

Financial Statements

Essex Regional Health Commission

December 31, 2016

**ESSEX REGIONAL HEALTH COMMISSION
AUDIT REPORT
DECEMBER 31, 2016**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Essex Regional Health Commission
Livingston, NJ 07039

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities of Essex Regional Health Commission (Essex), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Essex's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe 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 respective financial position of the governmental activities of Essex, as of December 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3-6 and 15-21 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 Essex's basic financial statements. The Schedule of Expenditures of Federal and State Financial Awards is presented for purposes of additional analysis and are not a required part of the basic financial statements by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards 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 February 28, 2017 on our consideration of Essex's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Essex's internal control over financial reporting and compliance.



DeSena & Company

East Hanover, New Jersey
February 28, 2017

ESSEX REGIONAL HEALTH COMMISSION

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www.essexregional.org

Managements Discussion and Analysis Report

The purpose of this statement is to provide management's perspective on the status and fiscal viability of the Commission. It should be read in conjunction with the full text of the annual audit report.

Authority

The Commission is a duly authorized governmental agency established and operating under NJSA 26:3-83et.seq. It is governed by a Board of Commissioners which under NJSA 26:3-92 has the functional authority of a local board of health, including legislative powers to adopt ordinances. The Commission's regional ordinances are applicable to all member municipalities and are enforced by the court of local jurisdiction.

Board of Commissioners

Thirteen of the twenty two municipalities of Essex County are represented by a Commissioner having a single vote. As a public body, the Board meets on a regular basis to set Commission policy, take legislative actions, adopt and/or amend an annual budget and take other appropriate actions. All meetings are duly advertised in accordance with the NJ Open Public Meetings Act.

Management-Staffing

The Commission's Executive Director functions as both the CEO and has full responsibility for the day to day operation of the agency.

The Commission staff presently comprises ten professional/administrative employees with diverse, education, training, and experience in public/environmental health.

Programs and Services

The Commission is a regulatory agency with jurisdiction in two distinct areas:

Environmental Health
Public Health

Environmental Health Programs include those specified under the County Environmental Health Act (CEHA) (NJSA 263A2-21 et. seq.) and the Air Pollution Control Act (NJSA 26:2C-1 et. seq.)

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Public health services performed pursuant to our designation by the NJDHSS as the "LINCS" Agency for Essex County include a vast array of functions primarily related to bioterrorism preparedness and response to public health emergencies.

The foregoing programs are conducted in conjunction with both local and state agencies and are subject to extensive reporting requirements.

Financial Status and Assessment of Long Term Operational Liability

The Commission's operational model is somewhat more like a business enterprise than a typical governmental agency. While it is in fact a duly authorized governmental agency, it does not exist by statutory mandate; rather, it functions as a discretionary vendor of service to contracting governmental units such as its member municipalities, the County of Essex, NJDEP, NJDOH and the USEPA. Each relationship is subject to termination on a year to year basis; thus, the viability of the Commission is a function of at least two factors: delivery of a quality service and the annual allocation of available resources by contracting units.

The Commission is able to attain certain economies through the regionalization of services. While this enables the Commission to provide cost efficient programs and services, it has the downside of requiring a critical level of participation in order to sustain such efficiencies.

By Statute a regional health commission is authorized to receive funds from any source. Since the late eighties, the Commission has operated a registration/permit system which generates revenue from sources of air pollution throughout the County. In its original form, the system was adopted by ordinance for purposes of generating the revenue level necessary to continue operations as member municipalities were unable to increase, or perhaps even sustain, contributions at levels sufficient to meet basic program needs. At the time, the revenue system was strongly supported by the NJDEP as an appropriate and efficient means of program support.

Prior to 1995, the Commission was able to increase fee levels as additional funds were required. However, in 1995, there was a radical change in sentiment at the State level as to how and to what extent fee based revenue systems should be operated. Ultimately, in 1995, amendments to the NJ Air Pollution Control Act placed statutory limits on the ability of local, county and regional agencies to charge new fees or increase those in place as of June 15, 1995.

Fees are billed on a standard five year cycle and are accounted for as deferred revenue which is amortized against current revenue on an annual basis. Funds not needed for current operations are invested in the NJ Cash Management Fund.

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In addition to the several other sources of revenue reflected in the budget, the Commission maintains a reserve balance which it uses as a separate revenue source to balance the budget. As a general planning guideline, a forward looking projection indicating a reserve balance to be less than the projected gap between appropriations and estimated revenues would indicate a potential structural deficit. This is a key indicator of the Commission's projected fiscal health.

As of 12/31/2016, the Commission's fund balance of the General Fund was \$1,637,272.

Projections and Critical Issues

As referenced in our statement last year, over the past several years the Commission has dramatically increased its scope of activities. In addition to increased demands on our CEHA Program we have been designated as the LINC/S/BT Programs for Essex County. We have become somewhat of a hodgepodge of revenue sources, authority and jurisdictions, but with great and growing responsibility and formidable fiscal vulnerabilities.

If we include each municipality, our operating budget includes over seventeen independent sources of revenue, each to varying degrees vulnerable to abrupt discontinuance. Of these, there several which, if lost, could potentially place our ability to sustain operations in severe jeopardy. Even if all revenue sources remain in place, we are confronting potential issues of under funded contingent liabilities, a capped registration program and a dwindling reserve. Assuming grant funding and registration revenue will either remain constant in nominal dollars, or in fact decrease, increasing reliance would have to be placed upon developing new sources of net revenue or penalty proceeds, both highly problematic.

The Commission is quite unique for reasons beyond its basic organizational structure, which in fact is a consortium of municipalities bound together by a joint agreement to provide specialized public/environmental health programs. As indicated above, this in and of itself is not an entirely stable situation; however, there are two other major factors which clearly do no bode well for the long prospects of term sustainability.

Presently only thirteen of the counties twenty two municipalities are members of the Commission.

The Commission receives no financial support from the County for general operations.

The organizational issues and lack of secure stable sources of revenue discussed in last year's statement are yet to be resolved. Both the NJDHSS and the NJDEP are aware of the problems and issues discussed herein.

ESSEX REGIONAL HEALTH COMMISSION

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Contacting the Commission's Management

This financial report is designed to provide a general overview of the Commission's finances, comply with the finance-related laws and regulations, and demonstrate the Commission's commitment to public accountability. If you have questions about this report or would like to request additional information, contact the Commission's President Louis Anello, at 204 Hillside Avenue, Livingston, NJ 07039.

**ESSEX REGIONAL HEALTH COMMISSION
FUND BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2016**

	General Fund	Penalty Enforcement Activities	Adjustments	Statement of Net Assets
<u>Assets</u>				
Cash	\$ 183,771	\$ 6,142		\$ 189,913
New Jersey Cash Management Fund	2,019,955	115,354		2,135,309
Accounts Receivable Grants & Contracts	304,228			304,228
Accounts Receivable Municipalities	51,714			51,714
Accounts Receivable Fines & Registrations	-	94,020		94,020
Capital Assets Net of Accumulated Depreciation (Note 2)			\$ 42,424	42,424
Total Assets	\$ 2,559,668	\$ 215,516	\$ 42,424	\$ 2,817,608
<u>Liabilities & Reserves</u>				
Accounts Payable	94,228			94,228
Accrued Payroll	6,107			6,107
Payroll Deduction	4,379			4,379
Unexpended Moving Expenses	22,873			22,873
Post Retirement Benefits Reserve	96,192			96,192
Unearned Registrations	674,600			674,600
Unearned MRC Grant	15,913			15,913
I-Pad Service	580			580
Reserve Vacation & Fringe	7,524			7,524
	\$ 922,396			\$ 922,396
Fund Balances/Net Assets Unreserved Reported in General Fund	\$ 1,637,272			
Reserve reported in Penalty Enforcement Fund		\$ 215,516		
Total Liabilities & Fund Balances	\$ 2,559,668	\$ 215,516		
Net Assets:				
Invested in Capital Assets				\$ 42,424
Unrestricted General Fund				1,637,272
Restricted Penalty Enforcement Fund				215,516
Total Net Assets				\$ 1,895,212

See accompanying notes to financial statements.

**ESSEX REGIONAL HEALTH COMMISSION
STATEMENT OF GOVERNMENT FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Environmental Activities</u>	<u>Public Health Activities</u>	<u>Penalty Enforcement Activities</u>	<u>Total</u>	<u>Adjustments Note A</u>	<u>Statement of Activities</u>
Revenues						
Registrations	\$ 492,616					
Municipal	124,403					
County	121,846					
County (105 Grant)	69,428					
Interest	6,042		\$ 414			
Miscellaneous	9					
MRC Grant		\$ 3,065				
NJDHSS/CDC XIV & XV		318,490				
Penalties			2,000			
Training Fee	90					
CHEA Fees - EQEF	88,828					
Total	\$ 903,262	\$ 321,555	\$ 2,414	\$ 1,227,231		\$ 1,227,231
Expenses						
Personnel	\$ 582,758					
Contract	184,387					
Travel	17,077					
Other	16,578		\$ 20			
Equipment	10,146					
NJDHSS/CDC XIII & XIV		\$ 318,490				
Depreciation/Amortization					\$ 10,029	
MRC Grant		3,065				
Total	\$ 810,946	\$ 321,555	\$ 20	\$ 1,132,521	\$ 10,029	\$ 1,142,550
Excess Revenues/Expenditures	\$ 92,316	\$ -	\$ 2,394	\$ 94,710		\$ 84,681
Changes in Fund Balances/Net Assets						
Beginning of Year				1,766,092		1,818,544
Prior Period Adjustment- West Orange				(8,014)		(8,014)
End of Year				<u>\$ 1,852,788</u>		<u>\$ 1,895,211</u>

See accompanying notes to financial statements.

**ESSEX REGIONAL HEALTH COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Cash Flow From Operating Activities:		
Excess of Revenues over Expenditures		\$ 84,681
Adjustments to reconcile Excess of Revenues Over Expenditures to Net Cash Provided by Operating Activities:		
Depreciation/Amortization	\$ 10,029	
Decrease in Receivables	7,475	
Increase in Accounts Payable/Reserves	35,851	
Increase in Accrual & Payroll Deductions	1,590	
Decrease in Prepaid Expenses	4,934	
Increase in Unearned Registration Fees	251,472	
Decrease Unexpended Moving Expenses	<u>(418)</u>	
		<u>310,933</u>
 Net Cash Provided by Operating Activities		 <u>\$ 395,614</u>
 Net Increase in Cash & Cash Equivalents		 \$ 395,614
 Cash - Beginning of Period		 <u>1,929,608</u>
 Cash - End of Period		 <u><u>\$ 2,325,222</u></u>

See accompanying notes to financial statements.

ESSEX REGIONAL HEALTH COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 1

The financial statements of the Commission are prepared in accordance with generally accepted accounting principals (GAAP). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements report using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, ie.,both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the related program liability is incurred.

Note 2

When Capital Assets (equipment) that are to be used in governmental activities are purchased, the cost of those assets are reported as expenditures in government funds. However, the Statement of Net Assets includes those Capital Assets among the assets of the Commission.

Capital Assets have been recorded at cost, and depreciated over their normal useful lives using the straight line method of depreciation:

	Net Balance 12/31/2015	Additions	Net Balance 12/31/2016
Capital Assets	\$ 359,575	-	\$ 359,575
Leasehold Improvement	50,657	-	50,657
	\$ 410,232	-	\$ 410,232
Accumulated Depreciation	(340,048)	(4,963)	(345,011)
Amortization/ Leasehold Improvement	(17,731)	(5,066)	(22,797)
	<u>\$ 52,453</u>	<u>\$ (10,029)</u>	<u>\$ 42,424</u>

Note 3

Essex Regional Health Commission entered into a lease with the Township pf Livingston for the rental of approximately 4,200 square feet of the Senior Community Center (the "Building) located at 204 Hillside Avenue, Livingston, New Jersey. The term of the lease is for five (5) years commencing on December 1, 2010 and ending on November 30, 2015 unless sooner terminated as provided in the lease. At the expiration of the initial term the Lease shall automatically renew for additional one (1) year terms ("Extended Terms") unless terminated by either Landlord or Tenant upon sixty (60) days written notice prior to the end of the initial term or the last extended term. During the first year of the initial term, Essex Regional Health Commission agrees to pay the landlord \$37,800, or \$3,150 a month. Beginning with the rent due on December 1, 2011, the rent to be paid will be calculated in accordance with price indexes listed in Schedule B of the lease. Should the application of this formula result in a percentage increase of less than 1% in the year, Essex Regional Health Commission agrees that there will be a one percent (1%) increase in the rent for the year. In no event will the increase exceed three percent (3%) in the year.

ESSEX REGIONAL HEALTH COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 4

On May 2, 2013, the Commission entered into a lease agreement for a copier with Kyocera Document Solutions. The term of the lease is for sixty months, and aggregate payments under the lease total \$9,793.

Note 5

An Interlocal Services Agreement was signed on March 14, 2011 between the Township of Livingston and the Commission. Under the terms of this agreement the Commission shall institute and prosecute violations of the "Air Pollution Control Code of the Essex Regional Health Commission" in the Municipal Court of the Township of Livingston. The Township shall collect all fines associated with the violations of the Ordinance. Livingston shall keep 50% of the penalties or fines collected. The other 50% shall be paid over to the Commission. The Commission shall pay all legal fees necessary to prosecute all Ordinance violations out of its portion. On December 11, 1998 the Commission adopted a resolution establishing the disposition of penalty proceeds received from the Environmental Court. All penalty proceeds collected by the Commission will be maintained in the custody of the Commission and be utilized for purposes deemed appropriate by the Board. The term of the agreement is from June 1, 2011 to May 31, 2021, and may be extended for further periods of ten (10) years upon mutual agreement by the governing bodies of Livingston and the Commission. Either party may, at any time, cancel this agreement upon 60 days written notice to the other party. Payments due the Commission are to be paid by Livingston on a quarterly basis beginning September 2011.

Note 6

Registration and Certification Fees are recognized ratably over the registration period from January 1, 2012 to December 31, 2016. Registration fees collected during the twelve month period of January 1, 2016 to December 31, 2016 were collected for the 2012 registration period and income was recognized thru December 31, 2016.

Note 7

In the normal course of operations the Commission receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authority to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Note 8

As of February 1, 2017 the Commission was extended a line of credit by PNC Bank, NA in the amount of \$200,000. The initial rate of interest was 6.25% with the line of credit expiring February 1, 2018.

ESSEX REGIONAL HEALTH COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 8

Substantially all of the Commission's employees participate in the Public Employee's Retirement System (PERS). This system is sponsored and administered by the New Jersey Division of Pensions and Benefits. The Public Employee Retirement System is considered a cost sharing multiple employer plan. The contribution policy is set by New Jersey State Statutes and contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provides for employee contribution of 7.20%, as of 7/1/16, of employees annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in PERS. The actuarially determined contribution includes funding for the cost-of-living adjustments and noncontributory death benefits. The commission offers a 457(b) Deferred Compensation Plan to its employees. Under this plan employee contributions are made pre-tax and are accumulated tax deferred. The plan is administered by Valic Retirement Services and AXA.

The Commission's Employees participate in the State of New Jersey's Health Insurance Plan. As of July 15, 2014 contributions will be based on percentage of salary range and the plan selected. Employee contributions are pre-tax under a Section 125 plan.

Note 9

In June of 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments". This Statement establishes new financial reporting requirements for state and local governments throughout the United States. The Commission adopted GASB Statement 34 for the year ended 12/31/04.

Note 10

On July 31, 2015, Essex Regional Health Commission (Commission) entered into an agreement with EPI Intel & Health Research Planning, LLC (Consultant) for epidemiological services and communicable diseases investigations. The Consultant shall provide services for a period of six months commencing on August 1, 2015 and ending on January 31, 2016. Consultant shall be paid on an hourly fee rate. Expenses require the prior approval of the Commission's Director.

Note 11

On March 29, 2017 the County of Essex through Essex County Health Department, designated as the CEHA entity entered into an agreement with Essex Regional Health Commission to provide the provision of the programs for air, water and noise in accordance with CEHA standards, an expanded program of underground storage tank inspections and implement a program to ensure pesticide control compliance as well as other provisions outlined in the agreement. The contract is for the period July 1, 2016 through June 30, 2017 and the payment shall be in an amount not to exceed \$264,430. Included in the total consideration provided by the County is \$69,430, in the Federal 105 Funding. Either party may be unilaterally terminate from this agreement upon 90 days written notice to either party. ERHC shall deposit all fees, fines and penalties collected into the Certified Agency's EQEF Account. All penalty proceeds from CEHA related enforcement actions will be paid to the Commission net of the following administrative charges, which shall be retained by the County: 20% for all penalty actions; and 30% for actions adjudicated or settled in Superior Court.

ESSEX REGIONAL HEALTH COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 12

Contracts for Service and Grant Agreement Contracts

The Commission has entered into Contracts for Services with:

NJ Dept. of Health & Senior

Services:

Public Health

Emergency Preparedness	7/1/16-6/30/17	\$287,004
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Essex County CEHA	7/1/16-6/30/17	\$195,000
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Essex County (105 Grant)	7/1/16- 6/30/17	\$69,428
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Essex County EQEF	7/1/16-6/30/17	Based on Fines & Penalties <u>To Be Assessed</u>
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Total		<u>\$551,432</u>
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Note 13

Other

As of December 31, 2016, the Commission had uninsured cash balances totaling \$1,813,060 in the New Jersey Cash Management Fund. Other operating cash accounts deposited in banks may also go over the FDIC insured limit of \$250,000 when reimbursement checks are received from the State of New Jersey.

Note 14

Other Post-Employment Benefits (“OPEB”)

The Commission contributes to the State Health Benefits Program (SHBP), a cost sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq., to provide health benefits to State employees, retirees, and their dependents. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

ESSEX REGIONAL HEALTH COMMISSION

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

Note 14 (Continued)

Other Post-Employment Benefits (“OPEB”) (Continued)

The SHBP was extended to employees, retirees and dependents of participating local public employers in 1964. On October 8, 2013, the Commission authorized through resolution to adopt the provisions of NJSA 52:14.17.38 under which a public Employer may agree to pay for the SHBP coverage of certain retirees and recommended completion of the Resolution Addendum –Ch.48, P.L. 1999 based upon the July 30, 2013 recommendation of the Post Retirement Committee.

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to:

State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295, or by visiting their website at: www.state.nj.us/treasury/pensions/gasb-43-sept 2008.pdf

Funding Policy

Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the plan have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Contributions to pay for the health premiums of participating retirees in the SHBP will be billed to the Commission on a monthly basis.

Note 15

On January 19, 2017, Essex Regional Health Commission entered into an agreement with Hudson Regional Health Commission, where by Hudson Regional Health Commission was to provide the services of a Chief Financial Officer and Qualified Purchasing Agent. The terms of this Agreement shall be automatically extended for successive one (1) year periods unless renegotiated or terminated by either party. Payments under this contract are to be paid quarterly in the amount of \$8,750.00 (\$35,000.00 annually).

SUPPLEMENTARY INFORMATION

**ESSEX REGIONAL HEALTH COMMISSION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
DECEMBER 31, 2016**

<u>Category</u>	<u>Budgeted Original</u>	<u>Amounts Final</u>	<u>Actual Amounts Budgetary Basis (See Note A)</u>
<u>Personnel</u>			
Salaries	\$ 395,704	\$ 414,161	\$ 393,586
Overtime/On Call	20,000	20,000	11,067
	<u>\$ 415,704</u>	<u>\$ 434,161</u>	<u>\$ 404,653</u>
<u>Fringe</u>			
FICA	\$ 34,000	\$ 34,000	\$ 29,473
PERS	72,000	72,000	68,597
Medical	98,000	98,000	73,803
Dental	7,500	7,500	4,513
Unemployment	2,500	2,500	1,719
	<u>\$ 214,000</u>	<u>\$ 214,000</u>	<u>\$ 178,105</u>
<u>Contract</u>			
Hudson Regional	\$ 58,021	\$ 58,021	\$ 78,527
HRCFO	4,000	12,750	-
Legal	9,000	9,000	3,954
Office Rental	30,500	30,500	29,349
Office Cleaning	9,000	9,000	8,964
EPI Intel & Health	27,800	27,800	17,380
Auditor	15,000	15,500	15,605
Insurance	34,000	34,000	28,523
ADP	4,000	4,000	2,085
	<u>\$ 191,321</u>	<u>\$ 200,571</u>	<u>\$ 184,387</u>
<u>Travel</u>			
Gas	\$ 4,000	\$ 4,000	\$ 1,127
Gas Mileage Reimbursement	3,000	3,000	519
Auto Maintenance	4,500	4,500	2,972
Convention/Meetings	15,000	15,000	12,459
	<u>\$ 26,500</u>	<u>\$ 26,500</u>	<u>\$ 17,077</u>
<u>Other</u>			
Telephone/Pagers	\$ 8,000	\$ 8,000	\$ 5,602
Medical Surveillance	1,200	1,200	-
Office Supplies/Printing	5,000	5,000	3,880
Postage	5,000	5,000	4,116
Publication/Subscriptions	500	500	-
Photocopier	3,500	3,500	1,450
Water Cooler	1,000	1,000	754
Miscellaneous	3,000	3,000	776
	<u>\$ 27,200</u>	<u>\$ 27,200</u>	<u>\$ 16,578</u>
<u>Equipment</u>			
Monitoring Equipment	\$ 5,000	\$ 5,000	\$ 3,930
Miscellaneous	2,500	2,500	-
Protection/Containment	2,500	2,500	601
Office Equipment	3,000	3,000	3,197
Equipment Maintenance	3,000	3,000	2,418
	<u>\$ 16,000</u>	<u>\$ 16,000</u>	<u>\$ 10,146</u>
CDC Grant XV	\$ -	\$ 141,002	\$ 152,464
CDC Grant XIV	145,213	145,213	166,026
MRC	3,500	15,000	3,065
	<u>\$ 148,713</u>	<u>\$ 301,215</u>	<u>\$ 321,555</u>
Total	<u><u>\$ 1,039,438</u></u>	<u><u>\$ 1,219,647</u></u>	<u><u>\$ 1,132,501</u></u>
<u>Estimated Revenue</u>			
Municipal Assessments	\$ 124,403	\$ 124,403	\$ 124,403
ERHC EQEF Fund	50,000	50,000	88,828
CDC Grant XIV	145,213	141,002	152,464
CDC XIV	-	145,213	166,026
MRC	3,500	15,000	3,065
Essex County (CEHA/105)	187,548	187,548	191,274
Reserve	528,774	556,481	559,546
Total	<u><u>\$ 1,039,438</u></u>	<u><u>\$ 1,219,647</u></u>	<u><u>\$ 1,285,606</u></u>

See accompanying notes to financial statements.

ESSEX REGIONAL HEALTH COMMISSION
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 BUDGET TO GAAP RECONCILIATION GENERAL FUND
 DECEMBER 31, 2016

Note A - Explanation of Differences between
 Budgetary Inflows and GAAP Revenues & Expenditures

		<u>General Fund</u>
<u>Sources/Inflows of Resources</u>		
Actual Amounts (budgetary basis) "available for appropriation" from the Budgetary Comparison Schedule		\$ 1,285,606
<u>Difference - Budget to GAAP</u>		
Reserve appropriation is not considered a current year revenue for financial reporting purposes		(559,546)
Revenues considered a current year revenue for financial reporting purposes:		
Miscellaneous	\$ 9	
Training Fee	90	
Interest Income	6,042	
Interest Penalty Enforcement Fund	414	
Revenue Penalty Enforcement Fund	2,000	
Registration Fees	<u>492,616</u>	<u>501,171</u>
Total Revenues as reported on Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds/Statement of Activities		<u>\$ 1,227,231</u>
<u>Uses/Outflows of Resources</u>		
Actual amounts (budgetary basis) "total charges to appropriations" from Budgetary Comparison Schedule		\$ 1,132,501
Bank Charges Enforcement		20
<u>Differences - Budget to GAAP</u>		
Governmental Funds report Capital Outlay as expenditures. However in the Statement of Activities, the cost of these assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation/amortization exceeded capital outlay in the current period.		<u>10,029</u>
Total Expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds/Statement of Activities		<u>\$ 1,142,550</u>

See accompanying notes to financial statements.

**ESSEX REGIONAL HEALTH COMMISSION
SCHEDULE OF GRANTS AND CONTRACTS FOR SERVICES RECEIVABLE
DECEMBER 31, 2016**

Essex County EQEF	\$ 18,184
Essex County CEHA & 105 Grant	133,580
State of New Jersey- CDC XV	<u>152,464</u>
Total	<u><u>\$ 304,228</u></u>

See accompanying notes to financial statements.

**ESSEX REGIONAL HEALTH COMMISSION
SCHEDULE OF ACCOUNTS RECEIVABLE MUNICIPALITIES
DECEMBER 31, 2016**

East Orange	\$ 12,770
Cedar Grove	3,038
Belleville	8,933
Irvington	13,332
Livingston	1,523
Maplewood	1
Millburn	3,691
Montclair	3,392
Nutley	1,546
Orange	1,611
West Caldwell	<u>1,877</u>
Total	<u><u>\$ 51,714</u></u>

See accompanying notes to financial statements.

**ESSEX REGIONAL HEALTH COMMISSION
SCHEDULE OF FEDERAL AND STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED DECEMBER 31, 2016**

Grantor/Pass Through Grantor/Program Title	Federal CFDA Number Contract Number	Program or Award Amount	Federal Revenue Recognition	Expenditures		
				2015	2016	
<u>Federal Awards</u>						
<u>NJ State DEP Section 105 Grants</u>						
<u>County Essex CHEA Grant</u>						
	7/1/15 - 6/30/16	66.001	\$ 69,428	\$ 69,428	\$ 34,714	\$ 34,714
	7/1/16 - 6/30/17	66.001	\$ 69,428	34,714	-	34,714
<u>New Jersey Department of Health</u>						
<u>Hiper-Lincs Agencies</u>						
	7/1/15-6/30/16	93.074	\$ 291,476	291,476	125,450	166,026
	7/1/16-6/30/17	93.074	\$ 287,004	152,465	-	152,465
<u>Medical Reserve Corp.</u>						
	2013	93.08	\$ 478	478		478
	2015	93.08	\$ 3,500	2,587		2,587
Total				<u>\$ 551,148</u>	<u>\$ 160,164</u>	<u>\$ 390,984</u>

See accompanying notes to financial statements.

**ESSEX REGIONAL HEALTH COMMISSION
PHILEP (LINC AGENCIES) 2016
PLP17LNC018
YEAR ENDED DECEMBER 31, 2016**

<u>Term 7/1/16-6/30/17</u>	<u>Final Approved Budget</u>	<u>Expenditures 2016</u>	<u>Audited Expenditures</u>	<u>Questioned Costs</u>
<u>Cost Category</u>				
Salaries & Wages	\$ 186,428	\$ 95,281	\$ 95,281	\$ -
Fringe Benefits	41,049	19,710	19,710	-
Consultant/Professional Services	30,422	23,382	23,382	-
Office Expenses & Related Costs	4,785	2,751	2,751	-
Program Expenses & Related Costs	6,465	3,309	3,309	-
Travel, Conferences & Meetings	1,768	1,362	1,362	-
Facility Cost	13,267	6,670	6,670	-
Reserve	2,820	-	-	-
Total	<u>\$ 287,004</u>	<u>\$ 152,465</u>	<u>\$ 152,465</u>	<u>\$ -</u>

See accompanying notes to financial statements

**ESSEX REGIONAL HEALTH COMMISSION
PHILEP (LINCS AGENCIES) 2015
PHLP16LNC017
YEAR ENDED DECEMBER 31, 2016**

<u>Term 7/1/15 - 6/30/16</u>	<u>Final Approved Budget</u>	<u>Expenditures 2015</u>	<u>Expenditures 2016</u>	<u>Audited Expenditures</u>	<u>Questioned Costs</u>
<u>Cost Category</u>					
Salaries & Wages	\$ 176,128	\$ 86,929	\$ 89,200	\$ 176,129	\$ -
Fringe Benefits	42,265	22,286	20,088	42,374	-
Office Expenses & Related Costs	4,585	3,826	748	4,574	-
Program Expenses & Related Costs	8,999	365	8,533	8,898	-
Travel, Conferences & Meetings	3,722	523	3,200	3,723	-
Consultant/Professional	41,790	4,067	37,723	41,790	-
Facility Cost	<u>13,987</u>	<u>7,454</u>	<u>6,534</u>	<u>13,988</u>	<u>-</u>
Total	<u>\$ 291,476</u>	<u>\$ 125,450</u>	<u>\$ 166,026</u>	<u>\$ 291,476</u>	<u>\$ -</u>

See accompanying notes to financial statements.

INDEPENDENT AUDITOR'S REPORTS



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

To the Board of Commissioners
Essex Regional Health Commission
Livingston, NJ 07039

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of Essex Regional Health Commission (Essex), as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise Essex's basic financial statements, and have issued our report thereon dated February 28, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Essex's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Essex's internal control. Accordingly, we do not express an opinion on the effectiveness of Essex'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 Essex's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in cursive script that reads "DeSena & Company".

DeSena & Company

East Hanover, New Jersey

February 28, 2017



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Commissioners
Essex Regional Health Commission
Livingston, NJ 07039

Report on Compliance for Each Major Federal Program

We have audited Essex Regional Health Commission's (Essex) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Essex's major federal programs for the year ended December 31, 2016. Essex's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Essex's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and NJ OMB Circular 04-04. Those standards and OMB Circular A-133 and NJ OMB Circular 04-04 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Essex's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Essex's compliance.

Opinion on Each Major Federal Program

In our opinion, Essex complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control over Compliance

Management of Essex is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Essex's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and NJ OMB Circular 04-04, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Essex's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and NJ OMB Circular 04-04. Accordingly, this report is not suitable for any other purpose.



DeSena & Company
East Hanover, New Jersey
February 28, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016

Part 1 - Summary of Auditor's Results

Financial Statement Section

- A) Type of auditor's report issued: Unqualified
- B) Internal control over financial reporting:
- 1) Material weakness(es) identified? yes Xno n/a
- 2) Were reportable condition(s) identified that were not considered to be material weaknesses? yes Xno n/a
- C) Noncompliance material to general purpose financial statements noted? yes Xno n/a

Federal Awards Section

- D) Dollar threshold used to determine Type A programs \$750,000
- E) Auditee qualified as low-risk auditee? Xyes no n/a
- F) Type of auditor's report on compliance for major programs Unqualified
- G) Internal control over compliance:
- 1) Material weakness(es) identified? yes Xno n/a
- 2) Were reportable condition(s) identified that were not considered to be material weaknesses? yes Xno n/a
- H) Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 Section 510(a)? yes Xno n/a

I) Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
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N/A

N/A

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016

Part 1 - Summary of Auditor's Results (Continued)

State Awards Section

- J) Dollar threshold used to determine Type A programs \$300,000
- K) Auditee qualified as low-risk auditee? X yes no n/a
- L) Type of auditor's report on compliance for major programs Unqualified
- M) Internal control over compliance:
- 1) Material weakness(es) identified? yes X no n/a
- 2) Were reportable condition(s) identified that were not considered to be material weaknesses? yes X no n/a
- H) Any audit findings disclosed that are required to be reported in accordance with N.J. OMB Circular 04-04? yes X no n/a

I) Identification of major programs:

<u>Contract Number(s)</u>	<u>Name of State Program</u>
PHLP 16LNC001 PHLP 17LNC001	NJ Dept. of Health & Senior Services: Local Core Capacity For Public Health Emergency Preparedness Grant

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016

Part 2 - Schedule of Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements that Government Auditing Standards requires reporting in a Circular A-133 audit, paragraphs 12.16 and 12.33.

NONE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2016

*Part 3 - Schedule of Federal and State Award Findings
And Questioned Costs*

This section identifies the reportable conditions, material weaknesses, and material instances of noncompliance, including questioned costs, related to the audit of major federal and state programs, as required by section 510(a) of OMB Circular A-133 and New Jersey OMB Circular 04-04.

NONE