

**MUSCONETCONG SEWERAGE AUTHORITY**

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**REPORT ON EXAMINATION OF FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016**

# MUSCONETCONG SEWERAGE AUTHORITY

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## **FINANCIAL SECTION**

**INDEPENDENT AUDITOR'S REPORT**

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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 basic financial statements of the business-type activities and the aggregate remaining fund information of the Musconetcong Sewerage Authority as of and for the year ended December 31, 2016, 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 basic 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 basic financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes assessing the accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that the audit evidence obtained is sufficient to provide a reasonable basis for our audit opinion.



## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, each major fund, and the aggregate remaining fund information of the Musconetcong Sewerage Authority as of December 31, 2016, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, schedule of the Authority's proportionate share of the net pension liability-PERS and schedule of the Authority's contributions-PERS, as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted 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.

### **Supplementary and 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 information listed in the table of contents including statistical information and the letter of comments and recommendations section are presented for purposes of additional analysis, as required by the Division of Local Government Services and are not a required part of the financial statements.

The supplemental information listed in the table of contents are the responsibility of management and were derived from the underlying accounting and other records used to prepare the financial statement. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly stated in all material respects in relation to the financial statements taken as a whole.



**Other Reporting Required by Government Auditing Standards**

In accordance with Governmental Auditing Standards, we have also issued our report dated June 2, 2017 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, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in considering the Authority's internal control over financial reporting and compliance.

*Ferraioli, Wielkocz, Cerullo & Cuva, P.A.*

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.

Certified Public Accountants

Newton, New Jersey

June 2, 2017





**REQUIRED SUPPLEMENTARY INFORMATION – PART I**

***Musconetcong Sewerage Authority  
Management's Discussion and Analysis  
For the Year Ended December 31, 2016  
(UNAUDITED)***

Our discussion and analysis of The Musconetcong Sewerage Authority financial activities for the year ended December 31, 2016. Please read it in conjunction with the Authority's financial statements.

#### **FINANCIAL HIGHLIGHTS**

- The Authority's net position of its business-type activities decreased by \$1,214,686.56, or 4.89 percent as a result of this year's operations.
- Total cost of all of the Authority's programs was \$5,683,476.10 in 2016 compared to \$5,210,944.79 in 2015.
- During the year, the Authority had expenses for business-type activities that were \$1,214,686.56 more than the \$4,468,789.54 generated in service fees and other program revenues.

#### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements and notes to those statements. The Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Fund Net Position, and the Statement of Cash Flows provide information about the activities of the Authority as a whole and present a longer-term view on the Authority's finances.

For business-type activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Authority's operation in more detail than the government-wide statements by providing information about the Authority's most financially significant funds.

#### **Reporting the Authority as a Whole**

##### **The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Fund Net Position**

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Fund Net Position report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. Accrual of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's *net position* and changes in them. You can think of the Authority's net position, the difference between assets and liabilities, as one way to measure the Authority's financial health, or *financial position*. Over time, *increases* or *decreases* in the Authority's net position are one indicator whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's user fee base, and the condition of the Authority's capital assets to assess the overall *health* of the Authority.

**Major Features of  
The Musconetcong Sewerage Authority  
Entity Wide Financial Statements  
(Figure A-1)**

Entity Wide Financial Statements

Business-Type  
Funds

Scope	Activities the Authority operates similar to private businesses.
Required financial statements	Statement of net position  Statement of revenues, expenses, and changes in net position  Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets, deferred outflows/inflows and liabilities, both financial and capital, and short-term and long-term.
Type of inflow/outflow information	All revenues and expenses, regardless of when cash is received or paid.

## THE AUTHORITY AS A WHOLE

The Authority's net position changed from a year ago, *decreasing* from \$24,848,776.91 to \$23,634,090.35. Looking at the net position and net expenses of business-type activities separately, different stories emerge. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the Authority's business-type activities as of December 31.

**Table 1**  
**Net Position**

	Business-type Activities		Total Primary Government	
	2016	2015	2016	2015
Current and Other Assets	\$ 3,292,547.85	\$ 3,001,123.97	\$ 3,292,547.85	\$ 3,001,123.97
Capital Assets	27,835,584.48	29,541,073.43	27,835,584.48	29,541,073.43
Total Assets	<u>31,128,132.33</u>	<u>32,542,197.40</u>	<u>31,128,132.33</u>	<u>32,542,197.40</u>
Deferred Outflows of Resources	925,790.00	539,643.00		
Long-Term Debt Outstanding	7,064,640.22	6,979,556.97	7,064,640.22	6,979,556.97
Other Liabilities	1,355,191.76	1,218,087.52	1,355,191.76	1,218,087.52
Total Liabilities	<u>8,419,831.98</u>	<u>8,197,644.49</u>	<u>8,419,831.98</u>	<u>8,197,644.49</u>
Deferred Inflows of Resources	-	35,419.00		
Net Position:				
Net Investment in Capital Assets	23,162,999.11	24,223,279.54	23,162,999.11	24,223,279.54
Restricted	1,935,527.37	1,699,857.01	1,935,527.37	1,699,857.01
Unrestricted	<u>(1,464,436.13)</u>	<u>(1,074,359.64)</u>	<u>(1,464,436.13)</u>	<u>(1,074,359.64)</u>
Total Net Position	<u>\$ 23,634,090.35</u>	<u>\$ 24,848,776.91</u>	<u>\$ 23,634,090.35</u>	<u>\$ 24,848,776.91</u>

- Net position of the Authority's business-type activities *decreased* 4.89 percent.
- Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – *decreased* \$390,076.49.
- Restricted net position, those restricted mainly for capital projects *increased* \$235,670.36.
- The net investment in capital assets category *decreased* \$1,060,280.43.

**Table 2**  
**Changes in Net Position**

	<u>Business-type</u> <u>Activities</u>		<u>Total</u> <u>Primary Government</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<u>Revenues</u>				
Program Revenues:				
Charges for Services	\$ 4,360,000.04	\$ 4,300,165.09	\$ 4,360,000.04	\$ 4,300,165.09
General Revenues:				
NJEIT Loan - Earnings and Savings Credits	71,486.97	50,401.70	71,486.97	50,401.70
Escrow Deposits	11,425.40	5,375.00	11,425.40	5,375.00
Interest and Investment Earnings	3,697.37	3,592.28	3,697.37	3,592.28
Other General Revenues	<u>22,179.76</u>	<u>19,779.22</u>	<u>22,179.76</u>	<u>19,779.22</u>
Total Revenues:	<u>4,468,789.54</u>	<u>4,379,313.29</u>	<u>4,468,789.54</u>	<u>4,379,313.29</u>
<u>Program Expenses Including Indirect Expenses</u>				
Escrow Deposits Expended/Returned	8,642.20	3,907.00	8,642.20	3,907.00
Business-type Activities:				
Sewer	<u>5,674,833.90</u>	<u>5,207,037.79</u>	<u>5,674,833.90</u>	<u>5,207,037.79</u>
Total Expenses	<u>5,683,476.10</u>	<u>5,210,944.79</u>	<u>5,683,476.10</u>	<u>5,210,944.79</u>
Increase/(Decrease) in Net Position	<u>\$ (1,214,686.56)</u>	<u>\$ (831,631.50)</u>	<u>\$ (1,214,686.56)</u>	<u>\$ (831,631.50)</u>

**Business-type Activities**  
**Table 3**

The Authority's one major Enterprise Fund consists of Sewer Operations.

	<u>Sewer</u>
Total Assets	\$ 31,128,132.33
Net Position	\$ 23,634,090.35
Change in Net Position	\$ (1,214,686.56)
Return on Ending Total Assets	-3.90%
Return on Ending Net Position	-5.14%

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets  
Table 4**

**Net Investment in Capital Assets at Year-end**

	Business-type		Totals	
	Activities		2016	2015
	2016	2015		
Land	\$ 505,700.00	\$ 505,700.00	\$ 505,700.00	\$ 505,700.00
Infrastructure, Buildings and Equipment	60,001,547.40	60,001,547.40	60,001,547.40	60,001,547.40
Vehicles	201,060.10	201,060.10	201,060.10	201,060.10
Subtotal	60,708,307.50	60,708,307.50	60,708,307.50	60,708,307.50
Accumulated Depreciation	(32,872,723.02)	(31,167,234.07)	(32,872,723.02)	(31,167,234.07)
Totals	<u>\$ 27,835,584.48</u>	<u>\$ 29,541,073.43</u>	<u>\$ 27,835,584.48</u>	<u>\$ 29,541,073.43</u>

The Authority’s 2017 capital budget anticipates a spending level of \$558,550.00 for capital projects. More detailed information about the Authority’s capital assets is presented in the notes to the basic financial statements.

**DEBT**

At year – end the Authority had total debt of \$7,672,385.21 outstanding versus \$7,572,765.49 last year – an increase of 1.32 percent – as shown in Table 5.

**Outstanding Debt, at year –end  
Table 5**

	Business-Type	
	Activities	
	2016	2015
Loans	\$ 4,672,585.37	\$ 5,317,793.89
Net Pension Liability	2,942,458.00	2,202,966.00
Compensated Absences	57,341.84	52,005.60
	<u>\$ 7,672,385.21</u>	<u>\$ 7,572,765.49</u>

An analysis of Authority Debt is presented in the notes. to the basic financial statements.

**CONTACTING THE AUTHORITY’S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Authority’s finances and to show the Authority’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrative Assistant, Musconetcong Sewerage Authority, 110 Continental Drive, Budd Lake, New Jersey 07828.

## **BASIC FINANCIAL STATEMENTS**

**ENTITY WIDE FINANCIAL STATEMENTS**



## **BUSINESS-TYPE FUNDS**

**MUSCONETCONG SEWERAGE AUTHORITY  
STATEMENT OF NET POSITION  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>Business-type Activities - Enterprise Funds</b>	
	<u>Sewer</u>	<u>Totals</u>
<b>ASSETS</b>		
Current Assets:		
Cash - Unrestricted	\$ 1,339,108.16	\$ 1,339,108.16
Petty Cash	150.00	150.00
Cash - Restricted - Escrow	7,203.54	7,203.54
Cash - Restricted - Payroll	10,379.19	10,379.19
Cash - Restricted - Capital Improvement Funds	1,086,072.85	1,086,072.85
Cash - Restricted - Operations	50,000.00	50,000.00
Cash - Restricted - Current Debt Service	112,878.45	112,878.45
Cash - Restricted - Future Retirement Reserve	50,000.00	50,000.00
Cash - Restricted - Renewal and Replacement	636,576.07	636,576.07
Prepaid Expenses	179.59	179.59
Total Current Assets	<u>3,292,547.85</u>	<u>3,292,547.85</u>
Noncurrent Assets:		
Capital Assets Not Being Depreciated:		
Land	505,700.00	505,700.00
Capital Assets Being Depreciated		
Less: Accumulated Depreciation	60,202,607.50	60,202,607.50
Total Noncurrent Assets	<u>(32,872,723.02)</u>	<u>(32,872,723.02)</u>
Total Assets	<u>27,835,584.48</u>	<u>27,835,584.48</u>
Total Assets	<u>\$ 31,128,132.33</u>	<u>\$ 31,128,132.33</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension Deferred Outflows	<u>925,790.00</u>	<u>925,790.00</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable - Operating	\$ 171,756.75	\$ 171,756.75
Accounts Payable - Pension	88,261.00	88,261.00
Amount Due to Municipalities	416,283.79	416,283.79
Payroll Deductions and Withholdings	10,379.19	10,379.19
Held in Trust for Escrow Funds	7,203.54	7,203.54
Accrued Interest on Debt	53,562.50	53,562.50
Loans Payable	607,744.99	607,744.99
Total Current Liabilities	<u>1,355,191.76</u>	<u>1,355,191.76</u>
Noncurrent Liabilities:		
Compensated Absences Payable	57,341.84	57,341.84
Net Pension Liability	2,942,458.00	2,942,458.00
Loans Payable	4,064,840.38	4,064,840.38
Total Noncurrent Liabilities	<u>7,064,640.22</u>	<u>7,064,640.22</u>
Total Liabilities	<u>8,419,831.98</u>	<u>8,419,831.98</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	23,162,999.11	23,162,999.11
Restricted/Assigned for:		
Current Debt Service	112,878.45	112,878.45
Future Retirement Reserve	50,000.00	50,000.00
Capital Improvements	1,086,072.85	1,086,072.85
Renewal and Replacement	636,576.07	636,576.07
Operations	50,000.00	50,000.00
Unrestricted/Unassigned	<u>(1,464,436.13)</u>	<u>(1,464,436.13)</u>
Total Net Position	<u>\$ 23,634,090.35</u>	<u>\$ 23,634,090.35</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

**MUSCONETCONG SEWERAGE AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

	<u>Business-type Activities - Enterprise Funds</u>	
	<u>Sewer</u>	<u>Totals</u>
<b>Operating Revenues:</b>		
Service Charges	\$ 4,360,000.04	\$ 4,360,000.04
Total Operating Revenues	<u>4,360,000.04</u>	<u>4,360,000.04</u>
 <b>Operating Expenses:</b>		
Personnel Services	821,239.36	821,239.36
Employee Benefits	766,576.57	766,576.57
Administrative	26,271.45	26,271.45
Operations and Maintenance	1,632,332.00	1,632,332.00
Depreciation	<u>1,705,488.95</u>	<u>1,705,488.95</u>
Total Operating Expenses	<u>4,951,908.33</u>	<u>4,951,908.33</u>
Operating Income	<u>(591,908.29)</u>	<u>(591,908.29)</u>
 <b>Nonoperating Revenues (Expenses):</b>		
Interest Income	3,697.37	3,697.37
Interest Expense - Wastewater	(143,944.40)	(143,944.40)
Environmental Infrastructure Trust Financing - Savings Credit	71,486.97	71,486.97
Escrow Deposits	11,425.40	11,425.40
Noncapitalized Expenditures	(157,361.14)	(157,361.14)
Amount Due to Municipalities	(416,283.79)	(416,283.79)
Miscellaneous Income	22,179.76	22,179.76
Escrow Deposits Expended/Returned	(8,642.20)	(8,642.20)
Compensated Absences	<u>(5,336.24)</u>	<u>(5,336.24)</u>
Total Nonoperating Revenues (Expenses)	<u>(622,778.27)</u>	<u>(622,778.27)</u>
Change in Net Position	(1,214,686.56)	(1,214,686.56)
Total Net Position—Beginning	<u>24,848,776.91</u>	<u>24,848,776.91</u>
Total Net Position—Ending	<u>\$ 23,634,090.35</u>	<u>\$ 23,634,090.35</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

**MUSCONETCONG SEWERAGE AUTHORITY  
STATEMENT OF CASH FLOWS  
ENTERPRISE FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2016**

	<b>Business-type Activities - Enterprise Funds</b>	
	<b>Sewer</b>	<b>Totals</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from Customers	\$ 4,360,000.04	\$ 4,360,000.04
Payments to Employees	(821,239.36)	(821,239.36)
Payments for Employee Benefits	(360,389.57)	(360,389.57)
Payments to Suppliers	<u>(1,626,416.51)</u>	<u>(1,626,416.51)</u>
Net Cash Provided by Operating Activities	<u>1,551,954.60</u>	<u>1,551,954.60</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>		
Amount Due to Municipalities	(379,029.02)	(379,029.02)
Escrow Deposits Received	11,425.40	11,425.40
Escrow Deposits Expended/Returned	(8,642.20)	(8,642.20)
Payroll Deduction Receivable Decrease	(31,563.97)	(31,563.97)
Miscellaneous Income	<u>22,179.76</u>	<u>22,179.76</u>
Net Cash (Used) for Non-Capital Financing Activities	<u>(385,630.03)</u>	<u>(385,630.03)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Principal Paid on Capital Debt	(645,208.52)	(645,208.52)
Interest Paid on Capital Debt	(147,515.37)	(147,515.37)
NJEIT Earnings Credit	71,486.97	71,486.97
Capital Improvement Disbursements	(13,927.15)	(13,927.15)
Renewal and Replacement Disbursements	<u>(143,433.99)</u>	<u>(143,433.99)</u>
Net Cash (Used) for Capital and Related Financing Activities	<u>(878,598.06)</u>	<u>(878,598.06)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest and Dividends	<u>3,697.37</u>	<u>3,697.37</u>
Net Cash Provided by Investing Activities	<u>3,697.37</u>	<u>3,697.37</u>
Net Increase in Cash and Cash Equivalents	291,423.88	291,423.88
Balances—Beginning of Year	<u>3,000,944.38</u>	<u>3,000,944.38</u>
Balances—End of Year	<u>\$ 3,292,368.26</u>	<u>\$ 3,292,368.26</u>
<b>Reconciliation of Operating Income/(Loss) to Net Cash Provided by/(Used) for Operating Activities:</b>		
Operating Income/(Loss)	\$ (591,908.29)	\$ (591,908.29)
Adjustments to Reconcile Operating Income/(Loss) to Net Cash Provided by Operating Activities:		
Depreciation	1,705,488.95	1,705,488.95
Increase in Net Adjustment For Pension	317,926.00	317,926.00
Increase/(Decrease) in Accounts Payable	<u>120,447.94</u>	<u>120,447.94</u>
Total Adjustments	<u>2,143,862.89</u>	<u>2,143,862.89</u>
Net Cash Provided by Operating Activities	<u>\$ 1,551,954.60</u>	<u>\$ 1,551,954.60</u>

The accompanying Notes to Basic Financial Statements are an integral part of this statement.

## **NOTES TO BASIC FINANCIAL STATEMENTS**

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016

Note I: Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of the Musconetcong Sewerage Authority ("the Authority") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority is required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through December 31, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Authority has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the Authority has chosen not to do so. The more significant accounting policies established in GAAP and used by the Authority are discussed below.

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61, "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34." The purpose of the statement is to amend the criteria for reporting and including component units with the primary government. The statement will become effective for fiscal periods beginning after June 15, 2012. This statement is not anticipated to have any effect on the Authority's financial reporting.

B. Reporting Entity

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. sewage disposal plant. Said construction was financed by a bond issue of \$591,000.00 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 \$400,000.00 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 Townships 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 an 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.

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

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 \$17,450,000.00 and by contributions from the International Trade Center, located within the Service Area of the Authority.

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 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 will include 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 raterated 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 \$3,545,000.00 for the local ineligible share and by New Jersey Wastewater Treatment Trust Financing Program loans from the Trust (\$7,955,000.00) and from the Fund (\$6,260,617.00) for the allowable costs of the new project.

In November of 1995, \$2,280,000.00 of Series C, Revenue Bonds were defeased since the Authority became eligible for additional New Jersey Wastewater Treatment Trust Financing, \$1,190,000.00 from the Trust and \$1,045,037.00 from the fund.

On December 15, 2002, \$12,855,000.00 of Series B, Refunding Bonds were defeased with the issuance of \$12,520,000.00 of Project I – Series 2002, Refunding Bonds.

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

In 2002, the 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 Protection Agency totaling \$4,359,700.00 and loans from the New Jersey 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.

C. Basic Financial Statements- Fund Financial Statements

Proprietary Fund Type

The focus of Proprietary Fund measurement is upon determination of net income, changes in net position, financial position and cash flows. The accounting principles generally accepted in the United States of America applicable are those similar to businesses in the private sector. The following is a description of the Proprietary Funds of the Authority:

Enterprise Funds – The Enterprise Funds are utilized to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the Authority is that the costs (i.e. expenses including depreciation and indirect costs) of providing goods or services to the users on a continuing basis be financed or recovered primarily through user charges; or, where the Authority has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Capital assets purchased or acquired are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation of all exhaustive fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20-50 Years
Improvements	10-20 Years
Machinery and Equipment	5-10 Years
Light Trucks and Vehicle	5 Years
Heavy Trucks and Vehicle	6 Years
Infrastructure	10-50 Years

Land and Construction in Progress are not depreciated.



MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

D. Measurement Focus and Basis of Accounting

The proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include state and federal aid, grants entitlements and donations.

E. Budgets/Budgetary Control

The annual budget is required to be balanced and authorities are permitted to utilize unrestricted net position to balance their budget; however, the maximum amount which can be utilized is the lesser of (a) the estimated year-end balance of unrestricted net position or (b) working capital reduced by unrestricted assets not ordinarily convertible into cash (non-liquid, such as prepaid insurance and inventory).

For the purpose of using projected Unrestricted Net Position or funding operating deficits, Authorities are permitted to amend or modify the annual operating budget, since actual results may differ from the amount estimated in the budget process.

Amendments to the operating and/or capital budgets may be permitted for a variety of conditions, as more fully described in the rules and regulations promulgated by the Local Finance Board. There were no significant budget amendments during the fiscal year.

F. Assets, Liabilities and Net Position

1. Deposits and Investments

Deposits are cash and cash equivalents including petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Other than Certificates of Deposit, deposits with maturities of greater than three months are considered to be investments. U.S. Treasury and Agency Obligations and Certificates of Deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey Authorities are limited as to the types of investments and types of financial institutions they may invest in. New Jersey statute 40A:5-15.1 et. seq. provides a list of permissible investments that may be purchased by New Jersey Authorities.

2. Short – term Interfund Receivables/Payables

Short – term interfund receivables/payables represents amounts that are owed, other than charges for goods or services rendered to/from a particular fund in the Authority and that are due within one year.

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities and Net Position (Continued)

3. Inventories

The cost of consumable materials and supplies on hand are immaterial to the financial statements and the Authority has therefore chosen to report these items as expenditures/expenses at the time of purchase.

4. Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Business-type activities report user fees and interest earnings as their major receivables.

5. Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. The primary restricted assets are related to debt related trustee accounts and developer's deposits.

6. Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds, notes and loans payable.

The accounting for proprietary fund debt is the same in the fund statements as it is in the government-wide statements.

7. Compensated Absences

The Authority's policies regarding sick time permit employees to accumulate earned but unused sick leave. The proprietary fund reports the liability as it is incurred.

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MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

F. Assets, Liabilities and Net Position (Continued)

8. Net Position Classifications

Entity Wide Statements

Net Position is classified as net assets plus deferred outflows minus total liabilities and deferred inflows and displayed in three components:

- a. Net investment in capital assets – 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.
- b. Restricted net position – Consists of the components of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net position – All other assets that do not meet the definition of “restricted” or “net investment in capital assets.”

9. 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 estimates and assumptions that affect certain reports, amounts and disclosures. Accordingly, actual results could differ from those estimates. The items where estimates would occur are for depreciation of capital assets and their useful lives.

G. Revenues, Expenditures and Expenses

1. Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

2. Expenditures/Expenses

In the entity wide financial statements, expenditures are classified as follows:

Proprietary Fund – By Operating and Nonoperating

In the entity wide financial statements, proprietary funds report expenses relating to use of economic resources.

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

(CONTINUED)

Note I: Summary of Significant Accounting Policies (Continued)

H. Recent Accounting Pronouncements

GASB 73, "Accounting and Financial Reporting for Pensions and Related Assets that Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68", will be effective beginning with the fiscal year ending June 30, 2017. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability.

GASB 74, "Financial Reporting for Postemployment Benefit Plans Other than Pension Plans", will be effective beginning with the fiscal year ending June 30, 2017. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

GASB 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions", will be effective beginning with the fiscal year ending June 30, 2018. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

GASB 82, "Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73, will be effective for entities with fiscal years beginning after June 30, 2016. The objective of this Statement is to address certain issues that have been raised with respect to the aforementioned Statements and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

GASB 83, "Certain Asset Retirement Obligations" will be effective for reporting periods beginning after June 15, 2018 and establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs and requires that recognition occur when the liability is both incurred and reasonably estimable. The Authority does not believe this Statement will have any effect on future financial statements.

GASB 84, "Fiduciary Activities" will be effective for reporting periods beginning after December 15, 2018 and establishes criteria for identifying fiduciary activities of all state and local governments. The focus on the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify component units and postemployment benefit arrangements that are fiduciary activities. The Authority does not believe this Statement will have any effect on future financial statements.

GASB 85, "Omnibus 2017" will be effective for reporting periods beginning after June 15, 2017 and addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)

Note II: Stewardship, Compliance and Accountability

By its nature as a local government unit, the Authority is subject to various federal, state, and local laws and contractual regulations. An analysis of the Authority's compliance with significant laws and regulations and demonstration of its stewardship over Authority resources follows.

A. Revenue Restrictions and Debt Covenants

Since the Authority has made its last payment under the bond resolutions (Section 602-609), the Authority has now established the following cash and investment accounts for the deposit, of all revenues received by the Authority:

<u>Account</u>	<u>Amount</u>	<u>Use for which restricted</u>
Revenue	All revenue received by the Authority.	Authorized operating expenses and, as of the 10th day of each March, June September and December, transfers to the various accounts described below.
Construction	Proceeds of debt issued or Budget Appropriations.	Construction costs of the project system including improvements and additions.
Debt Service (Current Debt Service)	Amount needed to pay matured principal and interest plus principal and interest due on or before the following February 1 <sup>st</sup>	Principal and interest on the loans.
Renewal and Replacement	Amount needed in the Renewal and Replacement Fund to equal the System Reserve Requirement.	Major repairs, renewals, replacements or maintenance items of a type not recurring annually.
Future Retirement	Amount needed to increase the balance to plan for the upcoming retirements of the contracted personnel.	Payments to eligible employees who retire with unused sick and/or vacation time up to a maximum of \$15,000.
Capital Improvements	Amount put aside for future Plant upgrades/improvements	Major improvements not covered by the Renew al and Replacement Reserve.

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MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues

A. Deposits and Investments

Deposits

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation (FDIC), the Savings Association Insurance Fund, or by any other agencies of the United States that insure deposits or the State of New Jersey Cash Management Fund.

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 Governmental Unit Deposit Protection Act (GUDPA). 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.

At December 31, 2016 the Authority's cash and cash equivalents amounted to \$3,312,034.47. Of this amount, \$250,000.00 was covered by federal depository insurance (F.D.I.C.) and \$3,062,034.47 was covered by a collateral pool maintained by the banks as required by GUDPA.

At December 31, 2016 the Authority did not participate in the State of New Jersey Cash Management Fund.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, requires the disclosure of bank deposits that are subject to custodial credit risk. The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that may be in the possession of an outside party.

As of December 31, 2016 none of the Authority's cash and cash equivalents of \$3,312,034.47 was exposed to custodial credit risk.

At December 31, 2016 the Authority's book balance was \$3,292,218.26, with the difference of \$19,816.21 being outstanding checks and a withdrawal in transit.

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MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues (Continued)

A. Deposits and Investments (Continued)

Investments

New Jersey statutes (N.J.S.A. 40A:5-15.1) permit the Authority to purchase the following types of securities:

a. When authorized by resolution adopted by a majority vote of all its members the board of commissioners of any Authority may use moneys which may be in hand for the purchase of the following types of securities which, if suitable for registry, may be registered in the name of the Authority;

(1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;

(2) Government money market mutual funds;

(3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;

(4) Bonds or other obligations of the Authority or bonds or other obligations of local unit or units within which the Authority is located;

(5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by Authority;

(6) Local government investment pools;

(7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281 (C.52:18A-90.4) or

(8) Agreements for the repurchase of fully collateralized securities, if:

(a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection a;

(b) the custody of collateral is transferred to a third party;

(c) the maturity of the agreement is not more than 30 days;

(d) the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c.236 (C.17:9-41) and for which a master repurchase agreement providing for the custody and security of collateral is executed.

Credit Risk: The Authority does not have an investment policy regarding the management of credit risk. GASB 40 requires that disclosures be made as to the credit rating of all debt security investments except for obligations of the U.S. government or investments guaranteed by the U.S. government. The Authority did not have any investments at December 31, 2016.

Interest Rate Risk: The Authority does not have a formal policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority did not have any investments at December 31, 2016.

Concentration of Credit Risk: The Authority places no limit on the amount the Authority may invest in any one issuer. The Authority did not have any investments at December 31, 2016.

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

(CONTINUED)

Note III: Detailed Disclosure Regarding Assets and Revenues (Continued)

B. Capital Assets

Capital asset activity for the year ended December 31, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Business - type Activities:				
Capital Assets not being Depreciated:				
Land	\$ 505,700.00	\$ -	\$ -	\$ 505,700.00
Construction in Progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Assets not being Depreciated	<u>505,700.00</u>	<u>-</u>	<u>-</u>	<u>505,700.00</u>
Infrastructure, Buildings and Equipment	60,001,547.40	-	-	60,001,547.40
Vehicles	<u>201,060.10</u>	<u>-</u>	<u>-</u>	<u>201,060.10</u>
Totals at Historical Cost	<u>60,202,607.50</u>	<u>-</u>	<u>-</u>	<u>60,202,607.50</u>
Less Accumulated Depreciation for:				
Infrastructure, Buildings and Equipment	(30,993,029.57)	(1,701,652.45)	-	(32,694,682.02)
Vehicles	<u>(174,204.50)</u>	<u>(3,836.50)</u>	<u>-</u>	<u>(178,041.00)</u>
Total Accumulated Depreciation	<u>(31,167,234.07)</u>	<u>(1,705,488.95)</u>	<u>(1)</u>	<u>(32,872,723.02)</u>
Net Capital Assets being Depreciated	<u>29,035,373.43</u>	<u>(1,705,488.95)</u>	<u>-</u>	<u>27,329,884.48</u>
Business - type Activities Capital Assets, Net	<u>\$ 29,541,073.43</u>	<u>\$ (1,705,488.95)</u>	<u>\$ -</u>	<u>\$ 27,835,584.48</u>

(1) Depreciation expense was charged to business-type functions as follows:

Sewer	<u>\$ 1,705,488.95</u>
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MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)

Note IV: Detailed Disclosures Regarding Liabilities and Expenses/Expenditures

A. Operating Leases

The Authority has no commitments under operating leases.

B. Long - Term Liabilities

Long - Term liability activity for the year ended December 31, 2016 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-type Activities:					
Long - Term Debt:					
Bonds Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Loans	<u>5,317,793.89</u>	<u>-</u>	<u>(645,208.52)</u>	<u>4,672,585.37</u>	<u>607,744.99</u>
Total Debt Payable	<u>5,317,793.89</u>	<u>-</u>	<u>(645,208.52)</u>	<u>4,672,585.37</u>	<u>607,744.99</u>
Other Liabilities:					
Compensated Absences	52,005.60	5,336.24	-	57,341.84	-
Net Pension Liability	<u>2,202,966.00</u>	<u>739,492.00</u>	<u>-</u>	<u>2,942,458.00</u>	<u>-</u>
Total Other Liabilities	<u>2,254,971.60</u>	<u>744,828.24</u>	<u>-</u>	<u>2,999,799.84</u>	<u>-</u>
Business-type Activities					
Long - Term Liabilities	<u>\$ 7,572,765.49</u>	<u>\$ 744,828.24</u>	<u>\$ (645,208.52)</u>	<u>\$ 7,672,385.21</u>	<u>\$ 607,744.99</u>

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)

Note IV: Detailed Disclosure Regarding Liabilities and Expenses/Expenditures (Continued)

B. Long – Term Liabilities

1. Loans Payable

Pursuant to agreements entered into with the New Jersey Infrastructure Trust Fund Financing Program dated November 1, 2002, the Authority has borrowed the following:

	<u>Amount of Loan</u>	<u>Amount Outstanding</u> <u>December 31, 2016</u>
Fund	\$3,016,851.00	\$1,084,303.21
Trust	<u>3,290,000.00</u>	<u>1,413,314.10</u>
	<u>\$6,306,851.00</u>	<u>\$2,497,617.31</u>

Pursuant to agreements entered into with the New Jersey Infrastructure Trust Fund Financing Program dated November 1, 2007, the Authority has borrowed the following:

	<u>Amount of Loan</u>	<u>Amount Outstanding</u> <u>December 31, 2016</u>
Fund	\$ 906,790.00	\$ 379,241.89
Trust	<u>890,000.00</u>	<u>450,000.00</u>
	<u>\$1,796,790.00</u>	<u>\$ 829,241.89</u>

Pursuant to agreements entered into with the New Jersey Infrastructure Trust Fund Financing Program dated November 1, 2010, the Authority has borrowed the following:

	<u>Amount of Loan</u>	<u>Amount Outstanding</u> <u>December 31, 2016</u>
Fund	\$1,078,027.00	\$ 717,726.17
Trust	<u>830,000.00</u>	<u>628,000.00</u>
	<u>\$1,908,027.00</u>	<u>\$1,345,726.17</u>

2. Bonds Authorized But Not Issued

As of December 31, 2016 the Authority had no authorized but not issued bonds.

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MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)

Note IV: Detailed Disclosure Regarding Liabilities and Expenses/Expenditures (Continued)

Principal and Interest due on the loans are as follows:

Year ending December 31,	<u>2002 Loan</u>		<u>2007 Loan</u>		<u>2010 Loan</u>		<u>Totals</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 391,013.06	\$ 73,550.00	\$ 126,917.02	\$ 21,000.00	\$ 89,814.91	\$ 30,285.00	\$ 607,744.99	\$ 124,835.00
2018	399,964.89	62,550.00	133,176.97	17,750.00	89,814.91	28,540.00	622,956.77	108,840.00
2019	408,572.72	51,050.00	139,256.91	14,250.00	89,814.91	26,785.00	637,644.54	92,085.00
2020	416,924.97	39,050.00	137,097.01	11,250.00	91,814.91	25,035.00	645,836.89	75,335.00
2021	432,826.01	26,550.00	143,536.94	8,250.00	95,814.91	23,185.00	672,177.86	57,985.00
2022	448,315.66	13,300.00	149,257.04	4,250.00	95,814.91	21,135.00	693,387.61	38,685.00
2023					95,814.91	19,085.00	95,814.91	19,085.00
2024					99,814.91	17,035.00	99,814.91	17,035.00
2025					99,814.91	14,785.00	99,814.91	14,785.00
2026					104,814.91	12,535.00	104,814.91	12,535.00
2027					109,814.91	10,035.00	109,814.91	10,035.00
2028					109,814.91	7,560.00	109,814.91	7,560.00
2029					109,207.76	5,085.00	109,207.76	5,085.00
2030	-	-	-	-	63,739.49	2,610.00	63,739.49	2,610.00
	<u>\$ 2,497,617.31</u>	<u>\$ 266,050.00</u>	<u>\$ 829,241.89</u>	<u>\$ 76,750.00</u>	<u>\$ 1,345,726.17</u>	<u>\$ 243,695.00</u>	<u>\$ 4,672,585.37</u>	<u>\$ 586,495.00</u>

Note V: Detailed Disclosure Regarding Net Position

A. Restricted/Assigned Net Position

Enterprise Fund:

Restricted for:

Current Debt Service	\$112,878.45
Future Retirement Reserve	50,000.00
Capital Improvements	1,086,072.85
Renewal and Replacement	636,576.07
Operations	50,000.00

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MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

(CONTINUED)

Note VI: Pension Plans

Description of Systems

Substantially all of the Authority's employees participate in the following contributory defined benefit public employee retirement system which has been established by State statute: the Public Employees' Retirement System (PERS). This system is sponsored and administered by the New Jersey Division of Pensions and Benefits. The PERS is considered a cost sharing multiple-employer defined benefit plan.

According to the state law, all obligations of each retirement system will be assumed by the State of New Jersey should any retirement systems terminate. The State of New Jersey, Department of Treasury, Division of Pensions and Benefits issues a publicly available financial report that includes the financial statements and required supplementary information of each of the above systems. These reports may be obtained by writing to the State of New Jersey, Department of Treasury, Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey 08625-0295.

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

The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The PERS is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district, or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction.

Summary of Significant Accounting Policies-

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

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At December 31, 2016, the Authority reported a liability of \$2,942,458 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability 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 is 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 governmental entities, actuarially determined. At June 30, 2016, the Authority's proportion was 0.0099349864%, which was an increase of 0.0001213446% from its proportion measured as of June 30, 2015.

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MUSCONETCONG SEWERAGE AUTHORITY  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)

Note VI: Pension Plans (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

For the year ended December 31, 2016, the Authority recognized pension expense of \$321,811.00. At December 31, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$54,721.00	
Changes of Assumptions	609,520.00	
Net difference between Projected and Actual Earnings on Pension Plan Investments	112,199.00	
Changes in proportion and differences between Authority Contributions and Proportionate Share of Contributions	<u>149,350.00</u>	
Total	<u>\$925,790.00</u>	<u>\$0.00</u>

Amounts 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, 2016, the plan measurement date is June 30, 2016) will be recognized as a reduction of the net position 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>Year Ended June 30</u>	<u>Amount</u>
2016	\$149,547.84
2017	149,547.84
2018	173,256.19
2019	145,560.53
2020	<u>46,328.60</u>
Total	<u>\$664,241.00</u>

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MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2016  
(CONTINUED)

Note VI: Pension Plans (Continued)

	<u>6/30/16</u>	<u>6/30/15</u>
Collective Deferred Outflows of Resources	\$8,685,338,380.00	\$ 3,578,755,666.00
Collective Deferred Inflows of Resources	870,133,595.00	993,410,455.00
Collective Net Pension Liability (Non-State-Local Group)	29,617,131,759.00	22,447,996,119.00
Authority's Portion of Net Pension Liability	2,942,458.00	2,202,966.00
Authority's Proportion %	0.0099349864%	0.0098136418%

Actuarial Assumptions

The collective total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of July 1, 2015, which was rolled forward to June 30, 2016. This actuarial valuation used the following actuarial assumptions:

Inflation	3.08%
Salary Increases:	
2012-2021	1.65%-4.15% based on age
Thereafter	2.65%-5.15% based on age
Investment Rate of Return	7.65%

Long-Term Expected Rate of Return

Mortality Rates

Pre-mortality rates were based on the RP-2000 Employee Pre-retirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plans actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirement and beneficiaries of former members and a one year static projection based on mortality improvement Scale AA. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is unlikely 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.

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MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

(CONTINUED)

Note VI: Pension Plans (Continued)

Long-Term Expected Rate of Return (Continued)

In accordance with State statute, the long-term expected rate of return on plan investments (7.65% at June 30, 2016) 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 rate 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 weighing 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, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	.87%
U.S. Treasuries	1.50%	1.74%
Investment Grade Credit	8.00%	1.79%
Mortgages	2.00%	1.67%
High Yield Bonds	2.00%	4.56%
Inflation-Indexed Bonds	1.50%	3.44%
Broad US Equities	26.00%	8.53%
Developed Foreign Equities	13.25%	6.83%
Emerging Market Equities	6.50%	9.95%
Private Equity	9.00%	12.40%
Hedge Funds/Absolute Return	12.50%	4.68%
Real Estate (Property)	2.00%	6.91%
Commodities	.50%	5.45%
Global Debt ex US	5.00%	-0.25%
REIT	5.25%	5.63%

Discount Rate

The discount rate used to measure the total pension liability was 3.98% and 4.90% as of June 30, 2016 and 2015, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% and 3.80% as of June 30, 2016 and 2015, respectively, based on the Bond Buyer GO 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

(CONTINUED)

Note VI: Pension Plans (Continued)

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability measured as of June 30, 2016, calculated using the discount rate of 3.98%, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.98%) or 1-percentage-point higher (4.98%) than the current rate:

	1% Decrease (2.98%)	Current Discount Rate (3.98%)	1% Increase (4.98%)
Authority's proportionate share of the net pension liability	\$3,605,639	\$2,942,458	\$2,394,945

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued State of New Jersey Division of Pensions and Benefits financial report at <http://www.nj.gov/treasury/pensions/financial-rpts-home.shtml>.

During the year ended June 30, 2016, for PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost differs from the annual required contribution due to the enactment of Chapter 114, P.L. 1997.

Contribution Requirements (Continued)

The Authority's total payroll for the year ended December 31, 2016 was \$859,738.69 and covered payroll was \$713,958.00 for PERS. Contributions to PERS for the last three years made by the employees and the Authority were as follows:

		<u>PERS</u>	<u>Percent of Covered Payroll</u>
Employees	12/31/14	46,596.04	6.85%
	12/31/15	47,773.38	6.99%
	12/31/16	50,910.36	7.13%
Authority	12/31/14	65,069.00	9.57%
	12/31/15	77,573.00	11.35%
	12/31/16	84,371.00	11.82%

Note VII: Post Retirement Medical Benefits

PERS employees do not receive post – retirement medical benefits.



MUSCONETCONG SEWERAGE AUTHORITY

NOTES TO BASIC FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

(CONTINUED)

Note VIII: Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The Authority is a member of the New Jersey Utility Authority 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 are 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 IX: Accrued Sick and Vacation Benefits

The Authority permits employees to accrue a limited amount of unused vacation 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 \$57,341.84. This amount is reported as a liability as required by GASB 34 and it is expected that the cost of such unpaid compensation 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 \$50,000.00 as of December 31, 2016.

Note X: Related Parties

Mr. John Sylvester, Commissioner of the Authority is also a Councilman of the Borough of Netcong. The schedule of operating revenues includes \$410,756.12 of revenue from the Borough of Netcong and the schedule of amount due to/(from) municipalities includes \$43,727.66 due to the Borough of Netcong.

Note XI: Contingent Liabilities

A. Litigation

The Authority has received a final NJ Pollutant Discharge Elimination System Permit Action issued by the NJ DEP. The Authority's engineer estimates that the Capital Cost for the advanced treatment system and related components to comply with the requirements of the Permit would be between \$30,000,000 and \$45,000,000. The Authority appealed the permit and the matter was partially resolved. A Stipulation of Settlement was entered into between the parties and a renewal permit was issued effective July 1, 2015. There remains one unresolved issue, the limit for nitrates, which is being reevaluated by the NJ DEP. The financial statements do not include accrual or provisions for loss contingencies that may result from these proceedings.

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

Note XII Subsequent Events

The Authority's management has informed us that there are no significant events that need to be disclosed after the balance sheet date through June 2<sup>nd</sup>, 2017 the date of audit.

**OFFICIALS IN OFFICE**

MUSCONETCONG SEWERAGE AUTHORITY

ROSTER OF OFFICIALS

<u>Authority Members</u>	<u>Position</u>
Steven Rattner	Chairman
John Sylvester	Vice-Chairman
Joseph Schwab	Secretary-Treasurer
James Benson	Assistant Secretary-Treasurer
Tom Bruno	Member
Donald L. Bates	Member
Michael Grogan	Member
Brian McNeilly	Member
Melanie M. Michetti	Member
Andrew Cangiano	Member
Michael Pucilowski	Member
Rich Schindelar	Member
James Oscovitch	Non - Voting Member
Adolf Steyh	Alternate
<u>Other Officials</u>	
Patrick Dwyer, Esq.	Attorney
Mott MacDonald	Engineer
Susan Grebe	Administrative Assistant
Marvin Joss	Qualified Purchasing Agent
<u>Plant</u>	
James Schilling	Director

**REQUIRED SUPPLEMENTARY INFORMATION – PART II**

MUSCONETCONG SEWERAGE AUTHORITY

Schedule of the Authority's Share of the Net Pension Liability-PERS  
Last Ten Fiscal Years\*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Authority's Proportion of the Net Pension Liability (Asset)**	0.009934999%	0.00981364%	0.00940980%
Authority's Proportionate Share of the Net Pension Liability (Asset)**	\$ 2,942,458.00	\$ 2,202,966.00	\$ 1,761,771.00
Authority's Covered Payroll-PERS	\$ 713,958.00	\$ 683,452.00	\$ 680,200.00
Authority's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	412.13%	322.33%	259.01%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	40.13%	47.93%	52.08%

\*\* GASB requires that ten years of information be presented. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

MUSCONETCONG SEWERAGE AUTHORITY

Schedule of Authority's Contributions- PERS  
Last Ten Fiscal Years\*

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually Required Contribution	\$ 84,371.00	\$ 77,573.00	\$ 65,069.00
Contributions in Relation to the Contractually Required Contribution	<u>(84,371.00)</u>	<u>(77,573.00)</u>	<u>(65,069.00)</u>
Contribution Deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's Covered Payroll-PERS	\$ 713,958.00	\$ 683,452.00	\$ 680,200.00
Contributions as a Percentage of Covered Payroll	11.82%	11.35%	9.57%

\*\* GASB requires that ten years of information be presented. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

**MUSCONETCONG SEWERAGE AUTHORITY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2016**

**PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)**

Changes of Benefit Terms

None

Change in Assumptions

The calculation of the discount rate used to measure the total pension liability is dependent upon the long-term expected rate of return, and the municipal bond index rate. There was a change in the municipal bond index rate from the prior measurement date (3.80%) to the current measurement date (2.85%), resulting in a change in the discount rate from 4.90% to 3.98%. This change in the discount rate is considered to be a change in actuarial assumptions under GASBS No. 68.

## **OTHER SUPPLEMENTARY INFORMATION**



MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES  
COMPARED TO THE BUDGET FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016  
WITH COMPARATIVE ACTUAL AMOUNTS FOR FISCAL YEAR ENDED DECEMBER 31, 2015

	<u>Original Budget</u>	<u>2016 Actual</u>	<u>2015 Actual</u>
Operating Revenues:			
Sewer Charges:			
Township of Byram	\$ 90,875.25	\$ 90,875.24	\$ 89,465.55
Borough of Hopatcong	976,714.46	976,714.48	969,362.29
Borough of Mount Arlington	299,888.33	299,888.32	295,236.38
Township of Mount Olive	1,393,117.58	1,393,117.60	1,371,507.03
Borough of Netcong	410,756.10	410,756.12	404,384.29
Township of Roxbury	697,013.17	697,013.16	686,200.85
Borough of Stanhope	491,635.11	491,635.12	484,008.70
Unrestricted Net Position Appropriated	<u>88,940.00</u>	<u>88,940.00</u>	<u>96,289.00</u>
 Total Operating Revenues	 <u>\$ 4,448,940.00</u>	 <u>\$ 4,448,940.04</u>	 <u>\$ 4,396,454.09</u>

MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES  
COMPARED TO THE BUDGET FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016  
WITH COMPARATIVE ACTUAL AMOUNTS FOR FISCAL YEAR ENDED DECEMBER 31, 2015  
(CONTINUED)

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Paid or Charged</u>	<u>2015 Actual</u>
Expenses:				
Operating Appropriations:				
Personnel Services:				
Administration	\$ 160,000.00	\$ 160,000.00	\$ 156,302.98	\$ 150,663.53
Operating	<u>666,640.00</u>	<u>666,640.00</u>	<u>664,936.38</u>	<u>622,423.61</u>
	<u>826,640.00</u>	<u>826,640.00</u>	<u>821,239.36</u>	<u>773,087.14</u>
Employee Benefits:				
Public Employees'				
Retirement System	86,000.00	90,000.00	173,574.24	77,573.00
Social Security Tax	65,000.00	65,000.00	64,521.22	59,883.10
Hospitalization	219,260.00	215,260.00	200,123.22	198,606.57
Disability Insurance	10,000.00	10,000.00	4,983.65	6,398.65
Unemployment Compensation Insurance	<u>7,000.00</u>	<u>7,000.00</u>	<u>5,448.24</u>	<u>5,319.74</u>
	<u>387,260.00</u>	<u>387,260.00</u>	<u>448,650.57</u>	<u>347,781.06</u>
Administrative Expenses:				
Other Expenses	<u>35,000.00</u>	<u>35,000.00</u>	<u>26,271.45</u>	<u>28,339.77</u>
	<u>35,000.00</u>	<u>35,000.00</u>	<u>26,271.45</u>	<u>28,339.77</u>
Operations and Maintenance:				
Legal	25,000.00	30,000.00	27,784.60	21,304.90
Audit	10,000.00	10,000.00	8,782.50	8,620.00
Engineer	20,000.00	35,000.00	24,065.08	11,690.00
Telephone	20,000.00	20,000.00	13,649.53	14,800.40
Electric	530,000.00	510,000.00	348,302.37	450,139.83
Propane/ Fuel Oil	40,000.00	40,000.00	11,884.02	16,804.95
Supplies and Chemicals	160,000.00	160,000.00	149,351.42	126,901.48
Laboratory Supplies	10,000.00	10,000.00	9,655.05	8,720.28
Office	20,000.00	20,000.00	20,087.42	17,968.05
External Services	70,000.00	70,000.00	48,425.16	46,565.64
Training and Education	20,000.00	20,000.00	16,386.38	14,610.74
Laboratory Fees	30,000.00	30,000.00	18,154.00	18,279.20
Maintenance and Repairs	150,000.00	150,000.00	129,583.85	63,759.11
Insurance	110,000.00	110,000.00	93,674.95	97,555.42
NJDEP Fees	25,000.00	25,000.00	20,652.00	18,327.86
Trustee Fees	20,000.00	20,000.00	15,030.00	17,718.63
Permit/Compliance	25,000.00	25,000.00	13,795.48	12,225.50
Equipment	60,000.00	60,000.00	57,493.74	19,125.30
Sludge Removal	700,000.00	700,000.00	605,574.45	667,082.31
Contingency	<u>25,000.00</u>	<u>25,000.00</u>	<u>-</u>	<u>-</u>
	<u>2,070,000.00</u>	<u>2,070,000.00</u>	<u>1,632,332.00</u>	<u>1,652,199.60</u>
Total Operating Appropriations	<u>3,318,900.00</u>	<u>3,318,900.00</u>	<u>2,928,493.38</u>	<u>2,801,407.57</u>

MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES  
COMPARED TO THE BUDGET FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016  
WITH COMPARATIVE ACTUAL AMOUNTS FOR FISCAL YEAR ENDED DECEMBER 31, 2015  
(CONCLUDED)

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Paid or Charged</u>	<u>2015 Actual</u>
Expenses: (Continued)				
Debt Service:				
Interest on Loans	\$ 136,175.00	\$ 136,175.00	\$ 136,175.00	\$ 151,050.00
Wastewater Principal	588,865.00	588,865.00	588,865.00	573,339.00
Total Debt Service	<u>725,040.00</u>	<u>725,040.00</u>	<u>725,040.00</u>	<u>724,389.00</u>
Other Reserves:				
Future Retirements Reserve	5,000.00	5,000.00	5,000.00	15,000.00
Capital Improvements Reserve	200,000.00	200,000.00	200,000.00	300,000.00
Renewal and Replacement Reserve	<u>200,000.00</u>	<u>200,000.00</u>	<u>200,000.00</u>	<u>200,000.00</u>
Total Renewal and Replacement	<u>405,000.00</u>	<u>405,000.00</u>	<u>405,000.00</u>	<u>515,000.00</u>
 Total Expenses	 <u>\$ 4,448,940.00</u>	 <u>\$ 4,448,940.00</u>	 <u>\$ 4,058,533.38</u>	 <u>\$ 4,040,796.57</u>
 <b>Excess (Deficit) of Revenues over Expenses</b>			 \$ 390,406.66	 \$ 355,657.52
<b>Reconciliation of Budgetary Basis to GAAP:</b>				
Net Position Appropriated:				
Unrestricted Accounts			(88,940.00)	(96,289.00)
Depreciation Expense			(1,705,488.95)	(1,700,608.35)
Net Adjustment for Pension Expense			(317,926.00)	(12,335.00)
Debt Service Principal			588,865.00	573,339.00
Accrued Interest on Debt			(7,769.40)	(2,493.87)
Compensated Absences			(5,336.24)	(16,872.64)
Escrow Deposits			11,425.40	5,375.00
Escrow Deposits Expended/Returned			(8,642.20)	(3,907.00)
Non-Capitalized Expenditures			(157,361.14)	(143,241.34)
Miscellaneous Income Due to Municipalities			22,179.76	19,779.22
Interest Earned Due to Municipalities			3,697.37	3,592.28
Amount Due to Municipalities			(416,283.79)	(379,029.02)
Reserve for Renewal and Replacement			200,000.00	200,000.00
Reserve for Future Retirements			5,000.00	15,000.00
Reserve for Capital Improvements			200,000.00	300,000.00
Environmental Infrastructure Trust Financing - Savings Credit			<u>71,486.97</u>	<u>50,401.70</u>
Total Adjustments			<u>(1,605,093.22)</u>	<u>(1,187,289.02)</u>
 <b>Change in Net Position</b>			 <u>\$ (1,214,686.56)</u>	 <u>\$ (831,631.50)</u>

MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - RESTRICTED AND UNRESTRICTED

	Restricted					Totals (Memorandum Only) 2015
	Net Investment in Capital Assets and Unrestricted/ Unassigned	Operations	Current Debt Service	Future Retirement Reserve	Capital Improvements	
Operating Revenues:						
Unrestricted Net Position Appropriated	\$ 88,940.00	\$ -	\$ -	\$ -	\$ -	\$ 88,940.00
Sewer Charges	4,360,000.04					4,360,000.04
	<u>4,448,940.04</u>					<u>4,448,940.04</u>
Operating Expenses:						
Personnel Services	821,239.36					821,239.36
Employee Benefits	766,576.57					766,576.57
Administrative	26,271.45					26,271.45
Operations and Maintenance	1,632,332.00					1,632,332.00
Depreciation	1,705,488.95					1,705,488.95
	<u>4,951,908.33</u>					<u>4,951,908.33</u>
Operating Income	(502,968.29)					(502,968.29)
Non Operating Revenues and (Expenses):						
Interest Income	3,697.37					3,697.37
Interest Expense - Wastewater	(143,944.40)					(143,944.40)
Environmental Infrastructure Trust Financing - Savings Credit	71,486.97					71,486.97
Escrow Deposits	11,425.40					11,425.40
Noncapitalized Expenditures	(416,283.79)			(13,927.15)	(143,433.99)	(570,000.93)
Amount Due to Municipalities	22,179.76					22,179.76
Miscellaneous Income	(8,642.20)					(8,642.20)
Escrow Deposits Expended/Returned	(5,336.24)					(5,336.24)
Compensated Absences	(968,385.42)					(968,385.42)
Net Income (Deficit) Before Transfers	(393,031.50)				(13,927.15)	(406,958.65)
Transfers:						
Other			(11,968.50)	5,000.00	200,000.00	183,031.50
	<u>(1,361,416.92)</u>		<u>(11,968.50)</u>	<u>5,000.00</u>	<u>186,072.85</u>	<u>(1,188,313.17)</u>
Less: Unrestricted Net Position Appropriated	88,940.00					88,940.00
Increase/(Decrease) in Net Position	(1,450,356.92)					(1,450,356.92)
Net Position January 1	23,148,919.90	50,000.00	124,846.95	45,000.00	900,000.00	24,848,776.91
Net Position December 31	<u>\$ 21,698,562.98</u>	<u>\$ 50,000.00</u>	<u>\$ 112,878.45</u>	<u>\$ 50,000.00</u>	<u>\$ 1,086,072.85</u>	<u>\$ 24,848,776.91</u>

MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF AMOUNT DUE TO/(FROM) MUNICIPALITIES - DECEMBER 31, 2016

Analysis of 2016 Operations

Unexpended Budget	\$ 390,406.62
Interest Earned	3,697.37
Miscellaneous Revenue	<u>22,179.76</u>
	<u>\$ 416,283.75</u>

	%s (1)	2016 Budget Operating	Debt Service	Revenue Realized	Excess or (Deficit)	Share of 2016 Operations	Amount Due To/(From)
<u>Apportionment of Operations</u>							
Township of Byram	2.3240	\$ 86,543.43	\$ 4,333.30	\$ 90,875.24	\$ (1.49)	\$ 9,674.43	\$ 9,672.94
Borough of Hopatcong	13.4790	501,944.48	474,771.16	976,714.48	(1.16)	56,110.88	56,109.72
Borough of Mt. Arlington	7.6691	285,589.62	14,299.90	299,888.32	(1.20)	31,925.21	31,924.01
Township of Mt. Olive	35.6262	1,326,684.06	66,429.52	1,393,117.60	4.02	148,306.08	148,310.10
Borough of Netcong	10.5043	391,169.63	19,586.53	410,756.12	(0.04)	43,727.70	43,727.66
Township of Roxbury	17.8248	663,777.73	33,236.43	697,013.16	(1.00)	74,201.75	74,200.75
Borough of Stanhope	<u>12.5726</u>	<u>468,191.05</u>	<u>23,443.16</u>	<u>491,635.12</u>	<u>0.91</u>	<u>52,337.70</u>	<u>52,338.61</u>
	<u>100.00</u>	<u>\$ 3,723,900.00</u>	<u>\$ 636,100.00</u>	<u>\$ 4,360,000.04</u>	<u>\$ 0.04</u>	<u>\$ 416,283.75</u>	<u>\$ 416,283.79</u>

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

## MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST FINANCING  
PROGRAM LOAN PAYABLE - 2002

Balance January 1, 2016		\$ 2,871,754.00
Decreased by:		
Paid in 2016	\$ 370,279.89	
Earnings Credits Applied	<u>3,856.80</u>	
		<u>374,136.69</u>
Balance December 31, 2016		<u>\$ 2,497,617.31</u>

Analysis of Loan Payable December 31, 2016

<u>Date</u>	<u>Fund Program</u>	<u>Trust Program</u>	<u>Total</u>
2/1/2017	\$ 22,772.19	\$ -	\$ 22,772.19
8/1/2017	159,002.84	209,238.03	368,240.87
2/1/2018	19,366.42		19,366.42
8/1/2018	161,789.37	218,809.10	380,598.47
2/1/2019	15,805.85		15,805.85
8/1/2019	164,421.10	228,345.77	392,766.87
2/1/2020	12,090.47		12,090.47
8/1/2020	166,898.02	237,936.48	404,834.50
2/1/2021	8,220.28		8,220.28
8/1/2021	172,316.29	252,289.44	424,605.73
2/1/2022	4,117.88		4,117.88
8/1/2022	<u>177,502.50</u>	<u>266,695.28</u>	<u>444,197.78</u>
	<u>\$ 1,084,303.21</u>	<u>\$ 1,413,314.10</u>	<u>\$ 2,497,617.31</u>

## MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST FINANCING  
PROGRAM LOAN PAYABLE - 2007

Balance January 1, 2016		\$ 958,498.81
Decreased by:		
Paid in 2016	122,843.06	
Earnings Credits Applied	<u>6,413.86</u>	
		<u>129,256.92</u>
Balance December 31, 2016		<u>\$ 829,241.89</u>

Analysis of Loan Payable December 31, 2016

<u>Date</u>	<u>Fund Program</u>	<u>Trust Program</u>	<u>Total</u>
2/1/2017	\$ 7,559.63	\$ -	\$ 7,559.63
8/1/2017	54,357.39	65,000.00	119,357.39
2/1/2018	6,389.69		6,389.69
8/1/2018	56,787.28	70,000.00	126,787.28
2/1/2019	5,129.75		5,129.75
8/1/2019	59,127.16	75,000.00	134,127.16
2/1/2020	4,049.80		4,049.80
8/1/2020	58,047.21	75,000.00	133,047.21
2/1/2021	2,969.85		2,969.85
8/1/2021	60,567.09	80,000.00	140,567.09
2/1/2022	1,529.92		1,529.92
8/1/2022	<u>62,727.12</u>	<u>85,000.00</u>	<u>147,727.12</u>
	<u>\$ 379,241.89</u>	<u>\$ 450,000.00</u>	<u>\$ 829,241.89</u>

## MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST FINANCING  
PROGRAM LOAN PAYABLE - 2010

Balance January 1, 2016		\$ 1,487,541.08
Decreased by:		
Earnings Credits Applied	\$ 9,216.31	
Savings Credit Applied	52,000.00	
Paid in 2016	<u>80,598.60</u>	
		<u>141,814.91</u>
Balance December 31, 2016		<u>\$ 1,345,726.17</u>

Analysis of Loan Payable December 31, 2016

<u>Date</u>	<u>Fund Programs</u>	<u>Trust Programs</u>	<u>Total</u>
2/1/2017	\$ 18,271.63	\$ -	\$ 18,271.63
8/1/2017	36,543.28	35,000.00	71,543.28
2/1/2018	18,271.63		18,271.63
8/1/2018	36,543.28	35,000.00	71,543.28
2/1/2019	18,271.63		18,271.63
8/1/2019	36,543.28	35,000.00	71,543.28
2/1/2020	18,271.63		18,271.63
8/1/2020	36,543.28	37,000.00	73,543.28
2/1/2021	18,271.63		18,271.63
8/1/2021	36,543.28	41,000.00	77,543.28
2/1/2022	18,271.63		18,271.63
8/1/2022	36,543.28	41,000.00	77,543.28
2/1/2023	18,271.63		18,271.63
8/1/2023	36,543.28	41,000.00	77,543.28
2/1/2024	18,271.63		18,271.63
8/1/2024	36,543.28	45,000.00	81,543.28
2/1/2025	18,271.63		18,271.63
8/1/2025	36,543.28	45,000.00	81,543.28
2/1/2026	18,271.63		18,271.63
8/1/2026	36,543.28	50,000.00	86,543.28
2/1/2027	18,271.63		18,271.63
8/1/2027	36,543.28	55,000.00	91,543.28
2/1/2028	18,271.63		18,271.63
8/1/2028	36,543.28	55,000.00	91,543.28
2/1/2029	18,271.63		18,271.63
8/1/2029	35,936.13	55,000.00	90,936.13
2/1/2030	3,166.72		3,166.72
8/1/2030	<u>2,572.77</u>	<u>58,000.00</u>	<u>60,572.77</u>
	<u>\$ 717,726.17</u>	<u>\$628,000.00</u>	<u>\$ 1,345,726.17</u>



**REPORTS PURSUANT TO GOVERNMENT AUDITING  
STANDARDS**

# Ferraioli, Wielkotz, Cerullo & Cuva, P.A.

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Vincent M. Montanino, RMA, PSA

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 the financial statements of the Musconetcong Sewerage Authority as of and for the year ended December 31, 2016, and have issued our report thereon dated June 2, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and in compliance with audit requirements prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

## **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Musconetcong Sewerage Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Musconetcong Sewerage Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Musconetcong Sewerage Authority's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Musconetcong Sewerage Authority's basic 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 direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Governmental Auditing Standards and audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

**Purpose of this Report**

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

*Ferraioli, Wielkotz, Cerullo & Cuva, P.A.*

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.

Certified Public Accountants

Newton, New Jersey

June 2, 2017



## **GENERAL COMMENTS AND RECOMMENDATIONS**

## GENERAL COMMENTS

### CONTRACTS AND AGREEMENTS REQUIRED TO BE ADVERTISED PER N.J.S.A. 40A:11-4

The following is presented for the information of the Members and Officials:

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

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

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

Effective July 1, 2015 and thereafter the bid threshold for the Authority in accordance with N.J.S.A. 40A:11-3 (as amended) is \$40,000.00.

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

Inasmuch as the system of records did not provide for an accumulation of payments by categories for the performance of any work or the furnishings 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. No violations were discovered.

The results of our examination of expenditures did not reveal any 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 limit where there had been no advertising for bids in accordance with the provisions of N.J.S.A. 40A:11-4.

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

### EXAMINATION OF CLAIMS

Claims paid during the period under review were examined for clerical accuracy, supporting documentation and proper approvals.

The review and inquiry indicate good scrutiny on the part of the Authority and Authority Officials regarding expenditures.

RECOMMENDATIONS

NONE

Status of Prior Years' Audit Findings/Recommendations:

NOT APPLICABLE

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Should any questions arise as to our comments, or should the Authority desire any assistance, please do not hesitate to call us.

APPRECIATION

We wish to express our appreciation of the assistance and courtesies rendered by the Authority Officials during the course of the audit.

Respectfully submitted,

*Ferraioli, Wielkocz, Cerullo & Cuva, P.A.*

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants  
Newton, New Jersey

June 2, 2017