

**MUSCONETCONG SEWERAGE AUTHORITY**  
**REPORT OF AUDIT**  
**FOR THE YEARS ENDED**  
**DECEMBER 31, 2019 AND 2018**

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**MUSCONETCONG SEWERAGE AUTHORITY**

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## INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members  
Musconetcong Sewerage Authority  
Budd Lake, New Jersey 07828

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of the Musconetcong Sewerage Authority as of December 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, 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 misstatements, 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 audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), 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 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 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 opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Musconetcong Sewerage Authority as of December 31, 2019 and 2018, 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.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the schedule of the Authority's proportionate share of the net pension liability 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 the 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 an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary schedules as listed in the table of contents are presented for purposes of additional analysis, as required by the Division of Local Government Service and are not a required part of the basic financial statements.

The accompanying supplemental 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 accompanying supplementary information, 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 July 8, 2020 on our consideration of the Musconetcong Sewerage Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Musconetcong Sewerage Authority's internal control over financial reporting and compliance.

Very truly yours,

*Wielkatz & Company, LLC*

WIELKOTZ & COMPANY, LLC  
Certified Public Accountants  
Pompton Lakes, New Jersey

July 8, 2020

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**Required Supplementary Information - Part I**

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## **Management Discussion and Analysis**

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## MUSCONETCONG SEWERAGE AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

*As management of the Musconetcong Sewerage Authority, we offer the Authority's financial statements this narrative overview and analysis of the Authority's financial performance during the fiscal year ended December 31, 2019 and 2018. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.*

### **Financial Highlights**

- The Authority's assets and deferred outflows exceeded its liabilities and deferred inflows of resources by \$21,152,719 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities and deferred inflows of resources by \$21,938,732.
  
- Total net position is comprised of the following:
  - (1) Net investment in capital assets of \$21,536,132 includes property and equipment, net of accumulated depreciation, and reduced for outstanding debt and unexpended funds related to the purchase or construction of capital assets.
  - (2) Restricted of \$29,252 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted of \$(412,665) represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
  
- Total liabilities of the Authority increased by \$5,588,138 to \$11,542,889 during the fiscal year.

### **Overview of the Financial Statements**

This annual report includes this management discussion, the independent auditor's report and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail some of the information in the financial statements.

### *Required Financial Statements*

The financial statements of the Authority report information of 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), the consumption of net assets that is applicable to a future period (deferred outflows of resources), the acquisition of net assets that is applicable to a future reporting period (deferred inflows of resources) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

**MUSCONETCONG SEWERAGE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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 results of the Authority's operations over the past year and can be used to determine whether the Authority has recovered all its costs through user fees and other charges, operational stability and credit worthiness.

The final required financial statement is the *Statement of Cash Flows*. This statement reports cash receipts and cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as what operational sources provided cash, what was the cash used for, and what was the change in cash balance during the reporting period.

*Notes to the Financial Statements*

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements. The notes to the financial statements begin immediately following the basic financial statements.

*Other Information*

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information. This supplementary information follows the notes to the financial statements.

**Financial Analysis of the Authority**

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better able to fulfill its mission as a result of this 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 net position of the Authority and the changes in the position. The reader can think of the Authority's net position – the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources – 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, one will need to consider the non-financial factors such as changes in economic conditions, population growth, development, and new or changed government regulation.

**MUSCONETCONG SEWERAGE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Net Position**

As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the Authority as a whole.

The Authority's net position at fiscal year-end is \$21,152,719. This is a \$786,013 decrease under last year's net position of \$21,938,732. A summary of the Authority's statement of net position is presented in the following table:

**Condensed Statement of Net Position at December 31, 2019  
With Comparative Prior Year Balances**

	<u>FY 2019</u>	<u>FY 2018</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	8,583,834	2,491,171	6,092,663	244.57%
Capital Assets	<u>24,337,371</u>	<u>25,719,144</u>	<u>(1,381,773)</u>	(5.37)%
Total Assets	<u>32,921,205</u>	<u>28,210,315</u>	<u>4,710,890</u>	16.70%
Deferred Outflows of Resources	<u>521,422</u>	<u>579,237</u>	<u>(57,815)</u>	(9.98)%
Long-term Liabilities	4,056,140	4,742,961	(686,821)	(14.48)%
Current Liabilities	<u>7,322,746</u>	<u>1,211,790</u>	<u>6,110,956</u>	504.29%
Total Liabilities	<u>11,378,886</u>	<u>5,954,751</u>	<u>5,424,135</u>	91.09%
Deferred Inflows of Resources	<u>911,022</u>	<u>896,069</u>	<u>14,953</u>	1.67%
Net Investment in Capital Assets	21,536,132	22,280,460	(744,328)	(3.34)%
Restricted	29,252	32,673	(3,421)	(10.47)%
Unrestricted	<u>(412,665)</u>	<u>(374,401)</u>	<u>(38,264)</u>	10.22%
Total Net Position	<u>21,152,719</u>	<u>21,938,732</u>	<u>(786,013)</u>	(3.58)%

**MUSCONETCONG SEWERAGE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Net Position (Continued)**

A summary of the Authority's prior year statement of net position is presented with comparative figures in the following table:

**Condensed Statement of Net Position at December 31, 2018  
With Comparative Prior Year Balances**

	<u>FY 2018</u>	<u>Restated FY 2017</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	2,491,171	3,227,664	(736,493)	(22.82)%
Capital Assets	<u>25,719,144</u>	<u>26,409,842</u>	<u>(690,698)</u>	(2.62)%
Total Assets	<u>28,210,315</u>	<u>29,637,506</u>	<u>(1,427,191)</u>	(4.82)%
Deferred Outflows of Resources	<u>579,237</u>	<u>755,406</u>	<u>(176,169)</u>	(23.32)%
Long-term Liabilities	4,742,961	5,889,293	(1,146,332)	(19.46)%
Current Liabilities	<u>1,211,790</u>	<u>1,289,164</u>	<u>(77,374)</u>	(6.00)%
Total Liabilities	<u>5,954,751</u>	<u>7,178,457</u>	<u>(1,223,706)</u>	(17.05)%
Deferred Inflows of Resources	<u>896,069</u>	<u>517,121</u>	<u>378,948</u>	73.28%
Net Investment in Capital Assets	22,280,460	22,348,401	(67,941)	(0.30)%
Restricted	32,673	36,606	(3,933)	(10.74)%
Unrestricted	<u>(374,401)</u>	<u>312,327</u>	<u>(686,728)</u>	(219.87)%
Total Net Position	<u>21,938,732</u>	<u>22,697,334</u>	<u>(758,602)</u>	(3.34)%



**MUSCONETCONG SEWERAGE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Net Position (Continued)**

**Condensed Statement of Revenues, Expenses  
And Changes in Net Position for the Year Ending  
December 31, 2019 with Comparative Prior Year Balances**

	<u>FY 2019</u>	<u>FY 2018</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	4,427,430	4,389,719	37,711	0.86%
Non-operating Revenues	<u>27,861</u>	<u>29,673</u>	<u>(1,812)</u>	(6.11)%
Total Revenues	<u>4,455,291</u>	<u>4,419,392</u>	<u>35,899</u>	0.81%
Depreciation	1,774,818	1,752,704	22,114	1.26%
Other Operating Expenses	3,146,716	3,097,874	48,842	1.58%
Other Non-operating Expense	<u>319,770</u>	<u>327,416</u>	<u>(7,646)</u>	(2.34)%
Total Expenses	<u>5,241,304</u>	<u>5,177,994</u>	<u>63,310</u>	1.22%
Change in Net Position	(786,013)	(758,602)	(27,411)	3.61%
Beginning Net Position	<u>21,938,732</u>	<u>22,697,334</u>	<u>(758,602)</u>	(3.34)%
Ending Net Position	<u>21,152,719</u>	<u>21,938,732</u>	<u>(786,013)</u>	(3.58)%

**MUSCONETCONG SEWERAGE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Net Position (Continued)**

A summary of the Authority's prior year statement of revenues, expenses and changes in net position is presented with comparative fiscal year figures in the following table:

**Condensed Statement of Revenues, Expenses  
And Changes in Net Position for the Year Ending  
December 31, 2018 with Comparative Prior Year Balances**

	<u>FY 2018</u>	<u>Restated FY 2017</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	4,389,719	4,405,391	(15,672)	-0.36%
Non-operating Revenues	<u>29,673</u>	<u>8,446</u>	<u>21,227</u>	251.33%
Total Revenues	<u>4,419,392</u>	<u>4,413,837</u>	<u>5,555</u>	0.13%
Depreciation	1,752,704	1,705,488	47,216	2.77%
Other Operating Expenses	3,097,874	3,025,228	72,646	2.40%
Other Non-operating Expense	<u>327,416</u>	<u>619,877</u>	<u>(292,461)</u>	(47.18)%
Total Expenses	<u>5,177,994</u>	<u>5,350,593</u>	<u>(172,599)</u>	(3.23)%
Change in Net Position	(758,602)	(936,756)	178,154	(19.02)%
Beginning Net Position	<u>22,697,334</u>	<u>23,634,090</u>	<u>(936,756)</u>	(3.96)%
Ending Net Position	<u>21,938,732</u>	<u>22,697,334</u>	<u>(758,602)</u>	(3.34)%

**Budgetary Highlights**

The State of New Jersey requires local authorities to prepare and adopt annual budgets in accordance with the Local Authorities Fiscal Control Law and regulations adopted by the Local Finance Board pursuant to this statute and codified as N.J.A.C. 5:31-1 et seq. The statutory budget was designed to demonstrate to the Bureau of Authority Regulation of the Division of Local Government Services that the cash flows of the Authority for the coming year will be sufficient to cover operating expenses, interest accruing on bonded indebtedness and cash payments of maturing bond and loan principal.

**MUSCONETCONG SEWERAGE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**Budgetary Highlights (Continued)**

The following tables provide a budget comparison for FY 2019 and FY 2018:

**Budget vs. Actual  
FY 2019**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues:</b>			
Net Position Appropriated	107,978	107,978	0
Operating	4,427,402	4,427,430	28
Non-Operating	<u>21,061</u>	<u>21,061</u>	<u>21,061</u>
Total Revenues	<u>4,535,380</u>	<u>4,556,469</u>	<u>21,089</u>
<b>Expenses:</b>			
Operating	3,412,500	3,098,076	314,424
Non-Operating	<u>1,122,880</u>	<u>1,096,195</u>	<u>26,685</u>
Total Expenses	<u>4,535,380</u>	<u>4,194,271</u>	<u>341,109</u>
Income before Depreciation	<u>-0-</u>	<u>362,198</u>	<u>362,198</u>

**Budget vs. Actual  
FY 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<b>Revenues:</b>			
Net Position Appropriated	101,880	101,880	0
Operating	4,387,219	4,389,719	2,500
Non-Operating	<u>-0-</u>	<u>12,601</u>	<u>12,601</u>
Total Revenues	<u>4,489,099</u>	<u>4,504,200</u>	<u>15,101</u>
<b>Expenses:</b>			
Operating	3,370,500	3,058,947	311,553
Non-Operating	<u>1,118,599</u>	<u>1,113,637</u>	<u>4,962</u>
Total Expenses	<u>4,489,099</u>	<u>4,172,584</u>	<u>316,515</u>
Income before Depreciation	<u>-0-</u>	<u>331,616</u>	<u>331,616</u>

**MUSCONETCONG SEWERAGE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

During fiscal year 2019, the Authority had an increase of \$393,045 in capital assets (before depreciation). The Authority's net property, plant and equipment at fiscal year end was \$24,337,371. This is a \$1,381,773 decrease under last year's net property, plant and equipment of \$25,719,144. A summary of the Authority's capital assets is presented in the following table:

**CAPITAL ASSETS**

	<u>FY 2019</u>	<u>FY 2018</u>	<u>Dollar Change</u>
Land	505,700	505,700	0
Buildings and Interceptors	61,280,533	60,838,231	442,302
Machinery and Equipment	201,060	201,060	0
Less: Accumulated Depreciation	(38,105,733)	(36,330,915)	1,774,818
Construction in Progress	<u>455,811</u>	<u>505,068</u>	<u>(49,257)</u>
	<u>24,337,371</u>	<u>25,719,144</u>	<u>(1,381,773)</u>

**MUSCONETCONG SEWERAGE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

**CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)**

The Authority's on going capital plan is reviewed each year by the Authority's consulting engineer. Notable future capital improvements are listed below.

**Sewer**

*Sewerage Treatment Plan:*

Screenings Removal System	\$2,000,000
Tertiary Project	4,000,000
Pump Replacement Project	600,000
Gravity Thickener#1	150,000
Secondary Clarifier Drives 3&4	150,000
CCTV	195,000
Lighting	200,000
Sludge Management	200,000
GIS	<u>50,000</u>
Total	<u>\$7,545,000</u>

**Debt Administration**

At December 31, 2019, the Authority had outstanding New Jersey Environmental Infrastructure Fund bonds of \$2,784,239 (gross). The debt service schedule has a final maturity in 2030. Full details of the specific bond issues outstanding are found in Note 5 to the financial statements and the supplementary schedules. The Authority also had \$6,000,000 in temporary financing through the New Jersey Infrastructure Bank ("NJIB") at December 31, 2019.

**Economic Factors, Future Years' Budgets and Rates**

The Commissioners and management of the Authority consider many factors when preparing each year's budget and annual charges. Two of the main factors are growth in the Authority's system and new regulations issued by the State and Federal governments. The Authority is also monitoring the overall effects of the COVID-19 pandemic, as described in the notes to the financial statements (Note 12).

**Contacting the Authority**

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the fees it receives. If you have any questions about this report or need additional information, contact the Executive Director of the Musconetcong Sewerage Authority, 110 Continental Drive, Budd Lake, NJ 07828.

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**Financial Statements**

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**MUSCONETCONG SEWERAGE AUTHORITY  
COMPARATIVE STATEMENT OF NET POSITION  
DECEMBER 31,**

**EXHIBIT A**  
Page 1 of 3

	2019		2018
<b><u>ASSETS</u></b>			
<b>Current Assets:</b>			
<b><u>Unrestricted:</u></b>			
Cash and Cash equivalents	\$ 2,514,859	\$	2,165,817
Petty Cash	150		150
Accounts Receivable	100		245,867
Prepaid Expenses	180		180
Total Unrestricted Assets	2,515,289		2,412,014
<b><u>Restricted:</u></b>			
Bond Service Fund:			
Cash and Cash equivalents	59,962		71,104
Escrow Fund:			
Cash and Cash equivalents	8,583		8,053
New Jersey Infrastructure Bank:			
NJIB Receivable	6,000,000		-
Total Restricted Assets	6,068,545		79,157
<b>Non-Current Assets:</b>			
<b><u>Capital Assets:</u></b>			
Land	505,700		505,700
Infrastructure, Buildings and Equipment	61,280,533		60,838,231
Vehicles	201,060		201,060
Less: Accumulated Depreciation	(38,105,733)		(36,330,915)
Construction in Progress	455,811		505,068
Total Capital Assets	24,337,371		25,719,144
<b>TOTAL ASSETS</b>	<b>\$ 32,921,205</b>	<b>\$</b>	<b>28,210,315</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>			
<b>Deferred Outflows:</b>			
Deferred Outflows Related to Pensions	521,422		579,237
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 521,422</b>	<b>\$</b>	<b>579,237</b>

The accompanying "Notes to the Financial Statements" are an integral part of this report.

**MUSCONETCONG SEWERAGE AUTHORITY  
COMPARATIVE STATEMENT OF NET POSITION  
DECEMBER 31,**

**EXHIBIT A**  
Page 2 of 3

	2019	2018
<b><u>LIABILITIES</u></b>		
<b>Current Liabilities:</b>		
<u>Payable from Unrestricted Assets:</u>		
Accounts Payable and Accrued Liabilities	\$ 274,922	\$ 198,515
Accounts Payable - Pension Related	105,110	96,046
Payroll Taxes Payable	10,364	10,364
Due to Municipalities	254,220	229,736
Total Payable from Unrestricted Assets	644,616	534,661
<u>Payable from Restricted Assets:</u>		
Accrued Interest Payable	30,710	38,431
Escrow Deposits Payable	8,583	8,053
Notes Payable	6,000,000	-
Loans Payable - Current Portion	638,837	630,645
Total Payabled from Restricted Assets	6,678,130	677,129
<b>Non-Current Liabilities:</b>		
Compensated Absenses Payable	49,512	57,504
Net Pension Liability	1,861,226	1,901,218
Loans Payable - Long-Term Portion	2,145,402	2,784,239
Total Non-Current Liabilities	4,056,140	4,742,961
TOTAL LIABILITIES	11,378,886	5,954,751
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
<b>Deferred Inflows:</b>		
Deferred Inflows Related to Pensions	894,022	872,269
Unamortized Gain on Refunded Debt	17,000	23,800
TOTAL DEFERRED INFLOWS OF RESOURCES	911,022	896,069

The accompanying "Notes to the Financial Statements" are an integral part of this report.

**MUSCONETCONG SEWERAGE AUTHORITY  
COMPARATIVE STATEMENT OF NET POSITION  
DECEMBER 31,**

**EXHIBIT A**  
Page 3 of 3

	<b>2019</b>	<b>2018</b>
<b><u>NET POSITION:</u></b>		
Net Investment in Capital Assets	21,536,132	22,280,460
Restricted:		
Current Debt Service	29,252	32,673
Unrestricted:		
Designated	1,146,999	1,161,638
Undesignated	(1,559,664)	(1,536,039)
<b>TOTAL NET POSITION</b>	<b>\$ 21,152,719</b>	<b>\$ 21,938,732</b>

The accompanying "Notes to the Financial Statements" are an integral part of this report.

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**MUSCONETCONG SEWERAGE AUTHORITY**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET POSITION**  
**DECEMBER 31,**

**EXHIBIT B**

	<u>2019</u>	<u>2018</u>
<b>Operating Revenue:</b>		
Service Agreements	\$ 4,427,402	\$ 4,387,219
Miscellaneous	<u>28</u>	<u>2,500</u>
Total Operating Revenue	<u>4,427,430</u>	<u>4,389,719</u>
<b>Operating Expenses:</b>		
Administrative and General	258,829	279,442
Cost of Providing Services	2,887,887	2,818,432
Depreciation Expense	<u>1,774,818</u>	<u>1,752,704</u>
Total Operating Expenses	<u>4,921,534</u>	<u>4,850,578</u>
Operating Income	<u>(494,104)</u>	<u>(460,859)</u>
<b>Non-Operating Revenue (Expenses):</b>		
Interest on Investments	21,061	12,601
Interest Expense	(65,550)	(97,680)
Excess Due to Municipalities	(254,220)	(229,736)
Cancellation of Old Payables	-	10,272
Amortization	<u>6,800</u>	<u>6,800</u>
Non-Operating Income (Loss)	<u>(291,909)</u>	<u>(297,743)</u>
<b>Change In Net Position</b>	<b>(786,013)</b>	<b>(758,602)</b>
<b>Net Position - January 1</b>	<u>21,938,732</u>	<u>22,697,334</u>
<b>Net Position - December 31</b>	<u>\$ 21,152,719</u>	<u>\$ 21,938,732</u>

The accompanying "Notes to the Financial Statements" are an integral part of this report.

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## MUSCONETCONG SEWERAGE AUTHORITY

COMPARATIVE STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31,

	<u>2019</u>	<u>2018</u>
<b>Cash Flows from Operating Activities:</b>		
Cash Received from Customers	\$ 4,673,169	\$ 4,141,352
Cash Received from Miscellaneous Sources	28	2,500
Escrow Deposits Received (Paid)	530	1,814
Cash Paid to Municipalities	(229,736)	(392,806)
Cash Paid to Vendors and Employees	<u>(3,029,661)</u>	<u>(2,972,358)</u>
<b>Net Cash Provided by Operating Activities</b>	<u>1,414,330</u>	<u>780,502</u>
<b>Cash Flow from Investing Activities:</b>		
Interest Received	<u>21,061</u>	<u>12,601</u>
<b>Net Cash Provided by (used in) Investing Activities</b>	<u>21,061</u>	<u>12,601</u>
<b>Cash Flow from Financing Activities:</b>		
Principal Payment on Bonds and Notes	(630,645)	(615,957)
Interest Paid on Bonds and Notes	(73,271)	(97,680)
Capital Expenditures	<u>(393,045)</u>	<u>(1,062,006)</u>
<b>Net Cash Used in Financing Activities</b>	<u>(1,096,961)</u>	<u>(1,775,643)</u>
<b>Net Increase/(Decrease) in Cash and Cash Equivalents</b>	338,430	(982,540)
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>2,244,974</u>	<u>3,227,514</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 2,583,404</u>	<u>\$ 2,244,974</u>
<b>Analysis of Balance:</b>		
Unrestricted	\$ 2,514,859	\$ 2,165,817
Restricted	<u>68,545</u>	<u>79,157</u>
	<u>\$ 2,583,404</u>	<u>\$ 2,244,974</u>

The accompanying "Notes to the Financial Statements" are an integral part of this report.

**MUSCONETCONG SEWERAGE AUTHORITY**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31,**

	<u>2019</u>	<u>2018</u>
<b>OPERATING INCOME (LOSS)</b>	\$ <u>(494,104)</u>	\$ <u>(460,859)</u>
<b>Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:</b>		
Depreciation Expense	1,774,818	1,752,704
Escrow Deposits Received (Paid)	530	1,814
Cash Paid to Municipalities	(229,736)	(392,806)
Decrease (Increase) in Accounts Receivable	245,767	(245,867)
Decrease (Increase) in Prepaid Expenses		(180)
Increase (Decrease) in Accounts Payable	76,407	86,797
Increase (Decrease) in Compensated Absences Payable	(7,992)	1,814
Increase (Decrease) in Pension Adjustment	<u>48,640</u>	<u>37,085</u>
<b>Total Adjustments</b>	<u>1,908,434</u>	<u>1,241,361</u>
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ <u><u>1,414,330</u></u>	\$ <u><u>780,502</u></u>

The accompanying "Notes to the Financial Statements" are an integral part of this report.



**Notes to Financial Statements**

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**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 1. GENERAL**

The Musconetcong Sewerage Authority was created under the Sewerage Authorities Law of the State of New Jersey (Chapter 138, Laws of 1946 as amended and supplemented) to service the Borough of Stanhope in the County of Sussex and the Borough of Netcong in the County of Morris. Parallel ordinances were adopted by the respective governing bodies as follows: By the Borough of Stanhope on September 27, 1965, and by the Borough of Netcong on August 3, 1965

By agreement between the Authority and the Boroughs of Stanhope and Netcong dated 1967, the Authority constructed a trunk sewer system and a 500,000 G.P.D. sewerage disposal plant. Said construction was financed by a bond issue of \$591,000 dated January 1, 1971 (Series "A" Bonds) and by State and Federal Grants.

The aforementioned agreement also permits the signing of agreements to service additional municipalities as Customers of the Authority. The Authority has entered into an agreement with the Township of Mount Olive and has passed a resolution to treat sewerage from the Township of Roxbury.

A 500,000 G.P.D. addition was placed in service on July 5, 1976. To finance the cost of said improvement the Authority sold bonds in the amount of \$400,000 dated July 1, 1976 (Series "B" Bonds).

The governing body of the Authority consists of twelve members. Three members are appointed by each of the governing bodies of the Boroughs of Netcong and Stanhope, two members are appointed by each of the governing bodies of the Township of Mount Olive and Roxbury and one member is appointed by the governing bodies of the Boroughs of Mount Arlington and Hopatcong.

The Authority has constructed a 2.2 million gallon per day water pollution control plant and made improvements to existing pumping station and force mains. The Authority also constructed a new regional interceptor, pumping stations and force mains. The total cost for the Project was estimated at \$33 Million.

The Project allowed for new sewer unit connections in the Boroughs of Stanhope and Netcong. Service has been expanded to provide more gallonage to areas located in the Township of Mount Olive and the International Trade Zone. Additionally, sewer service is now available to the entire Landing-Shore Hills and Port Morris sections of Roxbury Township.

The Authority was awarded a grant from the United States Department of Environmental Protection to the extent of 55% of eligible costs of the Project. The remainder of the Project costs were raised by the issuance of revenue bonds in the amount of \$17,450,000 and by contributions from the International Trade Center, located within the Service Area of the Authority.

**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 1. GENERAL, (continued)**

In 1993 the Authority initiated design and funding of the Phase IA project to expand the Authority's existing wastewater treatment plant to provide 3.63 MGD treatment capacity within the existing plant site. The additional treatment capacity (1.43 MGD) was constructed to provide sewer service to the densely developed areas around Budd Lake within the Township of Mount Olive and within the Borough of Mount Arlington adjacent to Lake Hopatcong. The treatment plant expansion also includes capacity for future development within the portions of the Township of Roxbury and the New Jersey Foreign Trade Zone. The selected treatment process for the treatment plant expansion is conventional activated sludge with mechanical aeration, the same as the existing treatment process. The treatment process design includes provisions for nitrification, phosphorus removal, microstraining facilities and ultraviolet disinfection. Treated effluent will continue to be discharged to the Musconetcong River through the existing post aeration cascade unit and outfall sewer. In 2002, the Authority was successful in having the plant rereated adding an additional .18 MGD to the overall treatment capacity.

Sewage sludge generated by the expanded wastewater treatment plant will be treated in the existing sludge thickening and handling facility at the plant site. The existing sludge thickening and handling facility has sufficient capacity to accommodate all sludge that will be generated by the 4.31 MGD treatment plant.

Funding for the Phase IA project was financed by the issuance of Sewer Revenue Bonds, Series C, in the amount of \$3,545,000 for the local ineligible share and by New Jersey Wastewater Treatment Trust Financing Program loans from the Trust (\$7,955,000) and from the Fund (\$6,260,617) for the allowable costs of the new project.

In November of 1995, \$2,280,000 of Series C, Revenue Bonds were defeased since the Authority became eligible for additional New Jersey Wastewater Treatment Trust Financing, \$1,190,000 from the Trust and \$1,045,037 from the fund.

On December 15, 2002, \$12,855,000 of Series B, Refunding Bonds were defeased with the issuance of \$12,250,000 of Project I- Series 2002, Refunding Bonds.

In 2002, Authority initiated design and funding for the Phase IIA project to add an additional 500,000 gallon per day expansion to its wastewater treatment plant for the benefit of the Borough of Hopatcong. The Authority financed the cost of the project with grants from the United States Environmental Infrastructure Trust Program. The addition was certified for operation effective July 1, 2005.

As a Public body under existing statute, the Authority is exempt from both Federal and State Taxes.

**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 1. GENERAL, (continued)**

**Component Unit**

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include any potential component units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. Blended component units, although legally separate entities, are in-substance part of the government's operations. Each discretely presented component unit would be or is reported in a separate column in the financial statements to emphasize that it is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, the Authority has no component units.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Basis of Presentation**

The financial statements of the Musconetcong Sewerage Authority have been prepared in accordance with generally accepted accounting principles (GAAP) applicable to enterprise funds of state and local governmental units. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the

**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**A. Basis of Presentation, (continued)**

intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and or net income is appropriate for capital maintenance, public policy, accountability or other purposes. The Governmental Accounting Standards Board GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant of the Authority's accounting policies are described below.

On January 1, 2012, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which amends the net asset reporting requirement of Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows from resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The classifications of net position are defined as follows:

- *Net investment in capital assets* - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are any significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather that portion of the debt is included in the same net position component as the unspent proceeds.
- *Restricted* - This component of net position consists of constraints placed on net position used through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* - This component of net position consists of net position that do not meet the definition of "restricted" or "net investment in capital assets."

**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**B. Basis of Accounting**

The Musconetcong Sewerage Authority prepares its financial statements on the accrual basis of accounting in accordance with generally accepted accounting principles. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

**C. Reporting Entity**

The Authority's financial statements include the accounts of all Authority operations. The primary criterion for including activities within the Authority's reporting entity, is set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards. Based on this criteria, the Authority is a legally separate organization and has no component units.

**D. Risks of Loss**

The Authority purchases commercial insurance policies on an annual basis to handle risks of loss associated with property, auto, liability, workers compensation, flood damage, and employee crime coverage. Any potential liability of the Authority with respect to loss claims would be equal to the deductibles associated with the policies and an event, which may exceed policy coverage limits.

**E. Grants**

Contributions received from the U.S. Environmental Protection Agency and N.J. Department of Environmental Protection are recorded in the period in which they are awarded.

Grants receivable, if any, represent the total grant awards less amounts collected to date. Grants, if any, not internally restricted and utilized to finance operations are identified as non-operating revenue. Grants externally restricted for non-operating purposes are recorded as contributed capital and identified as grants-in-aid.

**F. Inventories of Materials and Supplies**

The cost of inventories, primarily chemicals for the treatment of sewerage and sludge, are recorded as expenditures at the time individual items are purchased, since they are not material to the results of operations and financial position.

**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**G. Property, Plant and Equipment**

Property, Plant and Equipment is stated at cost which includes direct construction costs and other expenditures related to construction. Land is stated at approximate fair market value as of the date it was donated to the Authority or at the purchase price if purchased by the Authority.

System construction costs are charged to construction in progress until such time as given segments of the system are completed and placed into operation.

Depreciation is determined on a straight-line basis for all plant and equipment. Depreciation is provided over the following estimated useful lives:

Building and Improvements	20-50 Years
Sewer Mains and Interceptors	50 Years
Machinery and Equipment	10-20 Years
Furniture and Fixtures	5 Years
Vehicles	3-10 Years

Depreciation on assets acquired with grants-in-aid and contributed capital assets is recorded as a reduction of contributed capital.

A summary of the changes in property, plant and equipment at December 31, 2019 and 2018 are as follows:

	<u>Balance</u> <u>12/31/18</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/19</u>
Land	\$505,700	\$	\$	\$505,700
Infrastructure, Buildings & Equipment	60,838,231	442,302		61,280,533
Vehicles	201,060			201,060
Construction in Progress	<u>505,068</u>	<u>393,045</u>	<u>442,302</u>	<u>455,811</u>
	62,050,059	835,347	442,302	62,443,104
Less: Accumulated Depreciation	<u>(36,330,915)</u>	<u>(1,774,818)</u>		<u>(38,105,733)</u>
Total Capital Assets	<u>\$25,719,144</u>	<u>(\$939,471)</u>	<u>\$442,302</u>	<u>\$24,337,371</u>



**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**G. Property, Plant and Equipment, (continued)**

	<u>Balance</u> <u>12/31/17</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/18</u>
Land	\$505,700	\$	\$	\$505,700
Infrastructure, Buildings & Equipment	60,140,481	697,750		60,838,231
Vehicles	201,060			201,060
Construction in Progress	<u>140,812</u>	<u>364,256</u>	_____	<u>505,068</u>
	60,988,053	1,062,006		62,050,059
Less: Accumulated Depreciation	<u>(34,578,211)</u>	<u>(1,752,704)</u>	_____	<u>(36,330,915)</u>
Total Capital Assets	<u>\$26,409,842</u>	<u>(\$690,698)</u>	<u>\$</u>	<u>\$25,719,144</u>

**H. Restricted Accounts**

**Bond Service Fund**

This fund was established to provide funds for the current debt service reserve requirement.

**Escrow Fund**

This account was established for developer escrow deposits and related disbursements.

The Authority has established the following designated unrestricted accounts:

**Future Retirement Reserve**

This fund was established to plan for the upcoming retirements of contracted personnel. Payments to employees who retire with unused sick and/or vacation time up to a maximum of \$15,000.

**Capital Improvement Reserve**

This account was established to fund future plant upgrades and other capital improvements.

**Renewal and Replacement Reserve**

This account was established to fund major repairs, renewals or maintenance items of a type not recurring annually.

**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**H. Restricted Accounts, (continued)**

**Operations Reserve**

The fund was established to provide a reserve for future operations.

**I. Unamortized Gain on Refunded Debt**

Gains on refunded debt are being amortized over the remaining life of the issues.

**J. Operating Fund Budget**

The budget amounts included in the statement of budget revenues and statement of budget expenditures were approved in accordance with the requirements of the “Local Finance Board” of the State of New Jersey, and were adopted by the Commissioners after legal advertisement and public hearing.

**K. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of net position, and reported amounts of revenues and expenses during the reporting period. These estimates and assumptions include depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results may differ from those estimates.

**L. Risk of Loss**

The Authority purchases commercial insurance policies on an annual basis to handle risks of loss associated with property, auto, liability, workers compensation, flood damage and employee crime coverage. Any potential liability of the Authority with respect to loss claims would be equal to the deductibles associated with policies and an event, which may exceed policy coverage limits.

**M. Sick and Vacation Leave**

The Authority’s policies regarding sick time permit employees to accumulate earned but unused sick leave with total payment not to exceed fifteen thousand dollars. The proprietary fund reports the liability as it is incurred.

**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**N. Net Position**

Net position represent the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**O. Recent Accounting Pronouncements**

The Government Accounting Standards Board issued GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placement*. The objective of this Statement is to improve consistency in the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt. This Statement is effective for reporting periods beginning after June 15, 2018. The Authority believes this may impact the disclosures relating to debt in the notes to the financial statements.

In June 2018, the Government Accounting Standards Board issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. This Statement is effect for fiscal years beginning after December 15, 2019, though earlier application is encouraged. The Authority believes this Statement may impact the reporting of certain interest payments previously recorded as capital expenditures.

In August 2018, the Government Accounting Standards Board issued GASB Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. This Statement improves the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. The Authority does not believe this Statement will have any effect on future financial statements.

**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**O. Recent Accounting Pronouncements, (continued)**

In May 2019, the Government Accounting Standards Board issued GASB Statement No. 91, *Conduit Debt Obligations*. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This Statement is effective for reporting periods beginning after December 15, 2020. The Authority does not believe this Statement will have any effect on future financial statements.

In January 2020, the Government Accounting Standards Board issued GASB Statement No. 92, *Omnibus*. This Statement enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions. The Authority does not believe this Statement will have any effect on future financial statements.

In March 2020, the Government Accounting Standards Board issued GASB Statement No. 93, *Replacement of Interbank Offering Rates*. The objective of this Statement is to address certain issues with Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, as amended, Statement No. 87, *Leases*, as amended and other accounting and financial reporting implications that result from the replacement of an IBOR. The requirements of this Statement are effective for fiscal years beginning after June 15, 2020. The Authority does not believe this Statement will have any effect on future financial statements.

In March 2020, the Government Accounting Standards Board issued GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. Some PPPs meet the definition of a service concession arrangement (SCA), which the Board defines in this Statement as a PPP in which

**MUSCONETCONG SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**O. Recent Accounting Pronouncements, (continued)**

(1) the operator collects and is compensated by fees from third parties; (2) the transferor determines or has the ability to modify or approve which services the operator is required to provide, to whom the operator is required to provide the services, and the prices or rates that can be charged for the services; and (3) the transferor is entitled to significant residual interest in the service utility of the underlying PPP asset at the end of the arrangement. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). As defined in this Statement, an APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. The Authority does not believe this Statement will have any effect on future financial statements.

In May 2020, the Government Accounting Standards Board issued GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The effective dates of certain provisions contained in the following pronouncements are postponed by one year: Statement No. 83, *Certain Asset Retirement Obligations*; Statement No. 84, *Fiduciary Activities*; Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*; Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*; Statement No. 90, *Majority Equity Interests*; Statement No. 91, *Conduit Debt Obligations*; Statement No. 92, *Omnibus 2020*; Statement No. 93, *Replacement of Interbank Offered Rates*; Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*; Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*; Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*; Implementation Guide No. 2019-2, *Fiduciary Activities*. The effective dates of the following pronouncements are postponed by 18 months: Statement No. 87, *Leases*; Implementation Guide No. 2019-3, *Leases*. The requirements of this Statement are effective immediately.

In May 2020, the Government Accounting Standards Board issued GASB Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a

**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

**O. Recent Accounting Pronouncements, (continued)**

corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. The Authority is still determining the effects, if any, this statement will have on future financial statements.

**P. Revenues and Expenses**

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority are charges to customers for services. Operating expenses include the cost of operations and services, administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses. State and federal grants for the operation of the Authority are considered operating revenues. Transactions or other events that are both unusual in nature and infrequent in occurrence are reported as extraordinary items.

**NOTE 3. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest.

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

**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 3. CASH AND CASH EQUIVALENTS, (continued)**

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank of New York, The Federal Reserve Bank of Philadelphia, the Federal Home Loan Bank of New York, or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

As of December 31, 2019 and 2018, the Authority's cash and cash equivalents are summarized as follows:

	<u>2019</u>	<u>2018</u>
Unrestricted	\$2,514,859	\$2,165,817
Restricted	<u>68,545</u>	<u>79,157</u>
	<u>\$2,583,404</u>	<u>\$2,244,974</u>

The carrying amount of the Authority's cash and cash equivalents at December 31, 2019 was \$2,583,404 and the bank balance was \$2,613,879. This entire amount was covered by federal depository insurance and the collateral pool maintained by the banks as required by New Jersey Statutes.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Authority's policy is based on New Jersey statutes requiring cash be deposited only in New Jersey based on banking institutions that participate in New Jersey Governmental Depository Protection Act (GUDPA) or in a qualified investment established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. As of December 31, 2019, \$-0- of the Authority's bank balance of \$2,613,879 was exposed to custodial risk.

**MUSCONETCONG SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 4. ACCOUNTS RECEIVABLE**

The Authority bills participant customers on a quarterly basis. Credits are issued during the year if the previous year's budgetary revenues exceed expenses, less any net position utilized for budget purposes. The Authority had the following accounts receivable at December 31, 2019 and 2018

	<u>Balance</u> <u>Jan. 1, 2019</u>	<u>Annual</u> <u>Billings</u>	<u>Municipal</u> <u>Credits</u>	<u>Amounts</u> <u>Received</u>	<u>Balance</u> <u>Dec.31, 2019</u>
Township of Byram	\$ -	\$93,547	(\$5,416)	\$88,031	\$100
Borough of Hopatcong	245,867	994,439	(30,966)	1,209,340	-
Borough of Mount Arlington	-	304,292	(17,619)	286,673	-
Township of Mount Olive	-	1,413,573	(81,846)	1,331,727	-
Borough of Netcong	-	416,787	(24,132)	392,655	-
Township of Roxbury	-	707,247	(40,950)	666,297	-
Borough of Stanhope	-	497,517	(28,806)	468,711	-
	<u>\$245,867</u>	<u>\$4,427,402</u>	<u>(\$229,735)</u>	<u>\$4,443,434</u>	<u>\$100</u>
	<u>Balance</u> <u>Jan. 1, 2018</u>	<u>Annual</u> <u>Billings</u>	<u>Municipal</u> <u>Credits</u>	<u>Amounts</u> <u>Received</u>	<u>Balance</u> <u>Dec.31, 2018</u>
Township of Byram	\$ -	\$92,751	(\$9,261)	\$83,490	\$ -
Borough of Hopatcong	-	983,469	(52,945)	684,657	245,867
Borough of Mount Arlington	-	301,702	(30,125)	271,577	-
Township of Mount Olive	-	1,401,544	(139,942)	1,261,602	-
Borough of Netcong	-	413,241	(41,262)	371,979	-
Township of Roxbury	-	701,229	(70,017)	631,212	-
Borough of Stanhope	-	493,283	(49,254)	444,029	-
	<u>\$ -</u>	<u>\$4,387,219</u>	<u>(\$392,806)</u>	<u>\$3,748,546</u>	<u>\$245,867</u>

**NOTE 5. BONDS AND NOTES PAYABLE**

The Authority has issued and outstanding the following bonds as of December 31, 2019 and 2018:

	<u>Balance</u> <u>Jan. 1, 2019</u>	<u>Retirements/</u> <u>Repayments</u>	<u>Balance</u> <u>Dec. 31, 2019</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Series 2002 NJ Envir. Trust & Fund Bonds	\$1,706,638	\$408,573	\$1,298,065	\$416,924
Series 2007 NJ Envir. Trust & Fund Bonds	542,148	132,257	409,891	130,097
Series 2010 NJ Envir. Trust & Fund Bonds	<u>1,166,098</u>	<u>89,815</u>	<u>1,076,283</u>	<u>91,815</u>
	<u>\$3,414,884</u>	<u>\$630,645</u>	<u>\$2,784,239</u>	<u>\$638,836</u>



**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 5. BONDS AND NOTES PAYABLE, (continued)**

	<u>Balance</u> <u>Jan. 1, 2018</u>	<u>Retirements/ Repayments</u>	<u>Balance</u> <u>Dec. 31, 2018</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Series 2002 NJ Envir. Trust & Fund Bonds	\$2,106,603	\$399,965	\$1,706,638	\$408,573
Series 2007 NJ Envir. Trust & Fund Bonds	668,325	126,177	542,148	132,257
Series 2010 NJ Envir. Trust & Fund Bonds	<u>1,255,913</u>	<u>89,815</u>	<u>1,166,098</u>	<u>89,815</u>
	<u>\$4,030,841</u>	<u>\$615,957</u>	<u>\$3,414,884</u>	<u>\$630,645</u>

Presented below is a summary of debt service requirements to maturity for all permanently financed bonds:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$638,836	\$73,709	\$712,545
2021	666,177	56,443	722,620
2022	686,388	37,958	724,346
2023	95,815	19,085	114,900
2024	99,815	17,035	116,850
2025	99,815	14,785	114,600
2026	104,815	12,535	117,350
2027-2030	<u>392,578</u>	<u>25,290</u>	<u>417,868</u>
	<u>\$2,784,239</u>	<u>\$256,840</u>	<u>\$3,041,079</u>

**Series 2002A NJ Environmental Infrastructure Trust Bonds**

On October 15, 2002, the Authority issued \$6,306,851 Series 2002A Subordinate Bonds through the New Jersey Environmental Infrastructure Trust Program. These bonds are being used for improvements to the treatment facilities.

Principal and interest due on outstanding 2002A bonds to maturity is as follows:

<u>Year</u> <u>Ending</u>	<u>NJEIT SERIES 2002A</u>		<u>Fund Portion</u>	<u>Total</u> <u>Debt Service</u>
	<u>Trust Portion</u>			
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
2020	\$237,936	\$37,674	\$178,988	\$454,598
2021	252,289	25,658	180,536	458,483
2022	<u>266,695</u>	<u>12,923</u>	<u>181,621</u>	<u>461,239</u>
	<u>\$756,920</u>	<u>\$76,255</u>	<u>\$541,145</u>	<u>\$1,374,320</u>

**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 5. BONDS AND NOTES PAYABLE, (continued)**

**Series 2007A NJ Environmental Infrastructure Trust Bonds**

On November 8, 2007 the Authority issued \$1,796,790 Series 2007A Subordinate Bonds through the New Jersey Environmental Infrastructure Trust Program. These bonds are being used for improvements to the treatment facilities. On February 1, 2016, these bonds were internally refunded by the New Jersey Environmental Infrastructure Trust, resulting in a savings of \$40,000 in principal and \$8,206 in interest.

Principal and interest due on outstanding 2007A bonds to maturity is as follows:

Year	NJEIT SERIES 2007A				
	Trust Portion		Fund Portion		Total
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Debt Service</u>	
Ending					
2020	\$68,000	\$11,000	\$62,097	\$141,097	
2021	74,000	7,600	63,537	145,137	
2022	78,000	3,900	64,257	146,157	
	<u>\$220,000</u>	<u>\$22,500</u>	<u>\$189,891</u>	<u>\$432,391</u>	

**Series 2010B NJ Environmental Infrastructure Trust Bonds**

On December 2, 2010, the Authority issued \$2,281,703 Series 2010B Subordinate Bonds through the New Jersey Environmental Infrastructure Trust Program. These bonds included \$186,838 in fund principal forgiveness.

Principal and interest due on outstanding 2019 bonds to maturity is as follows:

Year	NJEIT SERIES 2010B				
	Trust Portion		Fund Portion		Total
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Debt Service</u>	
Ending					
2020	\$37,000	\$25,035	\$54,815	\$116,850	
2021	41,000	23,185	54,815	119,000	
2022	41,000	21,135	54,815	116,950	
2023	41,000	19,085	54,815	114,900	
2024	45,000	17,035	54,815	116,850	
2025	45,000	14,785	54,815	114,600	
2026	50,000	12,535	54,815	117,350	
2027	55,000	10,035	54,815	119,850	
2028	55,000	7,560	54,815	117,375	
2029	55,000	5,085	54,208	114,293	
2030	58,000	2,610	5,740	66,350	
	<u>\$523,000</u>	<u>\$158,085</u>	<u>\$553,283</u>	<u>\$1,234,368</u>	

**MUSCONETCONG SEWERAGE AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS, CONTINUED  
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 5. BONDS AND NOTES PAYABLE, (continued)**

**Notes Payable - New Jersey Infrastructure Bank**

On June 27, 2019, the Authority adopted a resolution authorizing the issuance of \$6,500,000 subordinate bonds for the influent/effluent facilities project (NJIB Project S340 384-09). On November 21, 2019, the New Jersey Infrastructure Bank granted temporary financing for this project in the amount of \$6,000,000. As of December 31, 2019, the Authority has not drawn down on this temporary financing.

**NOTE 6. PENSION PLAN**

**Description of Plans:**

Authority employees participate in one of the two contributory, defined benefit public employee retirement systems: the State of New Jersey Public Employees' Retirement System (PERS) or the Defined Contribution Retirement Program (DCRP), a tax-qualified defined contribution money purchase pension plan under Internal Revenue Code (IRC) 401(a).

*Public Employees' Retirement System (PERS)*

**Plan Description**

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 the PERS, please refer to the Division's Comprehensive Annual Financial Report (CAFR) which can be found at [www.state.nj.us/treasury/pensions/annrpts.shtml](http://www.state.nj.us/treasury/pensions/annrpts.shtml).

**Benefits Provided**

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:

<u>Tier</u>	<u>Definition</u>
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

**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 6. PENSION PLANS, (continued)**

*Public Employees' Retirement System (PERS), (continued)*

Service retirement benefits of 1/55<sup>th</sup> 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 1/60<sup>th</sup> of final average salary for each year of service credit is available to Tier 4 members upon reaching age 62 and to Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, to 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.

**Defined Contribution Retirement Program**

Prudential Financial jointly administers the DCRP investments with the NJ Division of Pensions and Benefits. If an employee is ineligible to enroll in the PERS or PFRS, the employee may be eligible to enroll in the DCRP. DCRP provides eligible members with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting is immediate upon enrollment for members of the DCRP.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the DCRP. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625-0295.

Employers are required to contribute at an actuarially determined rate. Employee contributions are based on percentages of 5.50% for DCRP of employees' annual compensation, as defined. The DCRP was established July 1, 2007, under the provisions of Chapter 92, P.L. 2007 and expanded under the provisions of Chapter 89, P.L. 2008. Employee contributions for DCRP are matched by a 3% employer contribution.

**Contribution Requirements**

The contribution policy is set by laws of the State of New Jersey and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The pension funds provide for employee contributions based on 7.5% for PERS. Employers are required to contribute at an actuarially determined rate in all Funds. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS. In the PERS, the employer contribution includes funding for post-retirement medical premiums.

**MUSCONETCONG SEWERAGE AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS, CONTINUED  
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 6. PENSION PLANS, (continued)**

The Authority's contribution to the various plans, equal to the required contributions for each year, were as follows:

<b>Year</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>
12/31/18	\$96,512	100%
12/31/18	96,046	100%
12/31/17	96,458	100%

**ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68**

**Public Employees Retirement System (PERS)**

At December 31, 2019 and 2018, the Authority reported a liability of \$1,861,226 and \$1,901,218 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating governments, actuarially determined. At June 30, 2019, the Authority's proportion was 0.01033295403 percent, which was an increase of 0.0006735406 percent from its proportion measured as of June 30, 2018.

For the year ended December 31, 2019, the Authority recognized pension expense of \$145,152. At December 31, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>2019</u>	<u>2018</u>
Deferred Outflows of Resources:		
Changes of assumptions	\$185,850	\$313,289
Net difference between projected and actual earnings on pension plan investments	33,407	36,257
Changes in proportion and differences between Authority contributions and proportionate share of contributions	197,055	133,645
Authority contributions subsequent to the measurement date	<u>105,110</u>	<u>96,046</u>
Total	<u>\$521,422</u>	<u>\$579,237</u>

**MUSCONETCONG SEWERAGE AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS, CONTINUED  
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 6. PENSION PLANS, (continued)**

**ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS  
 PER - GASB NO. 68, (continued)**

**Public Employees Retirement System (PERS), (continued)**

	<u>2019</u>	<u>2018</u>
Deferred Inflows of Resources:		
Changes of assumptions	\$646,026	\$607,908
Net difference between projected and actual earnings on pension plan investments	29,380	27,637
Changes in proportion and differences between Authority contributions and proportionate share of contributions	118,193	140,266
Other deferred pension adjustments	<u>100,423</u>	<u>96,458</u>
Total	<u>\$894,022</u>	<u>\$872,269</u>

The \$105,110 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date (i.e. for the fiscal year ending December 31, 2019, the plan measurement date is June 30, 2019) will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
2019	\$	\$(13,195)
2020	(53,744)	(18,269)
2021	(174,344)	(131,005)
2022	(155,679)	(113,558)
2023	(73,099)	(36,363)
2024	(7,506)	

**Changes in Proportion**

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 5.21, 5.63, 5.48, 5.57, 5.72 and 6.44 years for 2019, 2018, 2017, 2016, 2015 and 2014 amounts, respectively.

**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 6. PENSION PLANS, (continued)**

**ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)**

**Public Employees Retirement System (PERS), (continued)**

**Additional Information**

Local Group Collective balances net of nonemployer (State of New Jersey) balances at November 30, 2019 and June 30, 2018 are as follows:

	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
Collective deferred outflows of resources	\$3,149,522,616	\$4,684,852,302
Collective deferred inflows of resources	7,645,087,574	7,646,736,226
Collective net pension liability	18,018,482,972	19,689,501,539
Authority's Proportion	0.0103295403%	0.009655999%

**Actuarial Assumptions**

The collective total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of July 1, 2018, which rolled forward to June 30, 2019. This actuarial valuation used the following assumptions, applied to all periods in the measurement.

Inflation Rate:	
Price	2.75%
Wage	3.25%
Salary Increases:	
Through 2026	2.00-6.00% (based on years of service)
Thereafter	3.00-7.00% (based on years of service)
Investment Rate of Return	7.00 Percent

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2014 to June 30, 2018. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 6. PENSION PLANS, (continued)**

**ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)**

**Public Employees Retirement System (PERS), (continued)**

**Mortality Rates**

Pre-retirement mortality rates were based on the Pub-2010 General Below-Median Income Employee mortality table with an 82.2% adjustment for males and 101.4% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Post-retirement mortality rates were based on the Pub-2010 General Below-Median Income Healthy Retiree mortality table with a 91.4% adjustment for males and 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2010 Non- Safety Disabled Retiree mortality table with a 127.7% adjustment for males and 117.2% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement based on Scale MP-2019.

**Long-Term Rate of Return**

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2019) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Risk Mitigation Strategies	3.00%	4.67%
Cash equivalents	5.00%	2.00%
U.S. Treasuries	5.00%	2.68%
Investment grade credit	10.00%	4.25%
High yield	2.00%	5.37%
Private credit	6.00%	7.92%
Real assets	2.50%	9.31%
Real estate	7.50%	8.33%
U.S. equity	28.00%	8.26%
Non-U.S. developed markets equity	12.50%	9.00%
Emerging markets equity	6.50%	11.37%
Private equity	12.00%	10.85%



**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 6. PENSION PLANS, (continued)**

**ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)**

**Public Employees Retirement System (PERS), (continued)**

**Discount Rate**

The discount rate used to measure the total pension liability was 6.28% as of June 30, 2019. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.50% as of June 30, 2019 based on the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 70% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2057. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2057 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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

The following presents the collective net pension liability of the participating employers as of June 30, 2019 calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1 -percentage point lower or 1- percentage-point higher than the current rate:

	<u>June 30, 2019</u>		
	1% Decrease <u>5.28%</u>	At Current Discount Rate <u>6.28%</u>	1% Increase <u>7.28%</u>
Authority's proportionate share of the pension liability	\$2,367,387	\$1,861,226	\$1,458,573
	<u>June 30, 2018</u>		
	1% Decrease <u>4.66%</u>	At Current Discount Rate <u>5.66%</u>	1% Increase <u>6.66%</u>
Authority's proportionate share of the pension liability	\$2,390,563	\$1,901,218	\$1,490,689

**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 6. PENSION PLANS, (continued)**

**ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)**

**Public Employees Retirement System (PERS), (continued)**

**Pension Plan Fiduciary Net Position**

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

**NOTE 7. ACCRUED SICK AND VACATION BENEFITS**

The Authority permits employees to accrue a limited amount of unused vacations and sick pay, which may be paid upon retirement or death at an agreed-upon rate. It is estimated that the current cost of such unpaid compensation would approximate \$49,512 and \$57,504 at December 31, 2019 and 2018, respectively. This amount is reported as a liability and it is expected that the cost of such unpaid compensations would be included in the Authority's budget operating expenditures in the year in which it is used or charged to its reserve for future retirements which has a balance of \$50,000 as of December 31, 2019 and 2018.

**NOTE 8. RELATED PARTIES**

Mr. John Sylvester, Mr. Elmer Still, Mr. Rich Schindelar, Mr. Andrew Cangiano and Tom Romano, Commissioners of the Authority, are also Councilmen of the Boroughs of Netcong, Netcong, Hopatcong, Mt. Arlington and Stanhope, respectively. The schedule of operating revenues includes \$416,787, \$994,439, \$304,292 and \$497,517 of revenue from the Boroughs of Netcong, Hopatcong, Mt. Arlington and Stanhope and the schedule of amount due to/(from) municipalities includes \$26,704, \$34,266, \$19,496 and \$31,876 due to the Boroughs of Netcong, Hopatcong, Mt. Arlington and Stanhope.

**NOTE 9. COMMITMENTS AND CONTINGENT LIABILITIES**

Various legal actions, proceedings and claims are pending or may be instituted or asserted against the Authority. They are as follows:

The Authority has received a final NJ Pollutant Discharge Elimination System Permit Action issued by the NJ DEP. The Authority's engineer estimates that the Capital Cost for the advanced treatment system and related components to comply with the requirements of the Permit would be between \$30,000,000 and \$45,000,000. The Authority appealed the permit and the matter was partially resolved. A Stipulation of

**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 9. COMMITMENTS AND CONTINGENT LIABILITIES, (continued)**

Settlement was entered into between the parties and a renewal permit was issued effective July 1, 2015. There remains one unresolved issue, the limit for nitrates, which DEP advised it will determine as part of the Authority's next renewal permit. The existing permit will expire on June 30, 2020. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings.

While the outcome of the above noted proceedings cannot be predicted, the financial impact will become clearer once the final nitrate limit is known.

**NOTE 10. RISK MANAGEMENT**

The Musconetcong Sewerage 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 is a member of the New Jersey Utility Authorities Joint Insurance Fund (the "Fund"). The Fund is both an insured and self-administered group of utilities established for the purpose of providing certain low-cost property, liability, public official's liability and workers' compensation insurance coverage for member authorities. The Musconetcong Sewerage Authority pays an annual assessment to the Fund and should it be determined that payments received by the Fund for deficient, additional assessments may be levied.

The Authority continues to carry commercial insurance coverage for all other risks of loss, including employee health and life insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE 11. DESIGNATION OF UNRESTRICTED NET ASSETS**

The Authority maintains funds that, although may be spent for any lawful purpose by the Authority, have been designated by the Board as follows:

	<u>2019</u>	<u>2018</u>
Designated for Future Retirement Reserve	\$50,000	\$50,000
Designated for Capital Improvement Reserve	656,663	613,933
Designated for Renewal and Replacement Reserve	390,336	447,705
Designated for Operations Reserve	<u>50,000</u>	<u>50,000</u>
Total Designated - Unrestricted	<u>\$1,146,999</u>	<u>\$1,161,638</u>

**MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**NOTE 11. DESIGNATION OF UNRESTRICTED NET ASSETS, (continued)**

At December 31, 2019 and 2018, the Authority reported a total amount of \$1,146,999 and \$1,161,638, respectively, of Unrestricted Net Position - Designated for the purposes described above.

The remaining, undesignated portion of the Authority's net position was comprised of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Pension Related	(\$2,338,936)	(\$2,290,296)
Available for Use in Future Budgets	<u>779,272</u>	<u>754,257</u>
	<u>(\$1,559,664)</u>	<u>(\$1,536,039)</u>

**NOTE 12. SUBSEQUENT EVENTS**

On March 9, 2020, Governor Phil Murphy signed Executive Order No. 103 that declared a State of Emergency and Public Health Emergency across all 21 counties in New Jersey in response to address the novel coronavirus (COVID-19) outbreak. At the time of this report, the overall effects of the COVID-19 pandemic are unknown. In efforts to reduce the spread of the virus, many companies and organizations have either reduced staff or closed down, thus creating a potential financial dilemma among many of the ratepayers in the municipalities serviced by the Musconetcong Sewerage Authority. The Authority has identified several risks as a result of this pandemic, including a possible delay in collection of participant charges and potential cash flow shortages as the result of these delayed collections. The Authority will continue to monitor the situation closely.

The Musconetcong Sewerage Authority has evaluated subsequent events through July 8, 2020, the date which the financial statements were available to be issued and no other items were noted for disclosure.

**NOTE 13. INTERFUND TRANSFERS**

At December 31, 2019, the following interfund transfers were outstanding between cash and reserve accounts:

	<u>Due From</u>	<u>Due To</u>
Cash - Capital Improvement	\$	\$2,807
Cash - Renewal & Replacement	2,788	
Cash - Operating	19	
Reserve - Capital Improvement		71,594
Reserve - Unrestricted	<u>71,594</u>	<u>          </u>
	<u>\$74,401</u>	<u>\$74,401</u>

**Required Supplementary Information - Part II**

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**SCHEDULE RSI-1**

**MUSCONETCONG SEWERAGE AUTHORITY**  
**Required Supplementary Information**  
**Schedule of the Authority's Proportionate Share of the Net Pension Liability**  
**Public Employees' Retirement System (PERS)**  
**Last Six Fiscal Years**

	<u>Measurement Date Ending June 30,</u>					
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's Proportion of the Net Pension Liability	0.0103295403%	0.009655997%	0.01041221%	0.00993499%	0.00981364%	0.00940980%
Authority's Proportionate Share of the Net Pension Liability	\$1,861,226	\$1,901,218	\$2,423,796	\$2,942,458	\$2,202,966	\$1,761,771
Authority's Covered-Employee Payroll	\$645,204	\$733,281	\$708,332	\$713,958	\$683,452	\$680,200
Authority's Proportionate Share of the Net Pension Liability as a Percentage of it's Covered-Employee Payroll	288.47%	259.28%	342.18%	412.13%	322.33%	259.01%

Note: This schedule is 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.

SCHEDULE RSI-2

**MUSCONETCONG SEWERAGE AUTHORITY**  
**Required Supplementary Information**  
**Schedule of the Authority's Contributions**  
**Public Employees' Retirement System (PERS)**  
**Last Six Fiscal Years**

	Fiscal Year Ended December 31,					
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 96,512	\$ 96,046	\$ 96,458	\$ 84,371	\$ 77,573	\$ 65,069
Contributions in Relation to the Contractually Required Contribution	<u>(96,512)</u>	<u>(96,046)</u>	<u>(96,458)</u>	<u>(84,371)</u>	<u>(77,573)</u>	<u>(65,069)</u>
Contribution Deficiency (Excess)	\$ <u>          </u>	\$ <u>          </u>	\$ <u>          </u>	\$ <u>          </u>	\$ <u>          </u>	\$ <u>          </u>
Authority's Covered-Employee Payroll	\$ 645,204	\$ 733,281	\$ 708,332	\$ 713,958	\$ 683,452	\$ 680,200
Contributions as a Percentage of Authority's Covered-Employee Payroll	14.96%	13.10%	13.62%	11.82%	11.35%	9.57%

Note: This schedule is 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.



**MUSCONETCONG SEWERAGE AUTHORITY  
Notes to Required Supplementary Information  
For the Year ended December 31, 2019**

**Public Employees' Retirement System (PERS)**

Changes in Benefit Terms - None

Changes in Assumptions - The discount rate changed from 5.66% as of June 30, 2018 to 6.28% as of June 30, 2019, in accordance with Paragraph 44 of GASB Statement No. 67.

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**Supplementary Schedules**

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MUSCONETCONG SEWERAGE AUTHORITY  
 SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
 FOR THE YEAR ENDED DECEMBER 31, 2019

	Restricted		Unrestricted				Total
	Net Investment in Capital Assets	Current Debt Service Reserve	Future Retirement Reserve	Capital Improvement Reserve	Designated Renewal and Replacement Reserve	Operations Reserve	
Operating Revenue:							
Service Agreements							4,427,402
Miscellaneous							28
Total Operating Revenue							4,427,430
Operating Expense:							
Administrative and General							258,829
Cost of Providing Services							2,887,887
Depreciation	1,774,818						1,774,818
Total Operating Expense	1,774,818						3,146,716
Operating Income	(1,774,818)						1,280,714
Non-Operating Revenue (Expense):							
Interest Income							21,061
Interest Expense							(65,550)
Excess Due to Municipalities							(254,220)
Amortization	6,800						6,800
Net Income (Loss) Before Transfers	(1,768,018)						982,005
Transfers:							
Capital Expenditures	393,045			(235,676)	(157,369)		(93,045)
Budget Appropriations				300,000	100,000		(400,000)
Bond Payments	630,645						(630,645)
Other Transfers		(3,421)		(21,594)			25,015
Increase/(Decrease) in Net Position	(744,328)	(3,421)		42,730	(57,369)		(786,013)
Net Position - Jan. 1, 2019	22,280,460	32,673	50,000	613,933	447,705	50,000	21,938,732
Net Position - December 31, 2019	21,536,132	29,252	50,000	656,663	390,336	50,000	21,152,719

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## MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND  
CHANGES IN CASH AND INVESTMENTS  
UNRESTRICTED AND RESTRICTED ACCOUNTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

	Operating Account	Payroll Account	Capital Improvement Account	Renewal and Replacement Account
<b>Cash, Cash Equivalents and Investments - January 1, 2019</b>	1,026,039	10,365	737,313	463,204
<b>Cash Receipts:</b>				
Interest on Investments	21,061			
Service Charges	4,443,435			
Miscellaneous	28			
Escrow Deposits				
Transfers	34,166	914,010	300,000	100,000
<b>Total Cash Receipts</b>	<u>4,498,690</u>	<u>914,010</u>	<u>300,000</u>	<u>100,000</u>
<b>Cash and Investments Available</b>	<u>5,524,729</u>	<u>924,375</u>	<u>1,037,313</u>	<u>563,204</u>
<b>Cash Disbursements:</b>				
Operations	1,918,586	899,488		
Bond Principal Payments	630,645			
Interest Payments	66,125			
Capital and Other Expenses			449,743	162,037
Escrow Payments				
Transfers	1,314,010		26,123	8,043
<b>Total Cash Disbursements</b>	<u>3,929,366</u>	<u>899,488</u>	<u>475,866</u>	<u>170,080</u>
<b>Cash, Cash Equivalents and Investments - December 31, 2019</b>	<u><u>1,595,363</u></u>	<u><u>24,887</u></u>	<u><u>561,447</u></u>	<u><u>393,124</u></u>
<b>Analysis of Balance:</b>				
Cash and Cash Equivalents	<u>1,595,363</u>	<u>24,887</u>	<u>561,447</u>	<u>393,124</u>
	<u><u>1,595,363</u></u>	<u><u>24,887</u></u>	<u><u>561,447</u></u>	<u><u>393,124</u></u>
Unrestricted	1,535,401	24,887	561,447	393,124
Restricted	<u>59,962</u>			
	<u><u>1,595,363</u></u>	<u><u>24,887</u></u>	<u><u>561,447</u></u>	<u><u>393,124</u></u>

## MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND  
CHANGES IN CASH AND INVESTMENTS  
UNRESTRICTED AND RESTRICTED ACCOUNTS  
FOR THE YEAR ENDED DECEMBER 31, 2019

	<u>Escrow Account</u>	<u>Total</u>
<b>Cash, Cash Equivalents and Investments - January 1, 2019</b>	8,053	2,244,974
<b>Cash Receipts:</b>		
Interest on Investments		21,061
Service Charges		4,443,435
Miscellaneous		28
Escrow Deposits	6,800	6,800
Transfers		1,348,176
	<u>6,800</u>	<u>1,348,176</u>
<b>Total Cash Receipts</b>	<u>6,800</u>	<u>5,819,500</u>
<b>Cash and Investments Available</b>	<u>14,853</u>	<u>8,064,474</u>
<b>Cash Disbursements:</b>		
Operations		2,818,074
Bond Principal Payments		630,645
Interest Payments		66,125
Capital and Other Expenses		611,780
Escrow Payments	6,270	6,270
Transfers		1,348,176
	<u>6,270</u>	<u>1,348,176</u>
<b>Total Cash Disbursements</b>	<u>6,270</u>	<u>5,481,070</u>
<b>Cash, Cash Equivalents and Investments - December 31, 2019</b>	<u>8,583</u>	<u>2,583,404</u>
<b>Analysis of Balance:</b>		
Cash and Cash Equivalents	<u>8,583</u>	<u>2,583,404</u>
	<u>8,583</u>	<u>2,583,404</u>
Unrestricted	-	2,514,859
Restricted	<u>8,583</u>	<u>68,545</u>
	<u>8,583</u>	<u>2,583,404</u>



MUSCONETCONG SEWERAGE AUTHORITY  
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED  
BY OPERATING REVENUE COMPARED TO BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2019

	FY 2019 Adopted Budget	FY 2019 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
<b>Revenues:</b>					
Net Position Appropriated	107,978	107,978	107,978	-	101,880
Operating Revenues:					
Service Charges:					
Township of Byram	93,547	93,547	93,547	-	92,751
Borough of Hopatcong	994,439	994,439	994,439	-	983,469
Borough of Mount Arlington	304,292	304,292	304,292	-	301,702
Township of Mount Olive	1,413,573	1,413,573	1,413,573	-	1,401,544
Borough of Netcong	416,787	416,787	416,787	-	413,241
Township of Roxbury	707,247	707,247	707,247	-	701,229
Borough of Stanhope	497,517	497,517	497,517	-	493,283
Miscellaneous	-	-	28	28	2,500
Non-Operating Revenues:					
Interest on Investments	-	-	21,061	21,061	12,601
<b>Total Revenues</b>	<b>4,535,380</b>	<b>4,535,380</b>	<b>4,556,469</b>	<b>21,089</b>	<b>4,504,200</b>

**MUSCONETCONG SEWERAGE AUTHORITY  
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED  
BY OPERATING REVENUE COMPARED TO BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>FY 2019 Adopted Budget</b>	<b>FY 2019 Budget as Amended</b>	<b>Current Year Actual</b>	<b>Excess / (Deficit)</b>	<b>Prior Year Actual</b>
<b>Expenses:</b>					
<b>Operating Expenses:</b>					
<b>Administrative:</b>					
Salaries and Wages	172,000	172,000	164,047	7,953	167,197
Fringe Benefits:					
Pension (PERS)	21,068	21,000	20,268	732	22,238
Social Security Tax	13,529	13,500	13,334	166	14,138
Hospitalization	42,000	42,000	28,654	13,346	37,713
Disability Insurance	2,100	2,100	1,546	554	1,472
Unemployment Insurance	1,500	1,500	1,319	181	1,493
<b>Other Expenses:</b>					
Office Supplies	40,000	40,000	19,446	20,554	26,342
<b>Total Administrative</b>	<b>292,197</b>	<b>292,100</b>	<b>248,614</b>	<b>43,486</b>	<b>270,593</b>
<b>Cost of Providing Services:</b>					
Salaries and Wages	667,500	667,500	623,060	44,440	642,292
Fringe Benefits:					
Pension (PERS)	80,932	81,000	76,244	4,756	75,584
Social Security Tax	51,971	52,000	46,490	5,510	48,057
Hospitalization	158,000	158,000	107,792	50,208	128,184
Disability Insurance	7,900	7,900	5,818	2,082	5,001
Unemployment Insurance	5,500	5,500	4,787	713	5,073
<b>Other Expenses:</b>					
Legal	30,000	30,000	26,627	3,373	19,736
Audit	15,000	15,000	16,309	(1,309)	13,942
Engineer	30,000	30,000	25,695	4,305	28,586
Telephone	20,000	25,000	21,075	3,925	18,708
Electric	482,500	477,500	474,668	2,832	376,830
Propane/Fuel Oil	29,000	29,000	15,337	13,663	23,771
Supplies and Chemicals	200,000	200,000	175,619	24,381	237,265
Laboratory Supplies	12,000	12,000	6,893	5,107	7,829

**MUSCONETCONG SEWERAGE AUTHORITY  
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED  
BY OPERATING REVENUE COMPARED TO BUDGET  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>FY 2019 Adopted Budget</b>	<b>FY 2019 Budget as Amended</b>	<b>Current Year Actual</b>	<b>Excess / (Deficit)</b>	<b>Prior Year Actual</b>
Operating Expenses (continued):					
Cost of Providing Services:					
Other Expenses (continued):					
Office Expense	25,000	25,000	25,305	(305)	24,960
External Services	70,000	70,000	63,054	6,946	64,578
Training and Education	20,000	20,000	19,994	6	13,181
Laboratory Fees	30,000	30,000	15,231	14,769	14,427
Maintenance and Repairs	200,000	200,000	172,548	27,452	155,256
Insurance	110,000	110,000	99,361	10,639	99,595
NJDEP Fees	25,000	25,000	20,467	4,533	29,179
Trustee Fees	20,000	20,000	15,030	4,970	15,030
Permit/Compliance	25,000	25,000	19,873	5,127	27,613
Equipment (non-capital)	60,000	60,000	43,300	16,700	58,433
Sludge Removal	720,000	720,000	710,357	9,643	655,244
Contingency	25,000	25,000	18,528	6,472	-
<b>Total Cost of Providing Services</b>	<b>3,120,303</b>	<b>3,120,400</b>	<b>2,849,462</b>	<b>270,938</b>	<b>2,788,354</b>
<b>Total Operating Expenses</b>	<b>3,412,500</b>	<b>3,412,500</b>	<b>3,098,076</b>	<b>314,424</b>	<b>3,058,947</b>
Other Costs Funded by Operating Revenues:					
Debt Service:					
Interest Expense	92,235	92,235	65,550	26,685	97,680
Loan Principal	630,645	630,645	630,645	-	615,957
Reserves:					
Capital Improvements	300,000	300,000	300,000	-	100,000
Renewal and Replacement	100,000	100,000	100,000	-	300,000
<b>Sub-total Other Costs</b>	<b>1,122,880</b>	<b>1,122,880</b>	<b>1,096,195</b>	<b>26,685</b>	<b>1,113,637</b>
<b>Total Costs Funded by Operating Revenues</b>	<b>4,535,380</b>	<b>4,535,380</b>	<b>4,194,271</b>	<b>341,109</b>	<b>4,172,584</b>
<b>Add: Excess / (Deficit)</b>	<b>-</b>	<b>-</b>	<b>362,198</b>	<b>362,198</b>	<b>331,616</b>
	<b>4,535,380</b>	<b>4,535,380</b>	<b>4,556,469</b>	<b>(21,089)</b>	<b>4,504,200</b>

**MUSCONETCONG SEWERAGE AUTHORITY**  
**SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED**  
**BY OPERATING REVENUE COMPARED TO BUDGET**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

	FY 2019 Adopted Budget	FY 2019 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
<b>Excess of Revenues Over Expenses:</b>		362,198			331,616
<b>Reconciliation of Budgetary Basis to GAAP:</b>					
Depreciation Expense		(1,774,818)	(1,774,818)		(1,752,704)
Amortization		6,800	6,800		6,800
Excess Due to Municipalities		(254,220)	(254,220)		(229,736)
Cancellation of Old Payables		-	-		10,272
Net Position Utilized		(107,978)	(107,978)		(101,880)
Bond Principal		630,645	630,645		615,957
Capital Improvements		300,000	300,000		100,000
Renewal and Replacement		100,000	100,000		300,000
Pension Adjustment		(48,640)	(48,640)		(38,927)
Total Adjustments		(1,148,211)	(1,148,211)		(1,090,218)
<b>Change in Net Position</b>		<u>(786,013)</u>	<u>(786,013)</u>		<u>(758,602)</u>

**MUSCONETCONG SEWERAGE AUTHORITY**

**SCHEDULE OF CAPITAL BUDGET PROGRAM  
FUNDED BY FINANCING SOURCES  
FOR THE YEAR ENDED DECEMBER 31, 2019**

	<b>FY 2019 Adopted Budget</b>	<b>FY 2019 Budget as Amended</b>	<b>Paid or Charged</b>	<b>Excess / (Deficit)</b>
<b>Financing Sources:</b>				
Debt Authorization	2,000,000	2,000,000	-	2,000,000
Capital Improvement Reserve	-	-	235,676	(235,676)
Renewal and Replacement Reserve	376,732	376,732	157,369	219,363
	<u>2,376,732</u>	<u>2,376,732</u>	<u>393,045</u>	<u>1,983,687</u>
<b>Capital Outlays:</b>				
Headworks Project	2,000,000	2,000,000	93,978	1,906,022
Clarifier's Drives	251,732	251,732	-	251,732
Gravity Thickener #1 Rehab	125,000	125,000	-	125,000
Phase III Air Permit (Contract 310)			25,312	(25,312)
Tertiary Treatment (Contract 295)			156,112	(156,112)
GIS Project			290	(290)
Drive Uits #3 and #4 (Contract 320)			117,353	(117,353)
	<u>2,376,732</u>	<u>2,376,732</u>	<u>393,045</u>	<u>1,983,687</u>
<b>Total Capital Outlays</b>	<u>2,376,732</u>	<u>2,376,732</u>	<u>393,045</u>	<u>1,983,687</u>
<b>Total Costs Funded by Capital Revenue</b>	<u>2,376,732</u>	<u>2,376,732</u>	<u>393,045</u>	<u>1,983,687</u>
<b>Add: Excess</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>2,376,732</u></u>	<u><u>2,376,732</u></u>	<u><u>393,045</u></u>	<u><u>1,983,687</u></u>

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MUSCONETCONG SEWERAGE AUTHORITY  
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2019	Issued	Redeemed	Balance Dec. 31, 2019
			Date	Amount				
NJFIT Bonds (Series 2002) Trust Portion	10/15/2002	5.00%	2020	237,936	985,266		228,346	756,920
		5.00%	2021	252,289				
		4.75%	2022	266,695				
NJFIT Bonds (Series 2002) Fund Portion	10/15/2002	n/a	2020	178,988	721,372		180,227	541,145
		n/a	2021	180,536				
		n/a	2022	181,621				
NJFIT Bonds (Series 2007) Trust Portion	11/8/2007	4.00%	2020	68,000	288,000		68,000	220,000
		5.00%	2021	74,000				
		5.00%	2022	78,000				
NJFIT Bonds (Series 2007) Fund Portion	11/8/2007	n/a	2020	62,097	254,148		64,257	189,891
		n/a	2021	63,537				
		n/a	2022	64,257				

MUSCONETCONG SEWERAGE AUTHORITY  
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2019	Issued	Redeemed	Balance Dec. 31, 2019					
			Date	Amount									
NJFIT Bonds (Series 2010) Trust Portion	12/2/2010	5.00%	2020	37,000	558,000			523,000					
		5.00%	2021	41,000									
		4.00%	2022	41,000									
		4.00%	2023	41,000									
		5.00%	2024	45,000									
		5.00%	2025	45,000									
		4.25%	2026	50,000									
		4.50%	2027	55,000									
		4.50%	2028	55,000									
		4.50%	2029	55,000									
		4.25%	2030	58,000									
										35,000			
													553,283
NJFIT Bonds (Series 2010) Fund Portion	12/2/2010	n/a	2020	54,815	608,098			553,283					
		n/a	2021	54,815									
		n/a	2022	54,815									
		n/a	2023	54,815									
		n/a	2024	54,815									
		n/a	2025	54,815									
		n/a	2026	54,815									
		n/a	2027	54,815									
		n/a	2028	54,815									
		n/a	2029	54,208									
		n/a	2030	5,740									
										54,815			553,283
												630,645	2,784,239
				630,645			638,836						
				2,153,594			2,145,403						
				2,784,239			2,784,239						
Current Portion													
Noncurrent Portion													



MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF AMOUNT DUE TO (FROM) MUNICIPALITIES  
FOR THE YEAR ENDED DECEMBER 31, 2019

<b>Analysis of 2019 Operations:</b>	
Excess of Revenues Over Expenses (Schedule 3)	362,198
Less: Net Position Utilized for Budget	<u>(107,978)</u>
Amount Due To (From) Municipalities	<u>254,220</u>

**Apportionment of Operations:**

	%	FY 2019 Budget		Revenue Realized	Excess (Deficit)	Share of FY 2019 Operations	Amount Due To (From)
		Operating	Debt Service				
Township of Byram	2.36%	\$ 89,886	\$ 3,661	93,547	\$ -	\$ 5,994	\$ 5,994
Borough of Hopatcong	13.48%	513,886	480,553	994,439	-	34,266	34,266
Borough of Mt. Arlington	7.67%	292,383	11,909	304,292	-	19,496	19,496
Township of Mt. Olive	35.63%	1,358,253	55,320	1,413,573	-	90,569	90,569
Borough of Netcong	10.50%	400,476	16,311	416,787	-	26,704	26,704
Township of Roxbury	17.82%	679,569	27,678	707,247	-	45,314	45,314
Borough of Stanhope	12.54%	478,047	19,470	497,517	-	31,876	31,876
	100.00%	<u>3,812,500</u>	<u>614,902</u>	<u>4,427,402</u>	-	<u>254,220</u>	<u>254,220</u>

(1) Based on 2019 Annual Average Flow or Guaranteed Minimum Flow Per Service Contracts.

**NOTE:**  
This schedule is being generated for management purposes only.

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**ROSTER OF OFFICIALS AND REPORT ON SURETY BONDS**

The following officials were in office at December 31, 2019:

<u>Name</u>	<u>Office</u>	<u>Position</u>	<u>Term Expires</u>
Steven Rattner	Mount Olive	Chairman	1/31/2024
John Sylvester	Netcong	Vice Chairman/Councilman	1/31/2023
Joseph Schwab	Roxbury	Secretary-Treasurer	1/31/2023
James Benson	Stanhope	Asst. Secretary-Treasurer	1/31/2023
Tom Romano	Stanhope	Commissioner/Councilman	1/31/2020
Michael Grogan	Netcong	Commissioner	1/31/2020
Brian McNeilly	Stanhope	Commissioner	1/31/2024
Melanie Michetti	Roxbury	Commissioner	1/31/2024
Andrew Cangiano	Mt. Arlington	Commissioner/Councilman	1/31/2021
Michael Pucilowski	Mount Olive	Commissioner	1/31/2023
Rich Schindelar	Hopatcong	Commissioner/Councilman	1/31/2021
Elmer Still	Netcong	Commissioner/Councilman	1/31/2024
Joseph Sabatini	Byram	Non-voting Member	
Michael Orgera	Byram	Non-voting Member	
Patrick Dwyer		Attorney	
Mott MacDonald		Engineer	
James Schilling		Director	
Debbie Palma		Qualified Purchasing Agent	
John Campanile		Risk Manager	
John Napolitano		Labor Attorney	
PS&S		Engineer	

All members and employees are covered by insurance policies provided through the New Jersey Utility Authorities Joint Insurance Fund.

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# WIELKOTZ & COMPANY L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN D. WIELKOTZ, CPA, RMA, PSA  
MATTHEW B. WIELKOTZ, CPA, PSA  
PAUL J. CUVA, CPA, RMA, PSA  
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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Honorable Chairman and Members  
Musconetcong Sewerage Authority  
Budd Lake, New Jersey 07828

We have audited, in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; 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 Musconetcong Sewerage Authority, as of and for the year ended December 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated July 8, 2020.

***Internal Control Over Financial Reporting***

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

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.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (Finding 2019-001).



Honorable Chairman and Members of the  
Musconetcong Sewerage Authority  
Page 2.

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.

### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Musconetcong 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 one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards (Finding 2019-002).

### ***Management's Response to Findings***

Musconetcong Sewerage Authority's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. Management's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### ***Purpose of this Report***

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

*Wielkatz & Company, LLC*

WIELKOTZ & COMPANY, LLC  
Certified Public Accountants  
Pompton Lakes, New Jersey

July 8, 2020

**MUSCONETCONG SEWERAGE AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019**

**Finding 2019-001:\***

**Conditions:**

The Authority should maintain the property, plant and equipment subsidiary ledger and reconcile it to the general ledger control account.

**Criteria:**

N.J. Administrative Code Section 5:31-7.1 Accounting and Financial Reporting system requires a properly functioning system of accounting and accounting controls.

**Cause:**

The Authority has not established an accounting system that records additions, deletions and depreciation to the property, plant and equipment control account.

**Effect:**

The Authority's general ledger required material journal entries to correctly reflect the financial statement balances at the end of the year.

**Recommendation:**

That the Authority maintain the property, plant and equipment subsidiary ledger and reconcile it to the general ledger control account.

**Authority Response:**

The Authority will work with its auditor to maintain the property, plant and equipment subsidiary ledger.

**MUSCONETCONG SEWERAGE AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019**  
**(CONTINUED)**

**Finding 2019-002:**

**Conditions:**

Capital expenditures were made without a budgetary capital line item.

**Criteria:**

N.J.A.C. 5:31-2.2 states that no Authority shall make appropriations, authorize expenditures or adopt a security agreement for a capital project unless its provisions are in agreement with the adopted capital budget, temporary capital budget or amended capital budget.

**Cause:**

The capital expenditures discussed in this finding were originally budgeted for the prior period's capital budget. Management did not realize an amendment was required to the current year capital budget to include these items.

**Effect:**

The Authority has not complied with the N.J.A.C. 5:31-2.2.

**Recommendation:**

A resolution amending the capital budget should be made prior to capital expenditure.

**Authority Response:**

Management acknowledges the requirements of N.J.A.C. 5:31 and will amend their capital budget accordingly in future periods.



# MUSCONETCONG SEWERAGE AUTHORITY

## GENERAL COMMENTS

### Contracts and Agreements Required to be Advertised Per N.J.S. 40A:11-3

N.J.S.A. 40A:11-2 contains definitions for terms used throughout N.J.S.A. 40A:11-1 et seq. and was amended under P.L. 1999, c.440. It includes as subsection (23) the term 'competitive contracting', which is defined as "the method described in sections 1 through 5 of P.L. 1999, c.440 (C.40:11-4.1 through C.40A:11-4.5) of contracting for specialized goods and services in which formal proposals are solicited from vendors, formal proposals are evaluated by the purchasing agent or counsel; and the governing body awards a contract to a vendor or vendors from among the formal proposals received."

N.J.S.A. 40A:11-3 was amended with P.L. 1999, c.440 to raise the bid threshold and require award by governing body resolution. "When the cost or price of any contract awarded by the purchasing agent in the aggregate does not exceed in a contract year the sum of \$40,000, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids and bidding therefore, except that the governing body may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations."

N.J.S.A. 40A:11-15 was amended with P.L. 1999, c.440 to extend the base contract period. "Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection (a) of N.J.S.A. 40A:11-5 may be awarded for a period not exceeding 12 consecutive months.

The governing body of the Authority has the responsibility of determining whether the expenditures in any category will exceed the statutory threshold within the contract year. Where question arises as to whether any contract or agreement might result in violation of the statute, the opinion of the Authority's attorney should be sought before a commitment is made.

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed.

The results of our examination indicated that no individual payments, contracts, or agreements were made "for the performance of any work or the furnishing or hiring of any materials or supplies," in excess of the statutory thresholds where there had been no advertising for bids in accordance with the provision of N.J.S.A. 40A:11-4.

Resolutions were adopted authorizing the awarding of contract or agreements for "Professional Services" per N.J.S.A. 40A:11-5.

## MUSCONETCONG SEWERAGE AUTHORITY

A review was performed on all prior year recommendations and corrective action was taken on all items, except those noted with an asterisk “\*”.

Problems and weaknesses noted in our review were not of such magnitude that they would affect our ability to express an opinion on the financial statements taken as a whole.

Should any questions arise as to our comments and recommendations, or should you desire assistance in implementing our recommendations, do not hesitate to call us.

We wish to thank Musconetcong Sewerage Authority for their cooperation during the performance of our audit.

Respectfully submitted,

*Wielkatz & Company, LLC*

WIELKOTZ & COMPANY, LLC  
Certified Public Accountants  
Pompton Lakes, New Jersey