



WIELKOTZ & COMPANY, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MUSCONETCONG SEWERAGE AUTHORITY
REPORT OF AUDIT
FOR THE YEARS ENDED
DECEMBER 31, 2020 AND 2019

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MUSCONETCONG SEWERAGE AUTHORITY

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WIELKOTZ & COMPANY ^{LLC}

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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, 2020 and 2019, 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, 2020 and 2019, 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.



Honorable Chairperson and Members of the
Musconetcong Sewerage Authority
Page 3.

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 August 18, 2021 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

August 18, 2021



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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, 2020 and 2019. 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 \$20,779,110 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities and deferred inflows of resources by \$21,152,719.

- Total net position is comprised of the following:
 - (1) Net investment in capital assets of \$20,890,085 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 \$24,551 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted of \$(135,526) represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.

- Total liabilities of the Authority decreased by \$814,827 to \$10,564,059 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 \$20,779,110. This is a \$373,609 decrease under last year's net position of \$21,152,719. A summary of the Authority's statement of net position is presented in the following table:

**Condensed Statement of Net Position at December 31, 2020
With Comparative Prior Year Balances**

	<u>FY 2020</u>	<u>FY 2019</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	8,139,422	8,583,834	(444,412)	(5.18)%
Capital Assets	<u>23,875,337</u>	<u>24,337,371</u>	<u>(462,034)</u>	(1.90)%
Total Assets	<u>32,014,759</u>	<u>32,921,205</u>	<u>(906,446)</u>	(2.75)%
Deferred Outflows of Resources	<u>329,952</u>	<u>521,422</u>	<u>(191,470)</u>	(36.72)%
Long-term Liabilities	2,935,283	4,056,140	(1,120,857)	(27.63)%
Current Liabilities	<u>7,628,776</u>	<u>7,322,746</u>	<u>306,030</u>	4.18%
Total Liabilities	<u>10,564,059</u>	<u>11,378,886</u>	<u>(814,827)</u>	(7.16)%
Deferred Inflows of Resources	<u>1,001,542</u>	<u>911,022</u>	<u>90,520</u>	9.94%
Net Investment in Capital Assets	20,890,085	21,536,132	(646,047)	(3.00)%
Restricted	24,551	29,252	(4,701)	(16.07)%
Unrestricted	<u>(135,526)</u>	<u>(412,665)</u>	<u>277,139</u>	(67.16)%
Total Net Position	<u>20,779,110</u>	<u>21,152,719</u>	<u>(373,609)</u>	(1.77)%

**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, 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)

**Condensed Statement of Revenues, Expenses
And Changes in Net Position for the Year Ending
December 31, 2020 with Comparative Prior Year Balances**

	<u>FY 2020</u>	<u>FY 2019</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	4,461,402	4,427,430	33,972	0.77%
Non-operating Revenues	<u>21,832</u>	<u>27,861</u>	<u>(6,029)</u>	(21.64)%
Total Revenues	<u>4,483,234</u>	<u>4,455,291</u>	<u>27,943</u>	0.63%
Depreciation	1,615,315	1,774,818	(159,503)	(8.99)%
Other Operating Expenses	2,914,281	3,146,716	(232,435)	(7.39)%
Other Non-operating Expense	<u>327,247</u>	<u>319,770</u>	<u>7,477</u>	2.34%
Total Expenses	<u>4,856,843</u>	<u>5,241,304</u>	<u>(384,461)</u>	(7.34)%
Change in Net Position	(373,609)	(786,013)	412,404	(52.47)%
Beginning Net Position	<u>21,152,719</u>	<u>21,938,732</u>	<u>(786,013)</u>	(3.58)%
Ending Net Position	<u>20,779,110</u>	<u>21,152,719</u>	<u>(373,609)</u>	(1.77)%

**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, 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)%

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 2020 and FY 2019:

Budget vs. Actual FY 2020			
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Net Position Appropriated	107,978	107,978	0
Operating	4,461,402	4,461,402	0
Non-Operating	<u>15,032</u>	<u>15,032</u>	<u>15,032</u>
Total Revenues	<u>4,569,380</u>	<u>4,584,412</u>	<u>15,032</u>
Expenses:			
Operating	3,455,458	3,110,351	345,107
Non-Operating	<u>1,113,922</u>	<u>1,089,541</u>	<u>24,381</u>
Total Expenses	<u>4,569,380</u>	<u>4,199,892</u>	<u>369,488</u>
Income before Depreciation	<u> </u>	<u>384,520</u>	<u>384,520</u>

Budget vs. Actual FY 2019			
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
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>
Expenses:			
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>

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During fiscal year 2020, the Authority had an increase of \$1,153,281 in capital assets (before depreciation). The Authority's net property, plant and equipment at fiscal year end was \$23,875,337. This is a \$462,034 decrease under last year's net property, plant and equipment of \$24,337,371. A summary of the Authority's capital assets is presented in the following table:

CAPITAL ASSETS

	<u>FY 2020</u>	<u>FY 2019</u>	<u>Dollar Change</u>
Land	505,700	505,700	0
Buildings and Interceptors	61,280,533	61,280,533	0
Machinery and Equipment	201,060	201,060	0
Less: Accumulated Depreciation	(39,721,048)	(38,105,733)	(1,615,315)
Construction in Progress	<u>1,609,092</u>	<u>455,811</u>	<u>1,153,281</u>
	<u>23,875,337</u>	<u>24,337,371</u>	<u>(462,034)</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

U.V. Disinfection	\$850,000
Screenings Project	1,598,890
Tertiary Treatment - Microscreen Replacement	3,374,500
Clarifier Rehabilitation	1,950,000
Pump Station(s) Renewals	250,000
Aerator Study	40,000
Sludge Mixing Drive and Shaft	87,500
Lighting - Plant and Buildings	195,000
CCTV Inspection and Cleaning Collection System	195,000
HVAC System and Boiler	<u>100,000</u>
 Total	 <u>\$8,640,890</u>

Debt Administration

At December 31, 2020, the Authority had outstanding New Jersey Environmental Infrastructure Fund bonds of \$2,145,403 (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, 2020.

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 14).

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
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	2020	2019
<u>ASSETS</u>		
Current Assets:		
<u>Unrestricted:</u>		
Cash and Cash equivalents	\$ 2,497,117	\$ 2,514,859
Petty Cash	150	150
Accounts Receivable	-	100
Prepaid Expenses	180	180
Total Unrestricted Assets	2,497,447	2,515,289
<u>Restricted:</u>		
Bond Service Fund:		
Cash and Cash equivalents	48,069	59,962
Escrow Fund:		
Cash and Cash equivalents	9,893	8,583
New Jersey Infrastructure Bank:		
NJIB Receivable	5,584,013	6,000,000
Total Restricted Assets	5,641,975	6,068,545
Non-Current Assets:		
<u>Capital Assets:</u>		
Land	505,700	505,700
Infrastructure, Buildings and Equipment	61,280,533	61,280,533
Vehicles	201,060	201,060
Less: Accumulated Depreciation	(39,721,048)	(38,105,733)
Construction in Progress	1,609,092	455,811
Total Capital Assets	23,875,337	24,337,371
TOTAL ASSETS	\$ 32,014,759	\$ 32,921,205
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred Outflows:		
Deferred Outflows Related to Pensions	329,952	521,422
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 329,952	\$ 521,422

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

	2020	2019
<u>LIABILITIES</u>		
Current Liabilities:		
<u>Payable from Unrestricted Assets:</u>		
Accounts Payable and Accrued Liabilities	\$ 143,037	\$ 274,922
Accounts Payable - Pension Related	87,100	105,110
Payroll Taxes Payable	8,847	10,364
Due to Municipalities	276,542	254,220
Total Payable from Unrestricted Assets	515,526	644,616
<u>Payable from Restricted Assets:</u>		
Accounts Payable - Construction	413,662	-
Accrued Interest Payable	23,518	30,710
Escrow Deposits Payable	9,893	8,583
Notes Payable	6,000,000	6,000,000
Loans Payable - Current Portion	666,177	638,837
Total Payabled from Restricted Assets	7,113,250	6,678,130
Non-Current Liabilities:		
Compensated Absenses Payable	61,681	49,512
Net Pension Liability	1,394,376	1,861,226
Loans Payable - Long-Term Portion	1,479,226	2,145,402
Total Non-Current Liabilities	2,935,283	4,056,140
TOTAL LIABILITIES	10,564,059	11,378,886
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred Inflows:		
Deferred Inflows Related to Pensions	991,342	894,022
Unamortized Gain on Refunded Debt	10,200	17,000
TOTAL DEFERRED INFLOWS OF RESOURCES	1,001,542	911,022

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

	2020	2019
<u>NET POSITION:</u>		
Net Investment in Capital Assets	20,890,085	21,536,132
Restricted:		
Current Debt Service	24,551	29,252
Unrestricted:		
Designated	1,223,367	1,146,999
Undesignated	(1,358,893)	(1,559,664)
TOTAL NET POSITION	\$ 20,779,110	\$ 21,152,719

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

	2020	2019
Operating Revenue:		
Service Agreements	\$ 4,461,402	\$ 4,427,402
Miscellaneous	-	28
	4,461,402	4,427,430
Operating Expenses:		
Administrative and General	215,681	258,829
Cost of Providing Services	2,698,600	2,887,887
Depreciation Expense	1,615,315	1,774,818
	4,529,596	4,921,534
Total Operating Revenue	4,461,402	4,427,430
Total Operating Expenses	4,529,596	4,921,534
Operating Income	(68,194)	(494,104)
Non-Operating Revenue (Expenses):		
Interest on Investments	15,032	21,061
Interest Expense	(50,705)	(65,550)
Excess Due to Municipalities	(276,542)	(254,220)
Amortization	6,800	6,800
	(305,415)	(291,909)
Non-Operating Income (Loss)	(305,415)	(291,909)
Change In Net Position	(373,609)	(786,013)
Net Position - January 1	21,152,719	21,938,732
Net Position - December 31	\$ 20,779,110	\$ 21,152,719

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>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 4,461,502	\$ 4,673,169
Cash Received from Miscellaneous Sources		28
Escrow Deposits Received (Paid)	1,310	530
Cash Paid to Municipalities	(254,220)	(229,736)
Cash Paid to Vendors and Employees	<u>(3,231,584)</u>	<u>(3,029,661)</u>
Net Cash Provided by Operating Activities	<u>977,008</u>	<u>1,414,330</u>
Cash Flow from Investing Activities:		
Interest Received	<u>15,032</u>	<u>21,061</u>
Net Cash Provided by (used in) Investing Activities	<u>15,032</u>	<u>21,061</u>
Cash Flow from Financing Activities:		
Principal Payment on Bonds and Notes	(638,836)	(630,645)
Interest Paid on Bonds and Notes	(57,897)	(73,271)
NJEIT Received	415,987	
Capital Expenditures	<u>(739,619)</u>	<u>(393,045)</u>
Net Cash Used in Financing Activities	<u>(1,020,365)</u>	<u>(1,096,961)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(28,325)	338,430
Cash and Cash Equivalents at Beginning of Year	<u>2,583,404</u>	<u>2,244,974</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,555,079</u>	<u>\$ 2,583,404</u>
Analysis of Balance:		
Unrestricted	\$ 2,497,117	\$ 2,514,859
Restricted	<u>57,962</u>	<u>68,545</u>
	<u>\$ 2,555,079</u>	<u>\$ 2,583,404</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>2020</u>	<u>2019</u>
OPERATING INCOME (LOSS)	\$ (68,194)	\$ (494,104)
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation Expense	1,615,315	1,774,818
Escrow Deposits Received (Paid)	1,310	530
Cash Paid to Municipalities	(254,220)	(229,736)
Decrease (Increase) in Accounts Receivable	100	245,767
Increase (Decrease) in Accounts Payable	(133,402)	76,407
Increase (Decrease) in Compensated Absences Payable	12,169	(7,992)
Increase (Decrease) in Pension Adjustment	(196,070)	48,640
Total Adjustments	<u>1,045,202</u>	<u>1,908,434</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 977,008</u>	<u>\$ 1,414,330</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, 2020 AND 2019**

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, 2020 AND 2019**

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 rerated 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, 2020 AND 2019**

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, 2020 AND 2019**

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, 2020 AND 2019**

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, 2020 AND 2019**

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, 2020 and 2019 are as follows:

	<u>Balance</u> <u>12/31/19</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/20</u>
Land	\$505,700	\$	\$	\$505,700
Infrastructure, Buildings & Equipment	61,280,533			61,280,533
Vehicles	201,060			201,060
Construction in Progress	<u>455,811</u>	<u>1,153,281</u>	<u> </u>	<u>1,609,092</u>
	62,443,104	1,153,281	0	63,596,385
Less: Accumulated Depreciation	<u>(38,105,733)</u>	<u>(1,615,315)</u>	<u> </u>	<u>(39,721,048)</u>
Total Capital Assets	<u>\$24,337,371</u>	<u>(\$462,034)</u>	<u>\$0</u>	<u>\$23,875,337</u>

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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

G. Property, Plant and Equipment, (continued)

	<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>

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, 2020 AND 2019**

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, 2020 AND 2019

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

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 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

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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

O. Recent Accounting Pronouncements, (continued)

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.

In June 2020, the Government Accounting Standards Board issued GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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

O. Recent Accounting Pronouncements, (continued)

this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The Authority is currently reviewing what effect, if any, this Statement might 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, 2020 AND 2019**

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, 2020 and 2019, the Authority's cash and cash equivalents are summarized as follows:

	<u>2020</u>	<u>2019</u>
Unrestricted	\$2,497,117	\$2,514,859
Restricted	<u>57,962</u>	<u>68,545</u>
	<u>\$2,555,079</u>	<u>\$2,583,404</u>

The carrying amount of the Authority's cash and cash equivalents at December 31, 2020 was \$2,555,079 and the bank balance was \$2,683,065. 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, 2020, \$-0- of the Authority's bank balance of \$2,683,065 was exposed to custodial risk.

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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, 2020 and 2019

	Balance Jan. 1, 2020	Annual Billings	Municipal Credits	Amounts Received	Balance Dec.31, 2020
Township of Byram	\$100	\$94,434	(\$5,995)	\$88,539	\$0
Borough of Hopatcong	-	995,865	(34,266)	961,599	-
Borough of Mount Arlington	-	307,179	(19,496)	287,683	-
Township of Mount Olive	-	1,426,986	(90,569)	1,336,417	-
Borough of Netcong	-	420,742	(26,704)	394,038	-
Township of Roxbury	-	713,958	(45,314)	668,644	-
Borough of Stanhope	-	502,238	(31,876)	470,362	-
	<u>\$100</u>	<u>\$4,461,402</u>	<u>(\$254,220)</u>	<u>\$4,207,282</u>	<u>\$0</u>

	Balance Jan. 1, 2019	Annual Billings	Municipal Credits	Amounts Received	Balance Dec.31, 2019
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>

NOTE 5. BONDS AND NOTES PAYABLE

The Authority has issued and outstanding the following bonds as of December 31, 2020 and 2019:

	Balance Jan. 1, 2020	Retirements/ Repayments	Balance Dec. 31, 2020	Amounts Due Within One Year
Series 2002 NJ Envir. Trust & Fund Bonds	\$1,298,065	\$416,924	\$881,141	\$432,825
Series 2007 NJ Envir. Trust & Fund Bonds	409,891	130,097	279,794	137,537
Series 2010 NJ Envir. Trust & Fund Bonds	<u>1,076,283</u>	<u>91,815</u>	<u>984,468</u>	<u>95,815</u>
	<u>\$2,784,239</u>	<u>\$638,836</u>	<u>\$2,145,403</u>	<u>\$666,177</u>

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 5. BONDS AND NOTES PAYABLE, (continued)

	<u>Balance Jan. 1, 2019</u>	<u>Retirements/ Repayments</u>	<u>Balance Dec. 31, 2019</u>	<u>Amounts Due Within 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>

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>
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>\$2,145,403</u>	<u>\$183,131</u>	<u>\$2,328,534</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 Ending</u>	<u>NJEIT SERIES 2002A</u>			
	<u>Trust Portion</u>		<u>Fund Portion</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Total Debt Service</u>
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>\$518,984</u>	<u>\$38,581</u>	<u>\$362,157</u>	<u>\$919,722</u>

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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 <u>Ending</u>	NJEIT SERIES 2007A			
	Trust Portion		Fund Portion	Total
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Debt Service</u>
2021	\$74,000	\$7,600	\$63,537	\$145,137
2022	78,000	3,900	64,257	146,157
	<u>\$152,000</u>	<u>\$11,500</u>	<u>\$127,794</u>	<u>\$291,294</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 2020 bonds to maturity is as follows:

Year <u>Ending</u>	NJEIT SERIES 2010B			
	Trust Portion		Fund Portion	Total
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Debt Service</u>
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>\$486,000</u>	<u>\$133,050</u>	<u>\$498,468</u>	<u>\$1,117,518</u>

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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, 2020, the Authority has drawn \$415,987 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.

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, 2020 AND 2019**

NOTE 6. PENSION PLANS, (continued)

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

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to Tiers 1 and 2 members upon reaching age 60 and to Tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to Tier 4 members upon reaching age 62 and 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, 2020 AND 2019**

NOTE 6. PENSION PLANS, (continued)

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

<u>Three Year Trend Information for PERS</u>		
<u>Year</u>	<u>Annual</u>	<u>Percentage</u>
<u>Funding</u>	<u>Pension</u>	<u>of APC</u>
	<u>Cost (APC)</u>	<u>Contributed</u>
12/31/20	\$101,018	100%
12/31/19	96,512	100%
12/31/18	96,046	100%

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

Public Employees Retirement System (PERS)

At December 31, 2020 and 2019, the Authority reported a liability of \$1,394,376 and \$1,861,226 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, 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, 2020, the Authority's proportion was 0.0085505770 percent, which was a decrease of 0.0017789633 percent from its proportion measured as of June 30, 2019.

For the year ended December 31, 2020, the Authority recognized pension expense of \$(95,052). At December 31, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>2020</u>	<u>2019</u>
Deferred Outflows of Resources:		
Changes of assumptions	\$45,235	\$185,850
Net difference between projected and actual earnings on pension plan investments	25,389	33,407
Changes in proportion and differences between Authority contributions and proportionate share of contributions	172,228	197,055
Authority contributions subsequent to the measurement date	<u>87,100</u>	<u>105,110</u>
Total	<u>\$329,952</u>	<u>\$521,422</u>

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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>2020</u>	<u>2019</u>
Deferred Inflows of Resources:		
Changes of assumptions	\$583,838	\$646,026
Net difference between projected and actual earnings on pension plan investments	4,931	29,380
Changes in proportion and differences between Authority contributions and proportionate share of contributions	402,573	118,193
Other deferred pension adjustments		<u>100,423</u>
Total	<u>\$991,342</u>	<u>\$894,022</u>

The \$87,100 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, 2020, the plan measurement date is June 30, 2020) 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, 2020</u>	<u>Dec. 31, 2019</u>
2020	\$	\$(53,744)
2021	(174,969)	(174,344)
2022	(159,518)	(155,679)
2023	(91,160)	(73,099)
2024	(36,864)	(7,506)
2025	(7,973)	

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 5.16, 5.21, 5.63, 5.48, 5.57, 5.72 and 6.44 years for 2020, 2019, 2018, 2017, 2016, 2015 and 2014 amounts, respectively.

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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, 2020 and June 30, 2019 are as follows:

	<u>Dec. 31, 2020</u>	<u>Dec. 31, 2019</u>
Collective deferred outflows of resources	\$2,347,583,337	\$3,149,522,616
Collective deferred inflows of resources	7,849,949,467	7,645,087,574
Collective net pension liability	16,435,616,426	18,018,482,972
Authority's Proportion	0.0085505770%	0.0103295403%

Actuarial Assumptions

The collective total pension liability for the June 30, 2020 measurement date was determined by an actuarial valuation as of July 1, 2019, which rolled forward to June 30, 2020. 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, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2014 to June 30, 2019. 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, 2020 AND 2019**

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-2020.

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, 2020) 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, 2020 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	27.00%	7.71%
Non-U.S. Developed Market Equity	13.50%	8.57%
Emerging Market Equity	5.50%	10.23%
Private Equity	13.00%	11.42%
Real Assets	3.00%	9.73%
Real Estate	8.00%	9.56%
High Yield	2.00%	5.95%
Private Credit	8.00%	7.59%
Investment Grade Credit	8.00%	2.67%
Cash Equivalents	4.00%	0.50%
U.S. Treasuries	5.00%	1.94%
Risk Mitigation Strategies	3.00%	3.40%

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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 7.00% as of June 30, 2020. 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 and the nonemployer contributing entity will be based on 78% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for the local employers. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all projected benefit payments to determine 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, 2020, 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:

	June 30, 2020		
	1% Decrease <u>6.00%</u>	At Current Discount Rate <u>7.00%</u>	1% Increase <u>8.00%</u>
Authority's proportionate share of the pension liability	\$1,769,089	\$1,394,376	\$1,096,689
	June 30, 2019		
	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

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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 \$61,681 and \$49,512 at December 31, 2020 and 2019, 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, 2020 and 2019.

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 \$420,742, \$995,865, \$307,179 and \$502,238 of revenue from the Boroughs of Netcong, Hopatcong, Mt. Arlington and Stanhope and the schedule of amount due to/(from) municipalities includes \$29,049, \$37,275, \$21,208 and \$34,675 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 is involved in litigation regarding the 2011 final New Jersey Pollutant Discharge Elimination System (NJPDES) Permit Action ("Permit") issued by the New Jersey Department of Environmental Protection ("DEP"). In 2015 the matter was partially settled except for one unresolved issue, the limit for nitrates. The litigation was put on hold pending issuance of the next renewal permit.

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 9. COMMITMENTS AND CONTINGENT LIABILITIES, (continued)

In July 2020, the Authority applied to renew its Permit and a renewal Permit was issued on December 11, 2020. The nitrate limit in the new Permit, as before, is not currently being met. On January 5, 2021, the Authority filed a Request for a Hearing and a Request for a Stay for the new Permit and awaits a response from DEP on both. The Authority's Engineer estimates that the cost of compliance with the nitrate limit in the permits is somewhere in the range of \$12,000,000 to \$20,000,000.

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>2020</u>	<u>2019</u>
Designated for Future Retirement Reserve	\$50,000	\$50,000
Designated for Capital Improvement Reserve	781,761	656,663
Designated for Renewal and Replacement Reserve	341,606	390,336
Designated for Operations Reserve	<u>50,000</u>	<u>50,000</u>
Total Designated - Unrestricted	<u>\$1,223,367</u>	<u>\$1,146,999</u>

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

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

At December 31, 2020 and 2019, the Authority reported a total amount of \$1,223,367 and \$1,146,999, 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Pension Related	(\$2,055,766)	(\$2,233,826)
Available for Use in Future Budgets	<u>696,873</u>	<u>674,162</u>
	<u>(\$1,358,893)</u>	<u>(\$1,559,664)</u>

NOTE 12. SUBSEQUENT EVENTS

The Musconetcong Sewerage Authority has evaluated subsequent events through August 18, 2021, the date which the financial statements were available to be issued and no items were noted for disclosure.

NOTE 13. INTERFUND TRANSFERS

At December 31, 2020, the following interfund transfers were outstanding between cash and reserve accounts:

	<u>Due From</u>	<u>Due To</u>
Operating Account:		
Due to Capital Improvement	\$	\$99,679
Due to Renewal and Replacement		9,984
Capital Improvement Account:		
Due from Operating	99,679	
Due from Renewal and Replacement	2,788	
Renewal and Replacement Fund:		
Due from Operating	9,984	
Due to Capital Improvement	<u> </u>	<u>2,788</u>
	<u>\$112,451</u>	<u>\$112,451</u>

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

NOTE 14. OTHER MATTERS

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.

Required Supplementary Information - Part II

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SCHEDULE RSL-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 Seven Fiscal Years**

	Measurement Date Ending June 30.						
	2020	2019	2018	2017	2016	2015	2014
Authority's Proportion of the Net Pension Liability	0.008550577%	0.0103295403%	0.009655997%	0.01041221%	0.00993499%	0.00981364%	0.00940980%
Authority's Proportionate Share of the Net Pension Liability	\$1,394,376	\$1,861,226	\$1,901,218	\$2,423,796	\$2,942,458	\$2,202,966	\$1,761,771
Authority's Covered-Employee Payroll	\$646,722	\$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 its Covered-Employee Payroll	215.61%	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 Seven Fiscal Years

	Fiscal Year Ended December 31,						
	2020	2019	2018	2017	2016	2015	2014
Contractually Required Contribution	\$101,018	\$96,512	\$96,046	\$96,458	\$84,371	\$77,573	\$65,069
Contributions in Relation to the Contractually Required Contribution	<u>(101,018)</u>	<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>	<u>\$ -</u>
Authority's Covered-Employee Payroll	\$646,722	\$645,204	\$733,281	\$708,332	\$713,958	\$683,452	\$680,200
Contributions as a Percentage of Authority's Covered-Employee Payroll	15.62%	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.

SCHEDULE RSI-3

**MUSCONETCONG SEWERAGE AUTHORITY
Notes to Required Supplementary Information
For the Year ended December 31, 2020**

Public Employees' Retirement System (PERS)

Changes in Benefit Terms - None

Changes in Assumptions - The discount rate changed from 6.28% as of June 30, 2019 to 7.00% as of June 30, 2020, 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, 2020

	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							4,461,402
Miscellaneous							
Total Operating Revenue							4,461,402
Operating Expense:							
Administrative and General							215,681
Cost of Providing Services							2,698,600
Depreciation	1,615,315						1,615,315
Total Operating Expense	1,615,315						4,529,596
Operating Income	(1,615,315)						(68,194)
Non-Operating Revenue (Expense):							
Interest Income							15,032
Interest Expense							(50,705)
Excess Due to Municipalities							(276,542)
Amortization	6,800						6,800
Net Income (Loss) Before Transfers	(1,608,515)						(385,415)
Transfers:							
Capital Expenditures	739,619			(590,889)	(148,730)		(79,619)
NJIB Receivable	(415,987)			415,987			415,987
Budget Appropriations				300,000	100,000		400,000
Bond Payments	638,836						(638,836)
Other Transfers		(4,701)					4,701
Increase/(Decrease) in Net Position	(646,047)	(4,701)		125,098	(48,730)		200,771
Net Position - Jan. 1, 2020	21,536,132	29,252	50,000	656,663	390,336	50,000	21,527,719
Net Position - December 31, 2020	20,890,085	24,551	50,000	781,761	341,606	50,000	20,779,110

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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, 2020

	Operating Account	Payroll Account	Capital Improvement Account	Renewal and Replacement Account
Cash, Cash Equivalents and Investments - January 1, 2020	1,595,363	24,887	561,447	393,124
Cash Receipts:				
Interest on Investments	15,032			
Service Charges	4,461,502			
Miscellaneous			415,987	
Escrow Deposits				
Transfers	118,749	941,500	179,934	90,016
Total Cash Receipts	<u>4,595,283</u>	<u>941,500</u>	<u>595,921</u>	<u>90,016</u>
Cash and Investments Available	<u>6,190,646</u>	<u>966,387</u>	<u>1,157,368</u>	<u>483,140</u>
Cash Disbursements:				
Operations	2,524,928	960,876		
Bond Principal Payments	638,836			
Interest Payments	57,897			
Capital and Other Expenses	126,215		469,928	143,476
Escrow Payments				
Transfers	1,314,010		8,146	8,043
Total Cash Disbursements	<u>4,661,886</u>	<u>960,876</u>	<u>478,074</u>	<u>151,519</u>
Cash, Cash Equivalents and Investments - December 31, 2020	<u>1,528,760</u>	<u>5,511</u>	<u>679,294</u>	<u>331,621</u>
Analysis of Balance:				
Cash and Cash Equivalents	<u>1,528,760</u>	<u>5,511</u>	<u>679,294</u>	<u>331,621</u>
	<u>1,528,760</u>	<u>5,511</u>	<u>679,294</u>	<u>331,621</u>
Unrestricted	1,480,691	5,511	679,294	331,621
Restricted	48,069			
	<u>1,528,760</u>	<u>5,511</u>	<u>679,294</u>	<u>331,621</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, 2020

	Escrow Account	Total
Cash, Cash Equivalents and Investments - January 1, 2020	8,583	2,583,404
Cash Receipts:		
Interest on Investments		15,032
Service Charges		4,461,502
Miscellaneous		415,987
Escrow Deposits	3,995	3,995
Transfers		1,330,199
Total Cash Receipts	<u>3,995</u>	<u>6,226,715</u>
Cash and Investments Available	<u>12,578</u>	<u>8,810,119</u>
Cash Disbursements:		
Operations		3,485,804
Bond Principal Payments		638,836
Interest Payments		57,897
Capital and Other Expenses		739,619
Escrow Payments	2,685	2,685
Transfers		1,330,199
Total Cash Disbursements	<u>2,685</u>	<u>6,255,040</u>
Cash, Cash Equivalents and Investments - December 31, 2020	<u>9,893</u>	<u>2,555,079</u>
Analysis of Balance:		
Cash and Cash Equivalents	<u>9,893</u>	<u>2,555,079</u>
	<u>9,893</u>	<u>2,555,079</u>
Unrestricted	-	2,497,117
Restricted	<u>9,893</u>	<u>57,962</u>
	<u>9,893</u>	<u>2,555,079</u>

**MUSCONETCONG SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2020**

	FY 2020 Adopted Budget	FY 2020 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
Revenues:					
Net Position Appropriated	107,978	107,978	107,978	-	107,978
Operating Revenues:					
Service Charges:					
Township of Byram	94,434	94,434	94,434	-	93,547
Borough of Hopatcong	995,865	995,865	995,865	-	994,439
Borough of Mount Arlington	307,179	307,179	307,179	-	304,292
Township of Mount Olive	1,426,986	1,426,986	1,426,986	-	1,413,573
Borough of Netcong	420,742	420,742	420,742	-	416,787
Township of Roxbury	713,958	713,958	713,958	-	707,247
Borough of Stanhope	502,238	502,238	502,238	-	497,517
Miscellaneous	-	-	-	-	28
Non-Operating Revenues:					
Interest on Investments	-	-	15,032	15,032	21,061
Total Revenues	4,569,380	4,569,380	4,584,412	15,032	4,556,469

MUSCONETCONG SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2020

	FY 2020 Adopted Budget	FY 2020 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
Expenses:					
Operating Expenses:					
Administrative:					
Salaries and Wages	172,000	172,000	156,635	15,365	164,047
Fringe Benefits:					
Pension (PERS)	21,000	21,000	21,214	(214)	20,268
Social Security Tax	13,500	13,500	13,511	(11)	13,334
Hospitalization	58,983	58,983	29,387	29,596	28,654
Disability Insurance	2,100	2,100	1,042	1,058	1,546
Unemployment Insurance	1,500	1,500	1,240	260	1,319
Other Expenses:					
Office Supplies	40,000	40,000	33,827	6,173	19,446
Total Administrative	309,083	309,083	256,856	52,227	248,614
Cost of Providing Services:					
Salaries and Wages	667,500	667,500	664,035	3,465	623,060
Fringe Benefits:					
Pension (PERS)	81,000	81,000	79,804	1,196	76,244
Social Security Tax	52,000	52,000	47,109	4,891	46,490
Hospitalization	141,975	141,975	110,550	31,425	107,792
Disability Insurance	7,900	7,900	3,920	3,980	5,818
Unemployment Insurance	5,500	5,500	4,500	1,000	4,787
Other Expenses:					
Legal	38,000	40,000	38,048	1,952	26,627
Audit	20,000	17,000	15,900	1,100	16,309
Engineer	30,000	30,000	30,654	(654)	25,695
Telephone	25,000	25,000	19,728	5,272	21,075
Electric	482,500	458,500	331,864	126,636	474,668
Propane/Fuel Oil	29,000	29,000	10,603	18,397	15,337
Supplies and Chemicals	200,000	200,000	199,077	923	175,619
Laboratory Supplies	12,000	12,000	5,494	6,506	6,893

MUSCONETCONG SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2020

	FY 2020 Adopted Budget	FY 2020 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
Operating Expenses (continued):					
Cost of Providing Services:					
Other Expenses (continued):					
Office Expense	30,000	30,000	27,833	2,167	25,305
External Services	70,000	80,000	65,898	14,102	63,054
Training and Education	20,000	20,000	8,777	11,223	19,994
Laboratory Fees	30,000	30,000	14,559	15,441	15,231
Maintenance and Repairs	200,000	200,000	187,331	12,669	172,548
Insurance	110,000	110,000	105,037	4,963	99,361
NJDEP Fees	25,000	25,000	24,196	804	20,467
Trustee Fees	20,000	20,000	15,030	4,970	15,030
Permit/Compliance	30,000	45,000	30,065	14,935	19,873
Equipment (non-capital)	74,000	74,000	68,681	5,319	43,300
Sludge Removal	720,000	720,000	744,802	(24,802)	710,357
Contingency	25,000	25,000	-	25,000	18,528
Total Cost of Providing Services	3,146,375	3,146,375	2,853,495	292,880	2,849,462
Total Operating Expenses	3,455,458	3,455,458	3,110,351	345,107	3,098,076
Other Costs Funded by Operating Revenues:					
Debt Service:					
Interest Expense	75,085	75,085	50,705	24,380	65,550
Loan Principal	638,837	638,837	638,836	1	630,645
Reserves:					
Capital Improvements	300,000	300,000	300,000	-	300,000
Renewal and Replacement	100,000	100,000	100,000	-	100,000
Sub-total Other Costs	1,113,922	1,113,922	1,089,541	24,381	1,096,195
Total Costs Funded by Operating Revenues	4,569,380	4,569,380	4,199,892	369,488	4,194,271
Add: Excess / (Deficit)				384,520	362,198
	4,569,380	4,569,380	4,584,412	(15,032)	4,556,469

**MUSCONETCONG SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2020**

	FY 2020 Adopted Budget	FY 2020 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
Excess of Revenues Over Expenses:		384,520			362,198
Reconciliation of Budgetary Basis to GAAP:					
Depreciation Expense		(1,615,315)	(1,615,315)		(1,774,818)
Amortization		6,800	6,800		6,800
Excess Due to Municipalities		(276,542)	(276,542)		(254,220)
Net Position Utilized		(107,978)	(107,978)		(107,978)
Bond Principal		638,836	638,836		630,645
Capital Improvements		300,000	300,000		300,000
Renewal and Replacement		100,000	100,000		100,000
Pension Adjustment		196,070	196,070		(48,640)
Total Adjustments		(758,129)	(758,129)		(1,148,211)
Change in Net Position		(373,609)			(786,013)

MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF CAPITAL BUDGET PROGRAM
FUNDED BY FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2020

	FY 2020 Adopted Budget	FY 2020 Budget as Amended	Paid or Charged	Excess / (Deficit)
Financing Sources:				
Debt Authorization	6,600,000	6,600,000	696,710	5,903,290
Capital Improvement Reserve	-	150,000	307,841	(157,841)
Renewal and Replacement Reserve	895,000	745,000	148,730	596,270
	<u>7,495,000</u>	<u>7,495,000</u>	<u>1,153,281</u>	<u>6,341,719</u>
Capital Outlays:				
Clarifier's Drives	150,000	150,000	-	150,000
Gravity Thickener #1 Rehab	150,000	150,000	112,223	37,777
Pump Replacement Project	600,000	600,000	-	600,000
CCTV	195,000	195,000	-	195,000
Lighting	200,000	200,000	-	200,000
Phase III Air Permit (Contract 310)	-	-	3,163	(3,163)
Sludge Management	200,000	200,000	-	200,000
NJIB Application (Contract 305)	-	-	4,959	(4,959)
Influent Screening (Contract 300)	2,000,000	2,000,000	34,261	1,965,739
Tertiary Treatment (Contract 295)	4,000,000	4,000,000	662,449	3,337,551
S.C. # 3 and # 4 (Contract 325)	-	-	138,306	(138,306)
Purchase of 19 Pumps (Contract 335)	-	-	124,406	(124,406)
PCSIU (Contract 350)	-	-	1,410	(1,410)
Air Sampling Project	-	-	11,683	(11,683)
Other Non-Budgeted Capital Expenditures	-	-	36,097	(36,097)
Other Non-Budgeted Ren. & Replacement	-	-	24,324	(24,324)
	<u>7,495,000</u>	<u>7,495,000</u>	<u>1,153,281</u>	<u>6,341,719</u>
Total Capital Outlays	<u>7,495,000</u>	<u>7,495,000</u>	<u>1,153,281</u>	<u>6,341,719</u>
Total Costs Funded by Capital Revenue	<u>7,495,000</u>	<u>7,495,000</u>	<u>1,153,281</u>	<u>6,341,719</u>
Add: Excess	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u><u>7,495,000</u></u>	<u><u>7,495,000</u></u>	<u><u>1,153,281</u></u>	<u><u>6,341,719</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, 2020	Issued	Redeemed	Balance Dec. 31, 2020
			Date	Amount				
NJ/EIT Bonds (Series 2002) Trust Portion	10/15/2002	5.00%	2021	252,289	756,920		237,936	518,984
		4.75%	2022	266,695				
NJ/EIT Bonds (Series 2002) Fund Portion	10/15/2002	n/a	2021	180,536	541,145		178,988	362,157
		n/a	2022	181,621				
NJ/EIT Bonds (Series 2007) Trust Portion	11/8/2007	5.00%	2021	74,000	220,000		68,000	152,000
		5.00%	2022	78,000				
NJ/EIT Bonds (Series 2007) Fund Portion	11/8/2007	n/a	2021	63,537	189,891		62,097	127,794
		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, 2020	Issued	Redeemed	Balance Dec. 31, 2020
			Date	Amount				
NJ/EIT Bonds (Series 2010) Trust Portion	12/2/2010	5.00%	2021	41,000	523,000		37,000	486,000
			2022	41,000				
			2023	41,000				
			2024	45,000				
			2025	45,000				
			2026	50,000				
			2027	55,000				
			2028	55,000				
			2029	55,000				
			2030	58,000				
					523,000		37,000	486,000
NJ/EIT Bonds (Series 2010) Fund Portion	12/2/2010	n/a	2021	54,815				498,468
			2022	54,815				
			2023	54,815				
			2024	54,815				
			2025	54,815				
			2026	54,815				
			2027	54,815				
			2028	54,815				
			2029	54,208				
			2030	5,740				
					553,283		54,815	498,468
					2,784,239		638,836	2,145,403
Current Portion Noncurrent Portion						638,837		666,177
						2,145,402		1,479,226
						2,784,239		2,145,403

MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF AMOUNT DUE TO (FROM) MUNICIPALITIES
FOR THE YEAR ENDED DECEMBER 31, 2020

Analysis of 2020 Operations:	
Excess of Revenues Over Expenses (Schedule 3)	384,520
Less: Net Position Utilized for Budget	<u>(107,978)</u>
Amount Due To (From) Municipalities	<u>276,542</u>

Apportionment of Operations:

	%s (1)	FY 2020 Budget		Revenue Realized	Excess (Deficit)	Share of FY 2020 Operations	Amount Due To (From)
		Operating	Debt Service				
		\$	\$		\$	\$	\$
Township of Byram	2.36%	88,352	6,082	94,434	-	6,520	6,520
Borough of Hopatcong	13.48%	505,122	490,743	995,865	-	37,275	37,275
Borough of Mt. Arlington	7.67%	287,397	19,782	307,179	-	21,208	21,208
Township of Mt. Olive	35.63%	1,335,088	91,898	1,426,986	-	98,522	98,522
Borough of Netcong	10.50%	393,647	27,095	420,742	-	29,049	29,049
Township of Roxbury	17.82%	667,980	45,978	713,958	-	49,293	49,293
Borough of Stanhope	12.54%	469,894	32,344	502,238	-	34,675	34,675
	100.00%	<u>3,747,480</u>	<u>713,922</u>	<u>4,461,402</u>	-	<u>276,542</u>	<u>276,542</u>

(1) Based on 2020 Annual Average Flow or Guaranteed Minimum Flow Per Service Contracts.

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

SCHEDULE 7

ROSTER OF OFFICIALS AND REPORT ON SURETY BONDS

The following officials were in office at December 31, 2020:

<u>Name</u>	<u>Office</u>	<u>Position</u>	<u>Term</u>
<u>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
Tom Ramano	Stanhope	Asst. Secretary-Treasurer/ Councilman	1/31/2023
James Benson	Stanhope	Commissioner	1/31/2025
Michael Grogan	Netcong	Commissioner	1/31/2025
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	
James Schilling		Director	
Thomas Carroll		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.

Government Auditing Standards

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WIELKOTZ & COMPANY LLC

CERTIFIED PUBLIC ACCOUNTANTS

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MATTHEW B. WIELKOTZ, CPA, 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, 2020, and the related notes to the financial statements, and have issued our report thereon dated August 18, 2021.

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 2020-001).



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 2020-002).

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.

Wielkotz & Company, LLC

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

August 18, 2021



MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2020

Finding 2020-001:*

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, 2020
(CONTINUED)

Finding 2020-002:

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.

General Comments and Recommendations

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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 \$44,000, 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