$ 5,500,000</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ 4,500,000</u>

(1) The combined rate or Linked Coupon Rate is 5.65% which is the rate the Authority pays, even though the rates for each of these Securities can change at each Auction Date.

(2) The Short Term Auction Rate Securities and the Complimentary Auction Rate Securities are subject to mandatory redemption through October 1, 2019 at 100% of the principal amounts established as follows:

Year	Principal Amount of Short Term Auction Rate Securities	Principal Amount of Complimentary Auction Rate Securities
2016	500,000	500,000
2017	550,000	550,000
2018	600,000	600,000
2019	600,000	600,000
	<u>\$ 2,250,000</u>	<u>\$ 2,250,000</u>

**THE LANDIS SEWERAGE AUTHORITY  
FINDINGS AND RECOMMENDATIONS  
YEAR ENDED DECEMBER 31, 2015**

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards* and with audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

**None Noted**

**THE LANDIS SEWERAGE AUTHORITY  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
YEAR ENDED DECEMBER 31, 2015**

This section identifies the status of prior year findings related to the financial statements that are required to be reported in accordance with *Government Auditing Standards* and with audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

**None Noted**

**THE LANDIS SEWERAGE AUTHORITY  
ROSTER OF OFFICIALS**

<u>Authority Members</u>	<u>Position</u>	<u>Amount of Surety Bond</u>
Thomas J. Merighi, Jr.	Chairman	\$ 10,000
Carlos E. Villar	Vice Chairman	10,000
G. Steven Errickson	Secretary	10,000
Joseph J. Reuben	Treasurer	10,000
Perry D. Barse	Assistant Secretary/Treasurer	10,000

Other Officials

A. Steven Fabietti	Solicitor	
Dennis W. Palmer	Executive Director/Chief Engineer	10,000
David R. Kotok	Financial Advisor	

Surety Companies

Selective Insurance Company of America