

MUSCONETCONG SEWERAGE AUTHORITY
REPORT OF AUDIT
FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

MUSCONETCONG SEWERAGE AUTHORITY

TABLE OF CONTENTS

<u>Page</u>		<u>Exhibits</u>
1	Independent Auditor's Report	
<u>REQUIRED SUPPLEMENTARY INFORMATION - PART I</u>		
4	Management's Discussion and Analysis	
<u>FINANCIAL STATEMENTS</u>		
13	Comparative Statement of Net Position	A
16	Comparative Statement of Revenues, Expenses and Changes in Net Position	B
17	Comparative Statement of Cash Flows	C
19	Notes to Financial Statements	
<u>REQUIRED SUPPLEMENTARY INFORMATION - PART II</u>		
43	Schedule of the Authority's Proportionate Share of the Net Pension Liability Public Employees' Retirement System (PERS)	RSI-1
44	Schedule of the Authority's Contributions Public Employees' Retirement System (PERS)	RSI-2
45	Notes to Required Supplementary Information	
<u>SUPPLEMENTARY SCHEDULES</u>		
		<u>Schedules</u>
46	Schedule of Revenues, Expenses and Changes in Net Position - Restricted and Unrestricted	1
47	Schedule of Cash Receipts, Disbursements and Changes in Cash and Investments Unrestricted and Restricted Accounts	2
49	Schedule of Operating Revenue and Costs Funded by Operating Revenue Compared to Budget	3
53	Schedule of Capital Budget Program Funded by Financing Sources - Current Year	4
54	Schedule of Revenue and Revenue Refunding Bonds	5
56	Schedule of Amount Due to (From) Municipalities	6
57	Roster of Officials and Report on Surety Bonds	7

MUSCONETCONG SEWERAGE AUTHORITY

TABLE OF CONTENTS

Page

58	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
60	Schedule of Findings and Questioned Costs
62	General Comments

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

Charles J. Ferraioli, Jr., MBA, CPA, RMA
Steven D. Wielkotz, CPA, RMA
James J. Cerullo, CPA, RMA
Paul J. Cuva, CPA, RMA
Thomas M. Ferry, CPA, RMA

Certified Public Accountants
401 Wanaque Avenue
Pompton Lakes, New Jersey 07442
973-835-7900
Fax 973-835-6631

Newton Office
100B Main Street
Newton, N.J. 07860
973-579-3212
Fax 973-579-7128

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying statements of net position of the Musconetcong Sewerage Authority as of December 31, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.



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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Musconetcong Sewerage Authority as of December 31, 2018 and 2017, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Prior Year Restatement

In 2018, the Authority reviewed their reserve requirements and determined several accounts previously reported as "restricted" had to be restated as "unrestricted - designated" under current accounting standards (see Note 13 to the financial statements). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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



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

about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary schedules as listed in the table of contents are presented for purposes of additional analysis, as required by the Division of Local Government Service and are not a required part of the basic financial statements.

The accompanying supplemental schedules as listed in the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information, as listed in the table of contents, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2019 on our consideration of the Musconetcong Sewerage Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Musconetcong Sewerage Authority's internal control over financial reporting and compliance.

Very truly yours,

Ferraioli, Wielkatz, Cerullo & Cova, P.A.

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

June 26, 2019



Management Discussion and Analysis

MUSCONETCONG SEWERAGE AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Musconetcong Sewerage Authority, we offer the Authority's financial statements this narrative overview and analysis of the Authority's financial performance during the fiscal year ended December 31, 2018 and 2017. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- The Authority's assets and deferred outflows exceeded its liabilities and deferred inflows of resources by \$21,938,732 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities and deferred inflows of resources by \$22,697,334, as restated.

- Total net position is comprised of the following:
 - (1) Net investment in capital assets of \$22,280,460 includes property and equipment, net of accumulated depreciation, and reduced for outstanding debt and unexpended funds related to the purchase or construction of capital assets.
 - (2) Restricted of \$32,673 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted of \$(374,401) represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.

- Total liabilities of the Authority decreased by \$1,223,706 to \$5,954,751 during the fiscal year.

Overview of the Financial Statements

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

Required Financial Statements

The financial statements of the Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The *Statement of Net Position* includes all of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, and provides information about the nature and amounts of investments in resources (assets), the consumption of net assets that is applicable to a future period (deferred outflows of resources), the acquisition of net assets that is applicable to a future reporting period (deferred inflows of resources) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

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

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Position*. This statement measures the results of the Authority's operations over the past year and can be used to determine whether the Authority has recovered all its costs through user fees and other charges, operational stability and credit worthiness.

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

Notes to the Financial Statements

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

Other Information

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

Financial Analysis of the Authority

One of the most important questions asked about the Authorities finances is "Is the Authority as a whole better able to fulfill its mission as a result of this years activities?" The *Statement of Net Position* and the *Statement of Revenues, Expenses and Changes in Net Position* report information about the Authority's activities in a way that will help answer this question. These two statements report net position of the Authority and the changes in the position. The reader can think of the Authority's net position – the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources – as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider the non-financial factors such as changes in economic conditions, population growth, development, and new or changed government regulation.

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

Net Position

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

The Authority's net position at fiscal year-end is \$21,938,732. This is a \$758,602 decrease under last year's restated net position of \$22,697,334. A summary of the Authority's statement of net position is presented in the following table:

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

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

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

Net Position (Continued)

A summary of the Authority's prior year statement of net position is presented with comparative figures in the following table. These figures do not include the prior period adjustments detailed in Note 13 to the financial statements.

**Condensed Statement of Net Position at December 31, 2017
With Comparative Prior Year Balances**

	<u>FY 2017</u>	<u>FY 2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	3,227,664	3,292,548	(64,884)	(1.97)%
Capital Assets	<u>26,409,842</u>	<u>27,835,584</u>	<u>(1,425,742)</u>	(5.12)%
Total Assets	<u>29,637,506</u>	<u>31,128,132</u>	<u>(1,490,626)</u>	(4.79)%
Deferred Outflows of Resources	<u>755,406</u>	<u>925,790</u>	<u>(170,384)</u>	(18.40)%
Long-term Liabilities	5,889,293	7,064,640	(1,175,347)	(16.64)%
Current Liabilities	<u>1,289,164</u>	<u>1,355,192</u>	<u>(66,028)</u>	(4.87)%
Total Liabilities	<u>7,178,457</u>	<u>8,419,832</u>	<u>(1,241,375)</u>	(14.74)%
Deferred Inflows of Resources	<u>517,121</u>	<u>-0-</u>	<u>517,121</u>	
Net Investment in Capital Assets	22,348,401	23,162,999	(814,598)	(3.52)%
Restricted	1,905,747	1,935,527	(29,780)	(1.54)%
Unrestricted	<u>(1,556,814)</u>	<u>(1,464,436)</u>	<u>(92,378)</u>	6.31%
Total Net Position	<u>22,697,334</u>	<u>23,634,090</u>	<u>(936,756)</u>	(3.96)%

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

Net Position (Continued)

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

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

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

Net Position (Continued)

A summary of the Authority's prior year statement of revenues, expenses and changes in net position is presented with comparative fiscal year figures in the following table. These figures have not been restated to include the adjustments detailed in Note 13 to the financial statements.

**Condensed Statement of Revenues, Expenses
And Changes in Net Position for the Year Ending
December 31, 2017 with Comparative Prior Year Balances**

	<u>FY 2017</u>	<u>FY 2016</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	4,405,391	4,382,180	23,211	0.53%
Non-operating Revenues	<u>8,446</u>	<u>86,609</u>	<u>(78,163)</u>	(90.25)%
Total Revenues	<u>4,413,837</u>	<u>4,468,789</u>	<u>(54,952)</u>	(1.23)%
Depreciation	1,705,488	1,705,489	(1)	0.00%
Other Operating Expenses	3,025,228	3,409,117	(383,889)	(11.26)%
Other Non-operating Expense	<u>619,877</u>	<u>568,870</u>	<u>51,007</u>	8.97%
Total Expenses	<u>5,350,593</u>	<u>5,683,476</u>	<u>(332,883)</u>	(5.86)%
Change in Net Position	(936,756)	(1,214,687)	277,931	(22.88)%
Beginning Net Position	<u>23,634,090</u>	<u>24,848,777</u>	<u>(1,214,687)</u>	(4.89)%
Ending Net Position	<u>22,697,334</u>	<u>23,634,090</u>	<u>(936,756)</u>	(3.96)%

Budgetary Highlights

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

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

Budgetary Highlights (Continued)

The following tables provide a budget comparison for FY 2018 and FY 2017:

**Budget vs. Actual
FY 2018**

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

**Budget vs. Actual
FY 2017**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Net Position Appropriated	107,000	107,000	0
Operating	4,387,219	4,405,391	18,172
Non- Operating	<u>-0-</u>	<u>5,046</u>	<u>5,046</u>
Total Revenues	<u>4,494,219</u>	<u>4,517,437</u>	<u>23,218</u>
Expenses:			
Operating	3,370,500	2,887,948	482,552
Non-Operating	<u>1,123,719</u>	<u>1,114,741</u>	<u>(8,978)</u>
Total Expenses	<u>4,494,219</u>	<u>4,002,689</u>	<u>491,530</u>
Income before Depreciation	<u>-0-</u>	<u>514,748</u>	<u>514,748</u>

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

During fiscal year 2018, the Authority had an increase of \$1,062,006 in capital assets (before depreciation). The Authority's net property, plant and equipment at fiscal year end was \$25,719,144. This is a \$690,698 decrease under last year's net property, plant and equipment of \$26,409,842. A summary of the Authority's capital assets is presented in the following table:

CAPITAL ASSETS

	<u>FY 2018</u>	<u>FY 2017</u>	<u>Dollar Change</u>
Land	505,700	505,700	0
Buildings and Interceptors	60,838,231	60,140,481	697,750
Machinery and Equipment	201,060	201,060	0
Less: Accumulated Depreciation	(36,330,915)	(34,578,211)	1,752,704
Construction in Progress	<u>505,068</u>	<u>140,812</u>	<u>364,256</u>
	<u>25,719,144</u>	<u>26,409,842</u>	<u>(690,698)</u>

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

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

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

Sewer

Sewerage Treatment Plan:

Headworks Project	\$2,000,000
Tertiary Project	3,000,000
Clarifier's Drives	251,732
Gravity Thickener#1 Rehab	125,000
Clarifier's Rehabilitation	650,000
Pump Station Renewal	40,000
Lighting	<u>195,000</u>

Total **\$6,261,732**

Debt Administration

At December 31, 2018, the Authority had outstanding New Jersey Environmental Infrastructure Fund bonds of \$3,414,884(gross). The debt service schedule has a final maturity in 2030. Full details of the specific bond issues outstanding are found in Note 5 to the financial statements and the supplementary schedules.

Economic Factors, Future Years' Budgets and Rates

The Commissioners and management of the Authority consider many factors when preparing each year's budget and annual charges. Two of the main factors are growth in the Authority's system and new regulations issued by the State and Federal governments.

Contacting the Authority

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

Financial Statements

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

EXHIBIT A
Page 1 of 3

	<u>2018</u>	<u>Restated 2017</u>
<u>ASSETS</u>		
Current Assets:		
<u>Unrestricted:</u>		
Cash and Cash equivalents	\$ 2,165,817	\$ 3,139,319
Petty Cash	150	150
Accounts Receivable	245,867	-
Prepaid Expenses	180	-
Total Unrestricted Assets	2,412,014	3,139,469
<u>Restricted:</u>		
Bond Service Fund:		
Cash and Cash equivalents	71,104	81,956
Escrow Fund:		
Cash and Cash equivalents	8,053	6,239
Total Restricted Assets	79,157	88,195
Non-Current Assets:		
<u>Capital Assets:</u>		
Land	505,700	505,700
Infrastructure, Buildings and Equipment	60,838,231	60,140,481
Vehicles	201,060	201,060
Less: Accumulated Depreciation	(36,330,915)	(34,578,211)
Construction in Progress	505,068	140,812
Total Capital Assets	25,719,144	26,409,842
TOTAL ASSETS	\$ 28,210,315	\$ 29,637,506
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred Outflows:		
Deferred Outflows Related to Pensions	579,237	755,406
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 579,237	\$ 755,406

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

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

EXHIBIT A
Page 2 of 3

	2018	Restated 2017
<u>LIABILITIES</u>		
Current Liabilities:		
<u>Payable from Unrestricted Assets:</u>		
Accounts Payable and Accrued Liabilities	\$ 198,515	\$ 121,971
Accounts Payable - Pension Related	96,046	96,458
Payroll Taxes Payable	10,364	10,383
Due to Municipalities	229,736	392,806
Total Payable from Unrestricted Assets	534,661	621,618
<u>Payable from Restricted Assets:</u>		
Accrued Interest Payable	38,431	45,350
Escrow Deposits Payable	8,053	6,239
Loans Payable - Current Portion	630,645	615,957
Total Payable from Restricted Assets	677,129	667,546
Non-Current Liabilities:		
Compensated Absences Payable	57,504	50,613
Net Pension Liability	1,901,218	2,423,796
Loans Payable - Long-Term Portion	2,784,239	3,414,884
Total Non-Current Liabilities	4,742,961	5,889,293
TOTAL LIABILITIES	5,954,751	7,178,457
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred Inflows:		
Deferred Inflows Related to Pensions	872,269	486,521
Unamortized Gain on Refunded Debt	23,800	30,600
TOTAL DEFERRED INFLOWS OF RESOURCES	896,069	517,121

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

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

EXHIBIT A

Page 3 of 3

	2018	Restated 2017
<u>NET POSITION:</u>		
Net Investment in Capital Assets	22,280,460	22,348,401
Restricted:		
Current Debt Service	32,673	36,606
Unrestricted:		
Designated	1,161,638	1,823,791
Undesignated	(1,536,039)	(1,511,464)
TOTAL NET POSITION	\$ 21,938,732	\$ 22,697,334

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

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

EXHIBIT B

	2018	Restated 2017
Operating Revenue:		
Service Agreements	\$ 4,387,219	\$ 4,387,219
Miscellaneous	2,500	18,172
	<u>4,389,719</u>	<u>4,405,391</u>
Operating Expenses:		
Administrative and General	279,442	297,017
Cost of Providing Services	2,818,432	2,728,211
Depreciation Expense	1,752,704	1,705,488
	<u>4,850,578</u>	<u>4,730,716</u>
Total Operating Revenue	<u>4,389,719</u>	<u>4,405,391</u>
Total Operating Expenses	<u>4,850,578</u>	<u>4,730,716</u>
Operating Income	<u>(460,859)</u>	<u>(325,325)</u>
Non-Operating Revenue (Expenses):		
Interest on Investments	12,601	5,046
Interest Expense	(97,680)	(106,996)
Excess Due to Municipalities	(229,736)	(392,806)
Cancellation of Old Payables	10,272	-
Other Non-Operating Expenses	-	(965)
Renewal and Replacement (Non-Capitalized)	-	(119,110)
Amortization	6,800	3,400
	<u>(297,743)</u>	<u>(611,431)</u>
Non-Operating Income (Loss)	<u>(297,743)</u>	<u>(611,431)</u>
Change In Net Position	<u>(758,602)</u>	<u>(936,756)</u>
Net Position - January 1	<u>22,697,334</u>	<u>23,634,090</u>
Net Position - December 31	<u>\$ 21,938,732</u>	<u>\$ 22,697,334</u>

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

MUSCONETCONG SEWERAGE AUTHORITY

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

	<u>2018</u>	<u>Restated 2017</u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 4,141,352	4,387,219
Cash Received from Miscellaneous Sources	2,500	18,172
Escrow Deposits Received (Paid)	1,814	(967)
Cash Paid to Municipalities	(392,806)	(416,284)
Cash Paid to Vendors and Employees	(2,972,358)	(2,944,280)
Net Cash Provided by Operating Activities	<u>780,502</u>	<u>1,043,860</u>
Cash Flow from Investing Activities:		
Interest Received	12,601	5,046
Net Cash Provided by (used in) Investing Activities	<u>12,601</u>	<u>5,046</u>
Cash Flow from Financing Activities:		
Principal Payment on Bonds and Notes	(615,957)	(607,745)
Interest Paid on Bonds and Notes	(97,680)	(107,007)
Capital Expenditures	(1,062,006)	(398,858)
Net Cash Used in Financing Activities	<u>(1,775,643)</u>	<u>(1,113,610)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(982,540)	(64,704)
Cash and Cash Equivalents at Beginning of Year	<u>3,227,514</u>	<u>3,292,218</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,244,974</u>	<u>\$ 3,227,514</u>
Analysis of Balance:		
Unrestricted	\$ 2,165,817	\$ 3,139,319
Restricted	<u>79,157</u>	<u>88,195</u>
	<u>\$ 2,244,974</u>	<u>\$ 3,227,514</u>

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

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

	2018	Restated 2017
OPERATING INCOME (LOSS)	\$ <u>(460,859)</u>	\$ <u>(325,325)</u>
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation Expense	1,752,704	1,705,488
Escrow Deposits Received (Paid)	1,814	(967)
Cash Paid to Municipalities	(392,806)	(416,284)
Decrease (Increase) in Accounts Receivable	(245,867)	
Decrease (Increase) in Prepaid Expenses	(180)	180
Increase (Decrease) in Accounts Payable	86,797	(49,782)
Increase (Decrease) in Compensated Absences Payable	1,814	(6,728)
Increase (Decrease) in Pension Adjustment	<u>37,085</u>	<u>137,278</u>
Total Adjustments	<u>1,241,361</u>	<u>1,369,185</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ <u><u>780,502</u></u>	\$ <u><u>1,043,860</u></u>

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

Notes to Financial Statements

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 1. GENERAL

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

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

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

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

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

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

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

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

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 1. GENERAL, (continued)

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

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

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

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

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

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

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

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 1. GENERAL, (continued)

Component Unit

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

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

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Basis of Presentation

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

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

A. Basis of Presentation, (continued)

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

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

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

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

B. Basis of Accounting

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

C. Reporting Entity

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

D. Risks of Loss

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

E. Grants

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

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

F. Inventories of Materials and Supplies

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

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

G. Property, Plant and Equipment

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

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

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

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

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

A summary of the changes in property, plant and equipment at December 31, 2018 and 2017 are as follows:

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

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

G. Property, Plant and Equipment, (continued)

	<u>Balance</u> <u>12/31/16</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>12/31/17</u>
Land	\$505,700	\$	\$	\$505,700
Infrastructure, Buildings & Equipment	60,001,547	138,934		60,140,481
Vehicles	201,060			201,060
Construction in Progress		<u>140,812</u>	<u> </u>	<u>140,812</u>
	<u>60,708,307</u>	<u>279,746</u>		<u>60,988,053</u>
Less: Accumulated Depreciation	<u>(32,872,723)</u>	<u>(1,705,488)</u>	<u> </u>	<u>(34,578,211)</u>
Total Capital Assets	<u>\$27,835,584</u>	<u>(\$1,425,742)</u>	<u>\$ </u>	<u>\$26,409,842</u>

H. Restricted Accounts

Bond Service Fund

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

Escrow Fund

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

The Authority has established the following designated unrestricted accounts:

Future Retirement Reserve

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

Capital Improvement Reserve

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

Renewal and Replacement Reserve

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

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

H. Restricted Accounts, (continued)

Operations Reserve

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

I. Unamortized Gain on Refunded Debt

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

J. Operating Fund Budget

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

K. Use of Estimates

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

L. Risk of Loss

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

M. Sick and Vacation Leave

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

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

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

N. Net Position

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

O. Recent Accounting Pronouncements

In June 2017, the Governmental Accounting Standards Board issued GASB Statement No. 87, Leases, which is intended to increase the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, as a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about the government's leasing activities. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

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

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

MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

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

O. Recent Accounting Pronouncements, (continued)

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

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

P. Revenues and Expenses

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

NOTE 3. CASH AND CASH EQUIVALENTS

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

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 3. CASH AND CASH EQUIVALENTS, (continued)

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

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

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

As of December 31, 2018 and 2017, the Authority's cash and cash equivalents are summarized as follows:

	<u>2018</u>	<u>2017</u>
Unrestricted	\$2,165,817	\$3,139,319
Restricted	<u>79,157</u>	<u>88,195</u>
	<u>\$2,244,974</u>	<u>\$3,227,514</u>

The carrying amount of the Authority's cash and cash equivalents at December 31, 2018 was \$2,244,974 and the bank balance was \$2,254,139. This entire amount was covered by federal depository insurance and the collateral pool maintained by the banks as required by New Jersey Statutes.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Authority's policy is based on New Jersey statutes requiring cash be deposited only in New Jersey based on banking institutions that participate in New Jersey Governmental Depository Protection Act (GUDPA) or in a qualified investment established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. As of December 31, 2018, \$-0- of the Authority's bank balance of \$2,254,139 was exposed to custodial risk.

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 4. ACCOUNTS RECEIVABLE

The Authority bills participant customers on a quarterly basis. Credits are issued during the year if the previous year's budgetary revenues exceed expenses, less any net position utilized for budget purposes. The Authority had the following accounts receivable at December 31, 2018 and 2017

	<u>Balance Jan. 1, 2018</u>	<u>Annual Billings</u>	<u>Municipal Credits</u>	<u>Amounts Received</u>	<u>Balance Dec.31, 2018</u>
Township of Byram	\$ -	\$92,751	(\$9,261)	\$83,490	\$ -
Borough of Hopatcong	-	983,469	(52,945)	684,657	245,867
Borough of Mount Arlington	-	301,702	(30,125)	271,577	-
Township of Mount Olive	-	1,401,544	(139,942)	1,261,602	-
Borough of Netcong	-	413,241	(41,262)	371,979	-
Township of Roxbury	-	701,229	(70,017)	631,212	-
Borough of Stanhope	-	493,283	(49,254)	444,029	-
	<u>\$ -</u>	<u>\$4,387,219</u>	<u>(\$392,806)</u>	<u>\$3,748,546</u>	<u>\$245,867</u>

	<u>Balance Jan. 1, 2017</u>	<u>Annual Billings</u>	<u>Municipal Credits</u>	<u>Amounts Received</u>	<u>Balance Dec.31, 2017</u>
Township of Byram	\$ -	\$92,364	(\$9,673)	\$82,691	\$ -
Borough of Hopatcong	-	985,592	(56,110)	929,482	-
Borough of Mount Arlington	-	301,515	(31,924)	269,591	-
Township of Mount Olive	-	1,400,666	(148,310)	1,252,356	-
Borough of Netcong	-	412,983	(43,727)	369,256	-
Township of Roxbury	-	700,793	(74,201)	626,592	-
Borough of Stanhope	-	493,306	(52,339)	440,967	-
	<u>\$ -</u>	<u>\$4,387,219</u>	<u>(\$416,284)</u>	<u>\$3,970,935</u>	<u>\$ -</u>

NOTE 5. BONDS PAYABLE

The Authority has issued and outstanding the following bonds as of December 31, 2018 and 2017:

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

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 5. BONDS PAYABLE, (continued)

	<u>Balance Jan. 1, 2017</u>	<u>Retirements/ Repayments</u>	<u>Balance Dec. 31, 2017</u>	<u>Amounts Due Within One Year</u>
Series 2002 NJ Envir. Trust & Fund Bonds	\$2,497,617	\$391,014	\$2,106,603	\$399,965
Series 2007 NJ Envir. Trust & Fund Bonds	829,242	160,917	668,325	126,177
Series 2010 NJ Envir. Trust & Fund Bonds	<u>1,345,726</u>	<u>89,813</u>	<u>1,255,913</u>	<u>89,815</u>
	<u>\$4,672,585</u>	<u>\$641,744</u>	<u>\$4,030,841</u>	<u>\$615,957</u>

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$630,645	\$92,385	\$723,030
2020	638,836	74,835	713,671
2021	666,177	56,685	722,862
2022	686,388	37,985	724,373
2023	95,815	19,085	114,900
2024	99,815	17,035	116,850
2025	99,815	14,785	114,600
2026-2030	<u>497,393</u>	<u>105,865</u>	<u>603,258</u>
	<u>\$3,414,884</u>	<u>\$418,660</u>	<u>\$3,833,544</u>

Series 2002A NJ Environmental Infrastructure Trust Bonds

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

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

<u>Year</u>	<u>NJEIT SERIES 2002A</u>			
	<u>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
<u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Debt Service</u>
2019	\$228,346	\$51,050	\$180,227	\$459,623
2020	237,936	39,050	178,988	455,974
2021	252,289	26,550	180,536	459,375
2022	<u>266,695</u>	<u>13,300</u>	<u>181,621</u>	<u>461,616</u>
	<u>\$985,266</u>	<u>\$129,950</u>	<u>\$721,372</u>	<u>\$1,836,588</u>

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 5. BONDS PAYABLE, (continued)

Series 2007A NJ Environmental Infrastructure Trust Bonds

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

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

Year <u>Ending</u>	NJEIT SERIES 2007A				
	Trust Portion		Fund Portion		Total
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Debt Service</u>	
2019	\$68,000	\$14,400	\$64,257	\$146,657	
2020	68,000	11,000	62,097	141,097	
2021	74,000	7,600	63,537	145,137	
2022	78,000	3,900	64,257	146,157	
	<u>\$288,000</u>	<u>\$36,900</u>	<u>\$254,148</u>	<u>\$579,048</u>	

Series 2010B NJ Environmental Infrastructure Trust Bonds

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

Principal and interest due on outstanding 2018 bonds to maturity is as follows:

Year <u>Ending</u>	NJEIT SERIES 2010B				
	Trust Portion		Fund Portion		Total
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Debt Service</u>	
2019	\$35,000	\$26,935	\$54,815	\$116,750	
2020	37,000	24,785	54,815	116,600	
2021	41,000	22,535	54,815	118,350	
2022	41,000	20,785	54,815	116,600	
2023	41,000	19,085	54,815	114,900	
2024	45,000	17,035	54,815	116,850	
2025	45,000	14,785	54,815	114,600	
2026	50,000	12,535	54,815	117,350	
2027	55,000	10,035	54,815	119,850	
2028	55,000	75,600	54,815	185,415	
2029	55,000	5,085	54,208	114,293	
2030	58,000	2,610	5,740	66,350	
	<u>\$558,000</u>	<u>\$251,810</u>	<u>\$608,098</u>	<u>\$1,417,908</u>	

**MUSCONETCONG SEWERAGE AUTHORITY
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 6. PENSION PLAN

Description of Plans:

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

Public Employees' Retirement System (PERS)

Plan Description

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

Benefits Provided

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

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

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

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 6. PENSION PLANS, (continued)

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

Defined Contribution Retirement Program

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

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

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

Contribution Requirements

The contribution policy is set by laws of the State of New Jersey and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The pension funds provide for employee contributions based on 5.5% for PERS. This amount will increase to 6.5% plus an additional 1% phased in over 7 years beginning 2012 of the employee's annual compensation, as defined by law. Employers are required to contribute at an actuarially determined rate in all Funds. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS. In the PERS, the employer contribution includes funding for post-retirement medical premiums.

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

Three Year Trend Information for PERS

<u>Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>
12/31/18	\$96,046	100%
12/31/17	96,458	100%
12/31/16	84,371	100%

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 6. PENSION PLANS, (continued)

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

Public Employees Retirement System (PERS)

At December 31, 2018 and 2017, the Authority reported a liability of \$1,901,218 and \$2,423,796 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating governments, actuarially determined. At June 30, 2018, the Authority's proportion was 0.0096559997 percent, which was a decrease of 0.0007562104 percent from its proportion measured as of June 30, 2017.

For the year ended December 31, 2018, the Authority recognized pension expense of \$134,973. At December 31, 2018, 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>
Changes of assumptions	\$313,289	\$607,908
Net difference between projected and actual earnings on pension plan investments	36,257	27,637
Changes in proportion and differences between Authority contributions and proportionate share of contributions	133,645	140,266
Other deferred pension adjustments		96,458
Authority contributions subsequent to the measurement date	<u>96,046</u>	<u> </u>
Total	<u>\$579,237</u>	<u>\$872,269</u>

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 6. PENSION PLANS, (continued)

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

Public Employees Retirement System (PERS), (continued)

The \$96,046 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, 2018, the plan measurement date is June 30, 2018) will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2019	\$(13,195)
2020	(18,269)
2021	(131,005)
2022	(113,558)
2023	(36,363)

Changes in Proportion

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

Additional Information

Local Group Collective balances at December 31, 2018 and 2017 are as follows:

	<u>Dec. 31, 2018</u>	<u>Dec. 31, 2017</u>
Collective deferred outflows of resources	\$4,684,852,302	\$6,424,455,842
Collective deferred inflows of resources	7,646,736,226	5,700,625,981
Collective net pension liability	19,689,501,539	23,278,401,588
Authority's Proportion	0.009655999%	0.0104122094%

**MUSCONETCONG SEWERAGE AUTHORITY
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 6. PENSION PLANS, (continued)

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

Public Employees Retirement System (PERS), (continued)

Actuarial Assumptions

The total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of July 1, 2017, which rolled forward to June 30, 2018. This actuarial valuation used the following assumptions, applied to all periods in the measurement.

Inflation	2.25 Percent
Salary Increases:	
Through 2026	1.65-4.15 Percent (based on age)
Thereafter	2.65-5.15 Percent (based on age)
Investment Rate of Return	7.00 Percent

Mortality Rates

Pre-retirement 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 Conduent modified 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 retirements and beneficiaries of former members. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from 2012 to 2013 using Projection Scale AA and using a generational approach based on the Conduent 2014 projection scale thereafter. 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).

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 6. PENSION PLANS, (continued)

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

Public Employees Retirement System (PERS), (continued)

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2018) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2018 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Risk Mitigation Strategies	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
High yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real asset	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. equity	30.00%	8.19%
Non-U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 6. PENSION PLANS, (continued)

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

Public Employees Retirement System (PERS), (continued)

Discount Rate

The discount rate used to measure the total pension liability was 5.66% as of June 30, 2018. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.87% as of June 30, 2018 based on the Bond Buyer GO 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 50% 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 2046. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2046 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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

The following presents the collective net pension liability of the participating employers as of June 30, 2018 respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1 -percentage point lower or 1- percentage-point higher than the current rate:

	June 30, 2018		
	1% Decrease	At Current Discount Rate	1% Increase
	<u>4.66%</u>	<u>5.66%</u>	<u>6.66%</u>
Authority's proportionate share of the pension liability	\$2,390,563	\$1,901,218	\$1,490,689

Pension Plan Fiduciary Net Position

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

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 7. ACCRUED SICK AND VACATION BENEFITS

The Authority permits employees to accrue a limited amount of unused vacations and sick pay, which may be paid upon retirement or death at an agreed-upon rate. It is estimated that the current cost of such unpaid compensation would approximate \$57,504 and 50,614 at December 31, 2018 and 2017, respectively. This amount is reported as a liability and it is expected that the cost of such unpaid compensations would be included in the Authority's budget operating expenditures in the year in which it is used or charged to its reserve for future retirements which ha a balance of \$50,000 as of December 31, 2018 and 2017.

NOTE 8. RELATED PARTIES

Mr. John Sylvester, Mr. Rich Schindelar and Mr. Andrew Cangiano, Commissioners of the Authority, are also Councilmen of the Boroughs of Netcong, Hopatcong and Mt. Arlington, respectively. The schedule of operating revenues includes \$413,241, \$983,469 and \$301,702 of revenue from the Boroughs of Netcong, Hopatcong and Mt. Arlington and the schedule of amount due to/(from) municipalities includes \$24,132, \$30,966 and \$17,619 due to the Boroughs of Netcong, Hopatcong and Mt. Arlington.

NOTE 9. COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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

NOTE 10. RISK MANAGEMENT

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

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 10. RISK MANAGEMENT, (continued)

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

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

NOTE 11. DESIGNATION OF UNRESTRICTED NET ASSETS

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

	<u>2018</u>	<u>2017</u>
Designated for Future Retirement Reserve	\$50,000	\$50,000
Designated for Capital Improvement Reserve	613,933	1,277,972
Designated for Renewal and Replacement Reserve	447,705	445,819
Designated for Operations Reserve	<u>50,000</u>	<u>50,000</u>
Total Designated - Unrestricted	<u>\$1,161,638</u>	<u>\$1,823,791</u>

At December 31, 2018 and 2017, the Authority reported a total amount of \$1,161,638 and \$1,823,791, respectively, of Unrestricted Net Position - Designated for the purposes described above.

The remaining, undesignated portion of the Authority's net position was comprised of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Pension Related	(\$2,290,296)	(\$2,251,369)
Available for Use in Future Budgets	<u>754,257</u>	<u>739,905</u>
	<u>(\$1,536,039)</u>	<u>(\$1,511,464)</u>

**MUSCONETCONG SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017**

NOTE 12. SUBSEQUENT EVENTS

The Musconetcong Sewerage Authority has evaluated subsequent events through June 26, 2019, the date which the financial statements were available to be issued and no other items were noted for disclosure.

NOTE 13. PRIOR PERIOD ADJUSTMENTS AND RESTATEMENTS

In 2018, the Authority reclassified board designated cash and net position as follows:

	Balance 12/31/17 as Previously <u>Reported</u>	Retroactive <u>Adjustments</u>	Balance 12/31/17 as Restated
Assets:			
Cash - Unrestricted	\$1,305,147	\$1,834,172	\$3,139,319
Cash - Restricted - Payroll	10,382	(10,382)	
Cash - Restricted - Capital Improvement Fund	1,277,972	(1,277,972)	
Cash - Restricted - Operations	50,000	(50,000)	
Cash - Restricted - Future Retirement Reserve	50,000	(50,000)	
Cash - Restricted - Renewal and Replacement	445,818	(445,818)	
Net Position:			
Restricted - Current Debt Service	81,956	(45,350)	36,606
Restricted - Future Retirement Reserve	50,000	(50,000)	
Restricted - Capital Improvements	1,277,972	(1,277,972)	
Restricted - Renewal and Replacement	445,819	(445,819)	\$0
Restricted - Operations	50,000	(50,000)	
Unrestricted - Designated	101,880	1,721,911	1,823,791
Unrestricted - Undesignated	(1,658,694)	147,230	(1,511,464)

Required Supplementary Information - Part II

SCHEDULE RSI-1

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

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

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

SCHEDULE RSI-2

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

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

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

SCHEDULE RSI-3

**MUSCONETCONG SEWERAGE AUTHORITY
Notes to Required Supplementary Information
For the Year ended December 31, 2018**

Public Employees' Retirement System (PERS)

Changes in Benefit Terms - None

Changes in Assumptions - The discount rate changed from 5.00% as of June 30, 2017 to 5.66% as of June 30, 2018, in accordance with Paragraph 44 of GASB Statement No. 67.

Supplementary Schedules

MUSCONETCONG SEWERAGE AUTHORITY
 SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 FOR THE YEAR ENDED DECEMBER 31, 2018

	Restricted		Unrestricted				Total
	Net Investment in Capital Assets	Current Debt Service Reserve	Future Retirement Reserve	Capital Improvement Reserve	Designated Renewal and Replacement Reserve	Operations Reserve	
Operating Revenue:							
Service Agreements	-	-	-	-	-	-	4,387,219
Miscellaneous	-	-	-	-	-	-	2,500
Total Operating Revenue	-	-	-	-	-	-	4,389,719
Operating Expense:							
Administrative and General							279,442
Cost of Providing Services							2,818,432
Depreciation	1,752,704						1,752,704
Total Operating Expense	1,752,704						4,850,578
Operating Income	(1,752,704)						(460,859)
Non-Operating Revenue (Expense):							
Interest Income							12,601
Interest Expense							(97,680)
Excess Due to Municipalities							(229,736)
Cancellation of Old Payables							10,272
Amortization	6,800						6,800
Net Income (Loss) Before Transfers	(1,745,904)						(297,743)
Transfers:							
Capital Expenditures				(764,039)	(298,114)		147
Budget Appropriations				100,000	300,000		(400,000)
Bond Payments							(615,957)
Other Transfers		(3,933)					3,933
Increase/(Decrease) in Net Position	(67,941)	(3,933)		(664,039)	1,886		(758,602)
Net Position - Jan. 1, 2017, Restated	22,348,401	36,606	50,000	1,277,972	445,819	50,000	1,823,791
Net Position - December 31, 2017	22,280,460	32,673	50,000	613,933	447,705	50,000	21,938,732

MUSCONETCONG SEWERAGE AUTHORITY

**SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND INVESTMENTS
UNRESTRICTED AND RESTRICTED ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Operating Account	Payroll Account	Capital Improvement Account	Renewal and Replacement Account
Cash, Cash Equivalents and Investments - January 1, 2018	1,437,103	10,382	1,327,972	445,818
Cash Receipts:				
Interest on Investments	12,601			
Service Charges	3,748,546			
Miscellaneous	2,500			
Escrow Deposits				
Transfers		964,149	100,000	300,000
Total Cash Receipts	<u>3,763,647</u>	<u>964,149</u>	<u>100,000</u>	<u>300,000</u>
Cash and Investments Available	<u>5,200,750</u>	<u>974,531</u>	<u>1,427,972</u>	<u>745,818</u>
Cash Disbursements:				
Operations	2,096,543	964,166		
Bond Principal Payments	615,957			
Interest Payments	97,680			
Capital and Other Expenses			690,659	282,614
Escrow Payments				
Transfers	1,364,531			
Total Cash Disbursements	<u>4,174,711</u>	<u>964,166</u>	<u>690,659</u>	<u>282,614</u>
Cash, Cash Equivalents and Investments - December 31, 2018	<u>1,026,039</u>	<u>10,365</u>	<u>737,313</u>	<u>463,204</u>
Analysis of Balance:				
Cash and Cash Equivalents	1,026,039	10,365	737,313	463,204
Investments				
	<u>1,026,039</u>	<u>10,365</u>	<u>737,313</u>	<u>463,204</u>
Unrestricted	954,935	10,365	737,313	463,204
Restricted	71,104			
	<u>1,026,039</u>	<u>10,365</u>	<u>737,313</u>	<u>463,204</u>

MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
 CHANGES IN CASH AND INVESTMENTS
 UNRESTRICTED AND RESTRICTED ACCOUNTS
 FOR THE YEAR ENDED DECEMBER 31, 2018

	Escrow Account	Total
Cash, Cash Equivalents and Investments - January 1, 2018	6,239	3,227,514
Cash Receipts:		
Interest on Investments		12,601
Service Charges		3,748,546
Miscellaneous		2,500
Escrow Deposits	6,518	6,518
Transfers		1,364,149
Total Cash Receipts	<u>6,518</u>	<u>5,134,314</u>
Cash and Investments Available	<u>12,757</u>	<u>8,361,828</u>
Cash Disbursements:		
Operations		3,060,709
Bond Principal Payments		615,957
Interest Payments		97,680
Capital and Other Expenses		973,273
Escrow Payments	4,704	4,704
Transfers		1,364,531
Total Cash Disbursements	<u>4,704</u>	<u>6,116,854</u>
Cash, Cash Equivalents and Investments - December 31, 2018	<u>8,053</u>	<u>2,244,974</u>
Analysis of Balance:		
Cash and Cash Equivalents	8,053	2,244,974
Investments		-
	<u>8,053</u>	<u>2,244,974</u>
Unrestricted	-	2,165,817
Restricted	8,053	79,157
	<u>8,053</u>	<u>2,244,974</u>

**MUSCONETCONG SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2018**

	FY 2018 Adopted Budget	FY 2018 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
Revenues:					
Net Position Appropriated	101,880	101,880	101,880	-	107,000
Operating Revenues:					
Service Charges:					
Township of Byram	92,751	92,751	92,751	-	92,364
Borough of Hopatcong	983,469	983,469	983,469	-	985,592
Borough of Mount Arlington	301,702	301,702	301,702	-	301,515
Township of Mount Olive	1,401,544	1,401,544	1,401,544	-	1,400,666
Borough of Netcong	413,241	413,241	413,241	-	412,983
Township of Roxbury	701,229	701,229	701,229	-	700,793
Borough of Stanhope	493,283	493,283	493,283	-	493,306
Miscellaneous	-	-	2,500	2,500	18,172
Non-Operating Revenues:					
Interest on Investments	-	-	12,601	12,601	5,046
Total Revenues	4,489,099	4,489,099	4,504,200	15,101	4,517,437

MUSCONETCONG SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2018

	FY 2018 Adopted Budget	FY 2018 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
Expenses:					
Operating Expenses:					
Administrative:					
Salaries and Wages	165,000	165,000	167,197	(2,197)	155,937
Fringe Benefits:					
Pension (PERS)	22,750	22,750	22,238	512	22,872
Social Security Tax	15,000	15,000	14,138	862	14,483
Hospitalization	50,000	44,250	37,713	6,537	36,303
Disability Insurance	2,250	2,250	1,472	778	1,504
Unemployment Insurance	1,500	1,500	1,493	7	1,371
Other Expenses:					
Office Supplies	40,000	40,000	26,342	13,658	33,339
Total Administrative	296,500	290,750	270,593	20,157	265,809
Cost of Providing Services:					
Salaries and Wages	684,500	684,500	642,292	42,208	642,793
Fringe Benefits:					
Pension (PERS)	77,250	77,250	75,584	1,666	77,739
Social Security Tax	50,500	50,500	48,057	2,443	49,228
Hospitalization	170,000	150,750	128,184	22,566	123,389
Disability Insurance	7,750	7,750	5,001	2,749	5,114
Unemployment Insurance	5,500	5,500	5,073	427	4,662
Other Expenses:					
Legal	30,000	30,000	19,736	10,264	24,978
Audit	15,000	15,000	13,942	1,058	8,500
Engineer	30,000	30,000	28,586	1,414	10,457
Telephone	20,000	20,000	18,708	1,292	17,914
Electric	482,500	447,500	376,830	70,670	360,567
Propane/Fuel Oil	29,000	29,000	23,771	5,229	13,198
Supplies and Chemicals	170,000	240,000	237,265	2,735	145,912
Laboratory Supplies	12,000	12,000	7,829	4,171	6,265

MUSCONETCONG SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2018

	FY 2018 Adopted Budget	FY 2018 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
Operating Expenses (continued):					
Cost of Providing Services:					
Other Expenses (continued):					
Office Expense	25,000	25,000	24,960	40	18,852
External Services	70,000	70,000	64,578	5,422	65,317
Training and Education	20,000	20,000	13,181	6,819	6,793
Laboratory Fees	30,000	30,000	14,427	15,573	17,316
Maintenance and Repairs	180,000	180,000	155,256	24,744	174,047
Insurance	110,000	110,000	99,595	10,405	97,333
NJDEP Fees	25,000	30,000	29,179	821	22,957
Trustee Fees	20,000	20,000	15,030	4,970	15,030
Permit/Compliance	5,000	40,000	27,613	12,387	821
Equipment (non-capital)	60,000	60,000	58,433	1,567	55,896
Sludge Removal	720,000	695,000	655,244	39,756	657,061
Contingency	25,000	-	-	-	-
Total Cost of Providing Services	3,074,000	3,079,750	2,788,354	291,396	2,622,139
Total Operating Expenses	3,370,500	3,370,500	3,058,947	311,553	2,887,948
Other Costs Funded by Operating Revenues:					
Debt Service:					
Interest Expense	100,463	100,463	97,680	2,783	106,996
Loan Principal	618,136	618,136	615,957	2,179	607,745
Reserves:					
Capital Improvements	100,000	100,000	100,000	-	200,000
Renewal and Replacement	300,000	300,000	300,000	-	200,000
Sub-total Other Costs	1,118,599	1,118,599	1,113,637	4,962	1,114,741
Total Costs Funded by Operating Revenues	4,489,099	4,489,099	4,172,584	316,515	4,002,689
Add: Excess / (Deficit)	-	-	331,616	331,616	514,748
	4,489,099	4,489,099	4,504,200	(15,101)	4,517,437

MUSCONETCONG SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2018

	FY 2018 Adopted Budget	FY 2018 Budget as Amended	Current Year Actual	Excess / (Deficit)	Prior Year Actual
Excess of Revenues Over Expenses:			331,616		514,748
Reconciliation of Budgetary Basis to GAAP:					
Depreciation Expense			(1,752,704)		(1,705,488)
Amortization			6,800		3,400
Excess Due to Municipalities			(229,736)		(392,806)
Cancellation of Old Payables			10,272		-
Other Non-Operating Expenses			-		(965)
Renewal and Replacement (Non-Capitalized)			-		(119,110)
Net Position Utilized			(101,880)		(107,000)
Bond Principal			615,957		607,745
Capital Improvements			100,000		200,000
Renewal and Replacement			300,000		200,000
Pension Adjustment			(38,927)		(137,280)
Total Adjustments			<u>(1,090,218)</u>		<u>(1,451,504)</u>
Change in Net Position			<u>(758,602)</u>		<u>(936,756)</u>

MUSCONETCONG SEWERAGE AUTHORITY

**SCHEDULE OF CAPITAL BUDGET PROGRAM
FUNDED BY FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2018**

	FY 2018 Adopted Budget	FY 2018 Budget as Amended	Paid or Charged	Excess / (Deficit)
Financing Sources:				
Debt Authorization	3,000,000	3,000,000	-	3,000,000
Capital Improvement Reserve	300,000	300,000	763,892	
Renewal and Replacement Reserve	-	-	298,114	(298,114)
	<u>3,300,000</u>	<u>3,300,000</u>	<u>1,062,006</u>	<u>2,701,886</u>
Capital Outlays:				
Headworks Project	2,000,000	2,000,000	123,459	1,876,541
Microstrainer Replacement	750,000	750,000	74,133	675,867
Sludge Thickening Rehab	250,000	250,000	308,050	(58,050)
Energy Audit Projects	300,000	300,000	-	300,000
Phase III Air Permit (Contract 310)	-	-	35,553	(35,553)
Telecommunications Project	-	-	4,760	(4,760)
S.C. #1 and # 2 (Contract 285)	-	-	45,567	(45,567)
GIS Project	-	-	33,898	(33,898)
Primary Clarifier # 1 (Contract 275)	-	-	118,107	(118,107)
Primary Clarifier # 2 (Contract 280)	-	-	34,865	(34,865)
Sludge Pumps Evaluation (Contract 315)	-	-	15,499	(15,499)
Contract 260	-	-	818	(818)
Contract 265	-	-	234,631	(234,631)
Plant # 1 Emergency Repairs	-	-	(2,200)	2,200
Other Non-Budgeted Capital Expenditures	-	-	34,866	(34,866)
	<u>3,300,000</u>	<u>3,300,000</u>	<u>1,062,006</u>	<u>2,237,994</u>
Total Capital Outlays	<u>3,300,000</u>	<u>3,300,000</u>	<u>1,062,006</u>	<u>2,237,994</u>
Total Costs Funded by Capital Revenue	<u>3,300,000</u>	<u>3,300,000</u>	<u>1,062,006</u>	<u>2,237,994</u>
Add: Excess	<u>-</u>	<u>-</u>	<u>-</u>	<u>463,892</u>
	<u><u>3,300,000</u></u>	<u><u>3,300,000</u></u>	<u><u>1,062,006</u></u>	<u><u>2,701,886</u></u>

MUSCONEIT/CONG SEWERAGE AUTHORITY
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2018	Issued	Redeemed	Balance Dec. 31, 2018
			Date	Amount				
NJEIT Bonds (Series 2002) Trust Portion	10/15/2002	5.00%	2019	228,346	1,204,075			985,266
		5.00%	2020	237,956				
		5.00%	2021	252,289				
		4.75%	2022	265,695				
NJEIT Bonds (Series 2002) Fund Portion	10/15/2002	n/a	2019	180,227				721,372
		n/a	2020	178,988				
		n/a	2021	180,556				
		n/a	2022	181,621				
NJEIT Bonds (Series 2007) Trust Portion	11/8/2007	4.00%	2019	68,000				288,000
		4.00%	2020	68,000				
		5.00%	2021	74,000				
		5.00%	2022	78,000				
NJEIT Bonds (Series 2007) Fund Portion	11/8/2007	n/a	2019	64,257				254,148
		n/a	2020	62,097				
		n/a	2021	63,537				
		n/a	2022	64,257				
					317,325	63,177		

MUSCONETCONG SEWERAGE AUTHORITY
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2018	Issued	Redeemed	Balance Dec. 31, 2018
			Date	Amount				
NJ/EIT Bonds (Series 2010)								
Trust Portion	12/2/2010							
		5.00%	2019	35,000				
		5.00%	2020	37,000				
		5.00%	2021	41,000				
		4.00%	2022	41,000				
		4.00%	2023	41,000				
		5.00%	2024	45,000				
		5.00%	2025	45,000				
		4.25%	2026	50,000				
		4.50%	2027	55,000				
		4.50%	2028	55,000				
		4.50%	2029	55,000				
		4.25%	2030	58,000				
					593,000		35,000	558,000
NJ/EIT Bonds (Series 2010)								
Fund Portion	12/2/2010							
		n/a	2019	54,815				
		n/a	2020	54,815				
		n/a	2021	54,815				
		n/a	2022	54,815				
		n/a	2023	54,815				
		n/a	2024	54,815				
		n/a	2025	54,815				
		n/a	2026	54,815				
		n/a	2027	54,815				
		n/a	2028	54,815				
		n/a	2029	54,208				
		n/a	2030	5,740				
					662,913		54,815	608,098
					4,030,841		615,957	3,414,884
Current Portion				615,957				630,645
Noncurrent Portion				3,414,884				2,784,239
				4,030,841				3,414,884

MUSCONETCONG SEWERAGE AUTHORITY

SCHEDULE OF AMOUNT DUE TO (FROM) MUNICIPALITIES
FOR THE YEAR ENDED DECEMBER 31, 2018

Analysis of 2018 Operations:

Excess of Revenues Over Expenses (Schedule 3)	331,616
Less: Net Position Utilized for Budget	<u>(101,880)</u>
Amount Due To (From) Municipalities	<u>229,736</u>

Apportionment of Operations:

	%s (1)	FY 2018 Budget		Revenue Realized	Excess (Deficit)	Share of FY 2018 Operations	Amount Due To (From)
		Operating	Debt Service				
Township of Byram	2.36%	\$ 889	\$ 91,862	92,751	-	\$ 5,416	\$ 5,416
Borough of Hopatcong	13.48%	5,082	978,387	983,469	-	30,966	30,966
Borough of Mt. Arlington	7.67%	2,892	298,810	301,702	-	17,619	17,619
Township of Mt. Olive	35.63%	13,433	1,388,111	1,401,544	-	81,846	81,846
Borough of Netcong	10.50%	3,961	409,280	413,241	-	24,132	24,132
Township of Roxbury	17.82%	6,721	694,508	701,229	-	40,950	40,950
Borough of Stanhope	12.54%	4,728	488,555	493,283	-	28,806	28,806
	100.00%	<u>3,770,500</u>	<u>616,719</u>	<u>4,387,219</u>	<u>-</u>	<u>229,736</u>	<u>229,736</u>

(1) Based on 2018 Annual Average Flow or Guaranteed Minimum Flow Per Service Contracts.

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

SCHEDULE 7

ROSTER OF OFFICIALS AND REPORT ON SURETY BONDS

The following officials were in office at December 31, 2018:

<u>Name</u>	<u>Office</u>	<u>Position</u>	<u>Term Expires</u>
Steven Rattner	Mount Olive	Chairman	1/31/2019
John Sylvester	Netcong	Vice Chairman/Councilman	1/31/2023
Joseph Schwab	Roxbury	Secretary-Treasurer	1/31/2023
James Benson	Stanhope	Asst. Secretary-Treasurer	1/31/2023
Tom Bruno	Stanhope	Commissioner	1/31/2020
Donald L. Bates	Netcong	Commissioner	1/31/2019
Michael Grogan	Netcong	Commissioner	1/31/2020
Brian McNeilly	Stanhope	Commissioner	1/31/2019
Melanie Michetti	Roxbury	Commissioner	1/31/2019
Andrew Cangiano	Mt. Arlington	Commissioner/Councilman	1/31/2021
Michael Pucilowski	Mount Olive	Commissioner	1/31/2023
Rich Schindelar	Hopatcong	Commissioner/Councilman	1/31/2021
Elmer Still	Netcong	Commissioner/Councilman	1/31/2019
Joseph Sabatini	Byram	Non-voting Member	
Michael Orgera	Byram	Non-voting Member	
Patrick Dwyer		Attorney	
Mott MacDonald		Engineer	
James Schilling		Director	
Debbie Palma		Qualified Purchasing Agent	
John Campanile		Risk Manager	
John Napolitano		Labor Attorney	
PS&S		Engineer	

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

Report Pursuant to Government Auditing Standards

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

Charles J. Ferraioli, Jr., MBA, CPA, RMA
Steven D. Wielkotz, CPA, RMA
James J. Cerullo, CPA, RMA
Paul J. Cuva, CPA, RMA
Thomas M. Ferry, CPA, RMA

Certified Public Accountants
401 Wanaque Avenue
Pompton Lakes, New Jersey 07442
973-835-7900
Fax 973-835-6631

Newton Office
100B Main Street
Newton, N.J. 07860
973-579-3212
Fax 973-579-7128

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Musconetcong Sewerage Authority, as of and for the year ended December 31, 2018, and the related notes to the financial statements, and have issued our report thereon dated June 26, 2019.

Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses (Finding 2018-001).



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

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Musconetcong Sewerage Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that are required to be reported under Government Auditing Standards (Finding 2018-002).

Management's Response to Findings

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

Purpose of this Report

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

Ferraioli, Wielkatz, Cerullo & Cura, P.A.

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

June 26, 2019

General Comments and Recommendations

MUSCONETCONG SEWERAGE AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018**

Finding 2018-001:*

Conditions:

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

Criteria:

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

Cause:

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

Effect:

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

Recommendation:

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

Authority Response:

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

MUSCONETCONG SEWERAGE AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018
(CONTINUED)**

Finding 2018-002:

Conditions:

Capital expenditures were made without a budgetary capital line item.

Criteria:

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

Cause:

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

Effect:

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

Recommendation:

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

Authority Response:

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

MUSCONETCONG SEWERAGE AUTHORITY

GENERAL COMMENTS

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

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

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

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

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

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

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

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

MUSCONETCONG SEWERAGE AUTHORITY

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

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

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

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

Respectfully submitted,

Ferraioli, Wielkatz, Cerullo & Cova, P.A.

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