

**PEQUANNOCK RIVER BASIN
REGIONAL SEWERAGE AUTHORITY**

Financial Statements

Years Ended October 31, 2020 and 2019

(With Independent Auditors' Report Thereon)

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY

TABLE OF CONTENTS

<u>Page</u>		<u>Exhibits</u>
1	Independent Auditor's Report	
 <u>REQUIRED SUPPLEMENTARY INFORMATION</u>		
4	Management Discussion and Analysis	
 <u>FINANCIAL STATEMENTS</u>		
14	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>SUPPLEMENTARY SCHEDULES</u>		
		<u>Schedules</u>
41	Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Cash Equivalents - Unrestricted Operating Account	1
42	Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Cash Equivalents and Investments - Trustee Restricted and Unrestricted Accounts	2
45	Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to Budget - Year Ended October 31, 2020 With Comparative Actual Amounts for Year Ended October 31, 2019	3
47	Schedule of Bonds Payable	4

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY

**TABLE OF CONTENTS
(CONTINUED)**

Page

50	Roster of Officials
51	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
53	General Comments
54	Comments and Recommendations



WIELKOTZ & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN D. WIELKOTZ, CPA, RMA, PSA
MATTHEW B. WIELKOTZ, CPA, PSA
PAUL J. CUVA, CPA, RMA, PSA
JAMES J. CERULLO, CPA, RMA, PSA
THOMAS M. FERRY, CPA, RMA, PSA

HEADQUARTERS
401 WANAQUE AVENUE
POMPTON LAKES, NEW JERSEY 07442
(973)-835-7900
OFFICE@W-CPA.COM

ROCKAWAY OFFICE
100 ENTERPRISE DRIVE
SUITE 301
ROCKAWAY, NEW JERSEY 07866
(973)-835-7900

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members of the
Pequannock River Basin Regional Sewerage Authority
Butler, NJ 07405

Report on the Financial Statements

We have audited the accompanying statements of net position of the Pequannock River Basin Regional Sewerage Authority, as of October 31, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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



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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pequannock River Basin Regional Sewerage Authority as of October 31, 2020 and 2019, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pequannock River Basin Regional Sewerage Authority's financial statements. The supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Honorable Chairperson and Members of the
Pequannock River Basin Regional Sewerage Authority
Page 3.

The other supplemental information listed in the table of contents is 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 supplemental schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2021 on our consideration of the Pequannock River Basin Regional 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 Pequannock River Basin Regional Sewerage Authority's internal control over financial reporting and compliance.

Very truly yours,

Wielkotz & Company, LLC

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

February 1, 2021

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)**

As management of the Pequannock River Basin Regional Sewerage Authority, in connection with the Authority's Financial Statements we offer this narrative overview and analysis of the Authority's financial performance during the fiscal year ended October 31, 2020 and 2019. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- The Authority's assets exceeded its liabilities by \$15,415,830 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$14,700,912.
- Total net position are comprised of the following:
 - (1) Capital assets, net of related debt, of \$4,914,155 include plant and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net position of \$2,498,277 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net position of \$8,003,398 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority increased by \$40,431 to \$2,003,600 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 and liabilities and provides information about the nature and amounts of investments in resources (assets) 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.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(UNAUDITED)**

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 operations over the past year as related to its operational stability and creditworthiness and can be used to determine whether the Authority has recovered all its costs through its user fees and other charges.

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

Notes to the Financial Statements

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

Other Information

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

Financial Analysis of the Authority

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

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(UNAUDITED)**

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 are \$15,415,830. This is a \$714,918 increase over the prior year's net position of \$14,700,912. A summary of the Authority's statement of net position is presented in the following table:

**Condensed Statement of Net Position
(000's)**

	<u>FY 2020</u>	<u>FY 2019</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>FY 2018</u>
Current and Other Assets	10,561	10,580	(19)	(0.18)%	9,767
Capital Assets	6,833	5,998	835	13.92%	6,182
Deferred Outflow of Resources	<u>87</u>	<u>174</u>	<u>(87)</u>	(50.00)%	<u>260</u>
Total Assets and Deferred Outflows	<u>17,481</u>	<u>16,752</u>	<u>729</u>		<u>16,209</u>
Liabilities	2,004	1,963	41	2.09%	2,253
Deferred Inflows of Resources	<u>61</u>	<u>88</u>	<u>(27)</u>	(30.68)%	<u>115</u>
Total Liabilities and Deferred Inflows	<u>2,065</u>	<u>2,051</u>	<u>14</u>		<u>2,368</u>
Invested in Capital Assets, Net of Related Debt	4,914	4,191	723	17.25%	4,137
Restricted	2,498	3,305	(807)	(24.42)%	1,613
Unrestricted	<u>8,004</u>	<u>7,205</u>	<u>799</u>	11.09%	<u>8,091</u>
Net Position	<u>15,416</u>	<u>14,701</u>	<u>715</u>	4.86%	<u>13,841</u>

While the *Statement of Net Position* shows the change in financial position of Net Position, the *Statement of Revenues, Expenses and Changes in Net Position* provides answers as to the nature and source of these changes. As can be seen in the following table, net position increased by \$714,918.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(UNAUDITED)**

Net Position (Continued)

**Condensed Statement of Revenues, Expenses
and Changes in Net Position
(000's)**

	<u>FY 2020</u>	<u>FY 2019</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>FY 2018</u>
Operating Revenues	5,135	5,320	(185)	(3.48)%	5,300
Non-Operating Revenues	<u>98</u>	<u>240</u>	<u>(142)</u>	(59.17)%	<u>159</u>
Total Revenues	<u>5,233</u>	<u>5,560</u>	<u>(327)</u>		<u>5,459</u>
Depreciation Expense	348	348	0	0.00%	348
Amortization	60	60	0	0.00%	60
Other Operating Expenses	3,030	3,192	(162)	(5.08)%	2,997
Other Non-Operating Expense	<u>1,080</u>	<u>1,100</u>	<u>(20)</u>	(1.82)%	<u>1,111</u>
Total Expenses	<u>4,518</u>	<u>4,700</u>	<u>(182)</u>		<u>4,516</u>
Change in Net Position	715	860	(145)	(16.86)%	943
Beginning Net Position	<u>14,701</u>	<u>13,841</u>	<u>860</u>	6.21%	<u>12,898</u>
Ending Net Position	<u>15,416</u>	<u>14,701</u>	<u>715</u>	4.86%	<u>13,841</u>

The Authority's Operating Revenues decreased by \$184,882 to \$5,135,118 in 2020 from \$5,320,000 in 2019. Nonoperating Revenues decreased by \$141,256 to \$98,295 from \$239,551 mainly due to a decrease in interest income.

Budgetary Highlights

The Authority prepares and submits an annual budget to the State of New Jersey, Department of Community Affairs, Division of Local Government Services, which approves the budget for adoption by the Authority prior to the beginning of the fiscal year.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(UNAUDITED)**

The following table provides a 2020 budget comparison:

	Budget vs. Actual FY 2020 (000's)		
	<u>Amended Budget</u>	<u>Actual</u>	<u>Difference</u>
Revenues:			
Operating	5,135	5,135	0
Non-Operating	<u>51</u>	<u>98</u>	<u>47</u>
	<u>5,186</u>	<u>5,233</u>	<u>47</u>
Expenses:			
Operating	3,365	3,030	335
Other Reserves	400	400	0
Debt Service	<u>1,421</u>	<u>1,346</u>	<u>75</u>
	<u>5,186</u>	<u>4,776</u>	<u>410</u>
Income Before Depreciation and Amortization	<u>-0-</u>	<u>457</u>	<u>457</u>

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(UNAUDITED)**

The following table provides a 2019 budget comparison:

Budget vs. Actual FY 2019 (000's)			
	<u>Amended Budget</u>	<u>Actual</u>	<u>Difference</u>
Revenues:			
Operating	5,340	5,320	(20)
Non-Operating	<u> </u>	<u>240</u>	<u>240</u>
	<u>5,340</u>	<u>5,560</u>	<u>220</u>
Expenses:			
Operating	3,470	3,192	278
Capital Reserve	450	450	0
Debt Service	<u>1,420</u>	<u>1,356</u>	<u>64</u>
	<u>5,340</u>	<u>4,998</u>	<u>342</u>
Income Before Depreciation and Amortization	<u>-0-</u>	<u>562</u>	<u>562</u>

In accordance with the terms of the service contracts with Bloomingdale, Butler, Kinnelon and Riverdale, the PRBRSA determines the sewer user charges (Annual Charges) based on three separate cost elements, namely, debt service (the Debt Service Annual Charge), operation and maintenance (the O&M Charge) and administrative (the Administrative Charge)¹. A budget hearing is conducted annually in accordance with N.J.S.A. 40:14B.

The following charts summarize the distribution of the budgeted FY 2020 Annual Charges to the four towns served by the PRBRSA:

¹ Section 402 of the service contract provides for two separate charges - the Operating Charge and the Debt Service Charge. The Operating Charge per Section 402(b)(1) includes all Operating Costs as defined by Section 101. For billing purposes, the Operating Charge is broken down into two components, the Operation and Maintenance Charge and the Administrative Charge.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(UNAUDITED)**

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY -
DEBT SERVICE CHARGE**

<u>Gallons of Allocation</u>	<u>Percent of Allocation</u>	<u>Debt Service Charge</u>	<u>Total</u>	<u>Bloomingtondale</u>	<u>Butler</u>	<u>Kinnelon</u>	<u>Riverdale</u>
904,500	36.59%		\$647,572	\$647,572			
996,700	36.53%		646,652		\$646,652		
204,500	7.87%		139,299			\$139,299	
494,300	19.01%		336,477				\$336,477
2,600,000	100.00%	\$1,770,000	\$1,770,000	\$647,572	\$646,652	\$139,299	\$336,477

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY -
O&M CHARGE**

<u>Gallons of Consumption</u>	<u>Percent of Consumption</u>	<u>O&M Charge</u>	<u>Total</u>	<u>Bloomingtondale</u>	<u>Butler</u>	<u>Kinnelon</u>	<u>Riverdale</u>
681,000	32.45%		\$884,262	\$884,262			
949,000	45.23%		1,232,514		\$1,232,514		
107,000	5.11%		139,149			\$139,149	
362,000	17.21%		469,193				\$469,193
2,099,000	100.00%	\$2,725,118	\$2,725,118	\$884,262	\$1,232,514	\$139,149	\$469,193

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY -
ADMINISTRATIVE CHARGE**

<u>Gallons of Consumption</u>	<u>Percent of Consumption</u>	<u>Administrative Charge</u>	<u>Total</u>	<u>Bloomingtondale</u>	<u>Butler</u>	<u>Kinnelon</u>	<u>Riverdale</u>
678,000	32.39%		\$207,312	\$207,312			
951,000	45.77%		292,940		\$292,940		
106,000	4.74%		30,308			\$30,308	
364,000	17.10%		109,440				\$109,440
2,099,000	100.00%	\$640,000	\$640,000	\$207,312	\$292,940	\$30,308	\$109,440

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY -
TOTAL ANNUAL CHARGES**

<u>Total Annual Charge</u>	<u>Total</u>	<u>Bloomingtondale</u>	<u>Butler</u>	<u>Kinnelon</u>	<u>Riverdale</u>
	\$1,739,146	\$1,739,146			
	2,172,106		\$2,172,106		
	308,757			\$308,757	
	915,109				\$915,109
\$5,135,118	\$5,135,118	\$1,739,146	\$2,172,106	\$308,757	\$915,109

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(UNAUDITED)**

REVENUES

Total Annual Charges	\$5,135,118	
Plus:		
Retained Earnings	0	
Investment Income	50,000	
Application Fees and Misc.	1,000	
Interest: State Loan Bonds	0	
TBSA Debt Service Credit	<u>0</u>	
 TOTAL FY 2020 BUDGETED REVENUES		 <u>\$5,186,118</u>

APPROPRIATIONS

Debt Service:

TBSA Contract Payments	\$1,120,000
Direct PRBRSA	301,000
Capital Reserve Fund	275,000
Renewal & Replacement Fund	125,000
2012 Series N Reserve (BRR)	<u>0</u>
Total	1,821,000

Administrative:

TBSA Contract Payments	272,000
Direct PRBRSA	<u>363,000</u>
Total	635,000

Operation and Maintenance:

TBSA Contract Payments	2,215,118
Direct PRBRSA	265,000
System Improvements	250,000
Operating Reserve	<u>0</u>
Total	2,730,118

TOTAL FY 2020 BUDGETED APPROPRIATIONS	<u>\$5,186,118</u>
--	---------------------------

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(UNAUDITED)**

Debt Service Payable

At October 31, 2020, the Authority had outstanding bonds and loans payable in the principal amount of \$1,623,883. The debt payments extend to December 1, 2034. Interest rates range from 0% to 5.00%.

Second and Third Amendment to Debt Service Forward Delivery Agreements (Guaranteed Investment Contract)

Effective September 26, 2013, the Authority entered into the Third Amendment to the Debt Service Forward Delivery Agreement to amend the Guaranteed Investment Contracts between and among the Authority, Wells Fargo, NA and US Bank. The previously guaranteed interest rates were not amended. Both the Debt Service and the Debt Service Reserve Guaranteed Investment Contracts will continue to earn a net of 5.86% DSRF and 6.54% on the Bond Service Fund (DSF). The DSRF arbitrage yield was lowered to 1.656503% as a result of the refunding. Accordingly, income earned on the DSRF will be subject to substantially higher rebates due to the Internal Revenue Service in future years. Since the DSF cash flows are not subject to arbitrage/permitted yield limitations, no rebates will be due IRS on the DSF income.

The Authority has created a dedicated reserve, the "2012 Series N Arbitrage Rebate Reserve Fund" to accrue the arbitrage rebate due on the Bond Reserve Fund in 5 year cycles. The October 31, 2020 balance in the 2012 Series N Arbitrage Rebate Reserve Fund was \$43,072.

The Second Amendment to the Debt Service Reserve Fund Forward Delivery Agreement remains in effect.

Capital Assets

At the end of 2020, the Authority had invested \$15,654,800 in capital assets. The Authority's net plant and equipment at fiscal year-end was \$6,832,592. This is a \$834,243 increase over last year's net plant, property and equipment of \$5,998,349. A summary of the Authority's capital assets is presented in the following table:

	Capital Assets (000's)		Dollar Change	
	<u>FY 2020</u>	<u>FY 2019</u>		<u>FY 2018</u>
Interceptor	<u>\$13,938</u>	<u>\$13,938</u>	<u>\$0</u>	<u>\$13,938</u>
Total Capital Assets	<u>13,938</u>	<u>13,938</u>	<u>0</u>	<u>13,938</u>
Less: Accumulated Depreciation	<u>(8,823)</u>	<u>(8,474)</u>	<u>(349)</u>	<u>(8,125)</u>
	<u>5,115</u>	<u>5,464</u>	<u>(349)</u>	<u>5,813</u>
Construction in Progress	<u>1,717</u>	<u>534</u>	<u>1,183</u>	<u>369</u>
Net Capital Assets	<u><u>\$6,832</u></u>	<u><u>\$5,998</u></u>	<u><u>\$834</u></u>	<u><u>\$6,182</u></u>

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
(UNAUDITED)**

Economic Factors, Future Years Budgets and Rates

The Authority's Board and management of the Authority consider a broad range of factors when preparing each year's budget and establishing the sewer user charges (i.e., the Annual Charges) to the towns. The principal factors include, for example, anticipated contractual charges from the Pequannock, Lincoln Park & Fairfield Sewerage Authority (i.e., the Two Bridges Sewerage Authority); the need for repairs/replacements of and/or capital improvements to the PRBRSA regional interceptor system; significant increases in the required service levels; anticipated investment yields on non-operating revenues; and any anticipated regulatory changes likely to impose additional direct expenses or indirect expenses, the latter primarily through increases in the Two Bridges Sewerage Authority charges.

To reduce the rate impacts of anticipated debt service increases resulting from the Two Bridges Sewerage Authority wastewater treatment plant capital improvement program, a Capital Reserve Fund was created in FY 2007. As of October 31, 2020, the Capital Reserve Fund balance was \$3,259,729. To plan for system improvements and rehabilitation, the Authority plans to make yearly contributions to the Renewal and Replacement Fund. In FY 2020, the Renewal and Replacement Fund balance was \$175,000.

Contacting the Authority

This financial report is designed to provide the Authority's Participants, as well as System users, the general public, investors 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, it may be obtained from the Authority's website at PRBRSA.org or by contacting the Pequannock River Basin Regional Sewerage Authority, Municipal Building, One Ace Road, Butler, NJ 07405. (Authority @ prbrsa.org).

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
STATEMENT OF NET POSITION
OCTOBER 31,

EXHIBIT A
Page 1 of 2

	<u>2020</u>	<u>2019</u>
<u>CURRENT ASSETS:</u>		
Cash and Cash equivalents	\$ 7,715,185	6,929,882
Prepaid Expenses	<u>337,195</u>	<u>331,749</u>
Total Current Assets	<u>8,052,380</u>	<u>7,261,631</u>
<u>NON-CURRENT ASSETS:</u>		
Restricted:		
Cash and Cash equivalents	2,182,629	3,013,142
Investments	315,977	295,288
Accrued Interest Receivable	<u>9,608</u>	<u>9,773</u>
	<u>2,508,214</u>	<u>3,318,203</u>
Capital Assets:		
Plant, Property and Equipment:		
Interceptor	13,937,885	13,937,885
Less: Accumulated Depreciation	<u>(8,822,208)</u>	<u>(8,473,761)</u>
	5,115,677	5,464,124
Construction in Progress	<u>1,716,915</u>	<u>534,225</u>
Net Capital Assets	<u>6,832,592</u>	<u>5,998,349</u>
Total Non-current Assets	<u>9,340,806</u>	<u>9,316,552</u>
TOTAL ASSETS	<u>17,393,186</u>	<u>16,578,183</u>
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>		
Unamortized Loss on Refunding of Debt	<u>86,876</u>	<u>173,752</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 86,876</u>	<u>173,752</u>
<u>LIABILITIES:</u>		
Current Liabilities:		
Payable from Unrestricted Assets:		
Accounts Payable and Accrued Liabilities	\$ <u>48,982</u>	<u>56,385</u>
	<u>48,982</u>	<u>56,385</u>

See accompanying Notes to the Financial Statements.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
STATEMENT OF NET POSITION
OCTOBER 31,

EXHIBIT A
Page 2 of 2

	<u>2020</u>	<u>2019</u>
<u>LIABILITIES (cont.):</u>		
Current Liabilities (cont.):		
Payable from Restricted Assets:		
Bonds Payable - Current Portion	270,635	265,635
Accounts Payable	320,798	4,058
Accrued Interest Payable	9,937	13,208
	<u>601,370</u>	<u>282,901</u>
Total Current Liabilities	<u>650,352</u>	<u>339,286</u>
Non-Current Liabilities:		
Sewer Revenue Bonds Payable	<u>1,353,248</u>	<u>1,623,883</u>
Total Non-Current Liabilities	<u>1,353,248</u>	<u>1,623,883</u>
TOTAL LIABILITIES	<u>2,003,600</u>	<u>1,963,169</u>
<u>DEFERRED INFLOWS OF RESOURCES:</u>		
Unamortized Bond Premium	<u>60,632</u>	<u>87,854</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>60,632</u>	<u>87,854</u>
<u>NET POSITION:</u>		
Invested in Capital Assets, net of Related Debt	4,914,155	4,190,671
Restricted:		
Bond Reserve	208,000	208,000
Renewal and Replacement	175,000	175,000
Debt Service Reserve	174,167	169,583
Operating Requirement	1,192,500	1,147,500
Construction Funds	748,610	1,604,912
Unrestricted		
Designated	4,181,755	3,906,755
Undesignated	<u>3,821,643</u>	<u>3,298,491</u>
TOTAL NET POSITION	<u>\$ 15,415,830</u>	<u>14,700,912</u>

See accompanying Notes to the Financial Statements.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED OCTOBER 31,

	<u>2020</u>	<u>2019</u>
<u>Operating Revenues:</u>		
Service Contracts with Municipalities	\$ 5,135,118	5,320,000
Total Operating Revenues	<u>5,135,118</u>	<u>5,320,000</u>
<u>Operating Expenses:</u>		
Cost of Providing Services	2,395,853	2,620,113
Administrative and General	634,352	571,799
Depreciation	<u>348,447</u>	<u>348,447</u>
Total Operating Expenses	<u>3,378,652</u>	<u>3,540,359</u>
Operating Income/(Loss)	<u>1,756,466</u>	<u>1,779,641</u>
<u>Non Operating Revenues (Expenses):</u>		
Interest Earned on Investments	97,795	239,051
Application Fees	500	500
Amortization of Bond Premiums	27,222	27,222
Two Bridges Sewerage Authority Debt		
Service Charges	(1,049,769)	(1,061,682)
Interest Expense	(30,420)	(38,542)
Amortization of Loss on Advance		
Refunding	<u>(86,876)</u>	<u>(86,876)</u>
Total Non-Operating Revenues (Expenses)	<u>(1,041,548)</u>	<u>(920,327)</u>
Change in Net Position	714,918	859,314
Net Position - Beginning	<u>14,700,912</u>	<u>13,841,598</u>
Net Position - Ending	<u>\$ 15,415,830</u>	<u>14,700,912</u>

See accompanying Notes to the Financial Statements.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED OCTOBER 31,

EXHIBIT C
Page 1 of 2

	<u>2020</u>	<u>2019</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Cash Received from Customers	\$ 5,135,118	5,320,000
Other Operating Receipts	500	500
Cash Paid to Suppliers	(3,043,054)	(3,199,943)
Interest Received	97,960	238,907
Interest Paid	(33,691)	(41,647)
Net Cash Provided (Used) by Operating Activities	<u>2,156,833</u>	<u>2,317,817</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Sale/(Purchase) of Investments	(20,689)	12,112
Purchase of Property, Plant and Equipment	(865,950)	(205,909)
Net Cash Provided (Used) by Investing Activities	<u>(886,639)</u>	<u>(193,797)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Two Bridges Sewerage Authority Debt Service (net)	(1,049,769)	(1,061,682)
Bonds Retired	(265,635)	(255,634)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,315,404)</u>	<u>(1,317,316)</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	(45,210)	806,704
CASH AND CASH EQUIVALENTS-BEGINNING OF YEAR	<u>9,943,024</u>	<u>9,136,320</u>
CASH AND CASH EQUIVALENTS-END OF YEAR	<u><u>\$ 9,897,814</u></u>	<u><u>9,943,024</u></u>
Classified As:		
Unrestricted Assets	\$ 7,715,185	6,929,882
Restricted Assets	<u>2,182,629</u>	<u>3,013,142</u>
	<u><u>\$ 9,897,814</u></u>	<u><u>9,943,024</u></u>

See accompanying Notes to the Financial Statements.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED OCTOBER 31,

EXHIBIT C

Page 2 of 2

	<u>2020</u>	<u>2019</u>
OPERATING INCOME/(LOSS)	\$ 1,756,466	1,779,641
Adjustments to Reconcile Operating Income/(Loss) to		
Net Cash Provided by Operating Activities:		
Depreciation	348,447	348,447
Interest Income	97,795	239,051
Interest Expense	(30,420)	(38,542)
Other Income	500	500
(Increase)/Decrease in:		
Accrued Interest Receivable	165	(144)
Prepaid Expenses	(5,446)	(17,785)
(Decrease)/Increase in:		
Accounts Payable	(7,403)	9,754
Accrued Interest Payable	(3,271)	(3,105)
Total Adjustments	<u>400,367</u>	<u>538,176</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,156,833</u>	<u>2,317,817</u>

See accompanying Notes to the Financial Statements.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2020 AND 2019

NOTE 1. ORGANIZATION AND RELATIONSHIP WITH TWO BRIDGES AND OTHER PARTIES

The Pequannock River Basin Regional Sewerage Authority (the “Pequannock River Authority”, the “Authority, or “PRBRSA”) was created in May 1974 by parallel ordinances of its three member municipalities, Bloomingdale, Butler and Kinnelon for the purpose of acquiring, constructing, maintaining and operating sewerage facilities for the improvement of water quality in the Pequannock River Basin. In 1985, the Authority entered into a Participant service agreement with Bloomingdale and Butler which obligates each municipality to pay a proportionate share of the Authority’s operating expenses, bond service and required reserve additions not met by other sources. In January 1987, the Authority entered into a customer service contract with the Borough of Riverdale, which obligates the Borough to pay for the cost of services rendered by the Authority. In December 1990, the Authority entered into a revised Participant service contract with Bloomingdale, Butler and Kinnelon, which also obligates Kinnelon to pay for the cost of services provided by the Authority.

On December 16, 1987, the Authority initiated regional operations by placing into operation the newly constructed regional sewer lines (the “interceptor facilities”) interconnecting the PRBRSA service areas with the existing system of the Two Bridges Sewerage Authority. In conjunction with its regional wastewater management responsibilities, the Authority also assumed ownership of certain existing interceptor facilities as conveyed to PRBRSA by the Boroughs of Bloomingdale and Butler.

Under the terms of the December 20, 1985 agreement referred to above, the Pequannock River Authority is entitled to share in any refunding or crediting of the retained earnings of the Two Bridges Sewerage Authority generated subsequent to the date of conveyance by PRBRSA to Two Bridges of the New Interceptor - Southern Portion on that date.

On December 31, 2008, the Authority entered into four agreements collectively known as the “2008 Amendments” to the following agreements: (1) The December 20, 1985 Agreement with Two Bridges; (2) The 1990 Amendment to the 1985 Service Contract Between and Among the Boroughs of Bloomingdale, Butler and Kinnelon; (3) The 1987 Riverdale Service Contract; (4) a separate agreement between and among the Borough of Lincoln Park, the Authority and the Borough of Riverdale.

The 2008 Amendments increased the Authority’s treatment capacity allocation in the Two Bridges system (from 2.50 mgd to 2.60 mgd) as well as the main sewer capacity (from 3.750 mgd to 3.925 mgd) and among other things, increased the Borough of Riverdale’s reserve capacity allocation in the Authority’s System from (0.309 mgd to 0.409 mgd) commensurately increasing the Authority’s treatment plant and main sewer debt service obligations to Two Bridges.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

NOTE 1. ORGANIZATION AND RELATIONSHIP WITH TWO BRIDGES AND OTHER PARTIES, (continued)

On December 7, 2015, the Authority entered into two agreements collectively known as the “2015 Amendments” as follows: (1) “2015 Five Party Agreement Between and Among the Pequannock River Basin Regional Sewerage Authority and the Borough of Kinnelon and the Borough of Bloomingdale and the Borough of Butler and the Borough of Riverdale”; and (2) “2015 Amendment to the 1987 Service Contract between the Pequannock River Basin Regional Sewerage Authority and the Borough of Riverdale”.

The 2015 Amendments decreased the Borough of Bloomingdale's capacity allocation from 0.9500 mgd to 0.9045 mgd, decreased the Borough of Kinnelon's 0.2500 mgd capacity allocation to 0.2045 mgd and increased Riverdale's capacity allocation from 0.409 mgd to 0.500 mgd.

The August 21, 2019 “2019 Agreement Between and Among the Pequannock River Basin Regional Sewerage Authority and the Borough of Butler and the Borough of Riverdale” transferred 5,700 gallons per day (0.0057 mgd) from the Borough of Riverdale to the Borough of Butler increasing Butler's reserve capacity allocation from 0.9910 to 0.9967 mgd and decreasing Riverdale's allocation from 0.5000 mgd to 0.4943 mgd.

On September 24, 2020, the Authority along with the Borough of Bloomingdale, the Borough of Butler, the Borough of Kinnelon and the Borough of Riverdale executed the “2020 Amended and Restated Service Contract” effective November 1, 2020. The 2020 Amended and Restated Service Contract recognizes the Borough of Riverdale as a Member Municipality with two Representatives on the reconstituted PRBRSA Board.

The Borough of Riverdale's petition for Membership was accepted on submission of a financial analysis upon review by counsel, bond counsel and the Authority's consulting engineer. The Trustee was provided the Petition For Membership as required by the General Bond Resolution.

On execution of the 2020 Amended and Restated Service Contract, Riverdale's membership status was affirmed.

The 2020 Amended and Restated Service Contract amends the billing method from flow-based to EDU-based calculations.

The Authority's annual payment obligation to Two Bridges includes a portion of TBSA's treatment plant debt service and TBSA's main sewer debt service.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

NOTE 1. ORGANIZATION AND RELATIONSHIP WITH TWO BRIDGES AND OTHER PARTIES, (continued)

During the years ended October 31, 2020 and 2019, the charges between Two Bridges Sewerage Authority and the Pequannock River Authority for providing services were as follows:

	<u>2020</u>	<u>2019</u>
Operations and Maintenance	\$2,274,778	\$2,402,101
Administrative Expenses	229,437	231,383
Two Bridges Debt Service	<u>1,049,769</u>	<u>1,061,682</u>
	<u>\$3,553,984</u>	<u>\$3,695,166</u>

The Authority's financial statements include all the accounts of all the Authority's operations. The primary criterion for including activities within a reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board ("GASB") Codification of Governmental Accounting and Financial Reporting Standards, is whether:

- the Organization is legally separate (can sue or be sued in their own name);
- the primary government holds the corporate powers of the organization;
- the primary government appoints a voting majority of the organization board;
- the primary government is able to impose its will on the organization;
- the organization has the potential to impose a financial benefit/burden on the primary government;
- there is a fiscal dependency by the organization on the primary government.

GASB Statement 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 34, establish standards to determine whether a government component unit should be included in the financial reporting entity. The basic criterion for inclusion or exclusion from the financial reporting entity is the exercise of oversight responsibility for agencies, boards and commissions by the primary government. The exercise of oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The Authority has determined that there were no additional entities required to be included in the reporting entity under the criteria as described above, in the current or prior years.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

NOTE 1. ORGANIZATION AND RELATIONSHIP WITH TWO BRIDGES AND OTHER PARTIES, (continued)

Reporting Entity

The Authority's financial statements include the operations of the wastewater collection for which the Board members of the Authority exercise financial accountability. The Board members are appointed to five-year terms by their respective municipalities. There are no additional entities required to be included in the reporting entity and the Authority is not included in any other reporting entity.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Financial Statements:

The financial statements of the Pequannock River Basin Regional Sewerage Authority have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Basis of Accounting:

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

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

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

C. Restricted Accounts:

The 1986 Bond Resolution provides that all revenue received by the Authority be deposited with a Trustee in accounts with various restrictions in the priority of the order listed:

<u>Reserve Fund</u>	<u>Amount</u>	<u>Purpose</u>
Revenue (Revolving)	All revenue (as defined) received by the Authority.	Authorized operating expenses and transfers to the various accounts described below after three months operating expenses reserved.
Bond Service	Amount needed to meet the bond service requirements.	Principal and interest on bonds
Sinking Fund	Amount needed to increase the account to the amount of the aggregate of all sinking fund installments (if any) required to be paid on the next succeeding December 1.	Retirement of bonds for which such account is maintained.
Bond Reserve	Amount needed to equal the Bond Reserve Requirement (as defined).	Transfers to meet minimum levels required in the Bond Service Fund or the Sinking Fund. Any excess remaining is to be paid back to the Revenue Fund.
Renewal and Replacement	Amount needed to increase the balance to equal the System Reserve Requirement.	Transfers to meet the reasonable and necessary expenses for major repairs, renewals, replacements or maintenance items of a type not recurring annually or at short intervals. Any excess is to be paid back to the Revenue Fund.
General	Any balance in revenues after above withdrawals and required reserves.	Transfers to meet deficiencies in any fund or account, after which funds may be expended for any lawful corporate purpose of the Authority.
Construction	Proceeds of debt issued, grant proceeds and insurance proceeds relating to projects (other than use and occupancy insurance), or any amount upon Officer's Certificate.	Prior and future project construction costs.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

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

C. Restricted Accounts: (continued)

In addition to the foregoing, the Authority has established the following account:

Operating Account - Unrestricted

The Operating account was established to carry on the operations of the Authority. Transfers are made from the Revenue Fund to the Operating Account to pay for the operating expenses for the current fiscal year. The Operating Account is a non-trustee controlled account under the direct control of the Authority.

D. Cash and Cash Equivalents:

Cash and cash equivalents include demand deposits with original maturities of three months or less.

E. Investments:

U.S. Treasury and agency obligations and certificates of deposit with maturities of one year or less are stated at cost. All other investments are stated at fair value. Interest earned and not received is accrued. Interest earned on restricted assets is included in non-operating revenues, while interest earned on operating investments (unrestricted assets) is included in operating revenues. Investments are made in accordance with the 1986 Bond Resolution.

F. Debt Issue Expenses/Deferred Outflow of Resources:

Debt issue expenses are expensed in the period incurred. When outstanding debt is advance refunded resulting in defeasance of debt, the difference between the reacquisition price and the net carrying amount of the old debt is reported in the accompanying financial statements as a deferred outflow of resources and is being amortized over the life of the old debt or the life of the new debt, whichever is shorter.

G. Plant and Equipment:

Plant and equipment are stated at cost, which includes direct construction costs and other expenditures related to construction. Acquisitions that do not provide both current and future benefits are charged to current operating results.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

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

G. Plant and Equipment: (continued)

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

Interceptor	40 Years
-------------	----------

H. Income Taxes:

No provision has been made for income taxes, as the Authority is exempt from federal and state income taxes.

I. Concentration of Credit Risk:

The Authority's financial instruments that are exposed to credit risk consist primarily of cash, cash equivalents and receivables. The Authority places its cash and cash equivalents with financial institutions that are covered by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Deposits above that amount are protected by the Governmental Unit Deposit Protection Act (GUDPA), and the Authority believes no significant concentration of credit risk exists with respect to its cash and cash equivalents. There is a significant concentration of credit risk with respect to the Authority's receivables which consist of amounts due from the four (4) municipalities serviced by the Authority. The Authority has entered into service contracts with each of these municipalities (see note 1) that require the municipalities to reimburse the Authority for the cost of services provided.

J. Use of Estimates:

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Estimates are used in budgeting to determine depreciation expense and may be used in the determination of certain claims and judgment liabilities, among other accounts. Actual results could differ from those estimates.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

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

K. Budgetary Procedures:

The Authority follows these procedures in establishing the Operating Fund budget:

The annual budget for each fiscal year of the Authority is introduced by resolution passed by a majority of the full membership of the governing body. Two certified copies are submitted to the director of the Division of Local Government Services at least 60 days prior to the beginning of the Authority's fiscal year for approval prior to its adoption.

The budget must comply with the terms and provisions of any security agreements, and is to be in such form and detail as to items of revenue, expenses and other content as required by law or by rules and regulations of the Local Finance Board.

No Authority budget can be finally adopted until the Director has approved the budget.

A public hearing is conducted annually to obtain citizen comment on the proposed budget.

Appropriations lapse at the close of the fiscal year to the extent that they have not been expended.

The level at which expenditures cannot exceed the budget is at the total budget level.

The budget may be increased after adoption when an item of revenue has been made available after the adoption date (N.J.S.A. 5:31-2.8).

L. Recent Accounting Pronouncements

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.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

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

L. Recent Accounting Pronouncements, (continued)

In May 2019, the Government Accounting Standards Board issued GASB Statement No. 91, Conduit Debt Obligations. This Statement provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing 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 as the Authority has no conduit debt issues.

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

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

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

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

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

L. Recent Accounting Pronouncements, (continued)

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

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

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

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

L. Recent Accounting Pronouncements, (continued)

In May 2020, the Government Accounting Standards Board issued GASB Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. The Authority is still determining the effects, if any, this statement will have on future financial statements.

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

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

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

L. Recent Accounting Pronouncements, (continued)

financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The Authority does not believe that this statement will have any effect on future financial statements.

NOTE 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include petty cash, 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. U.S. Treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

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.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits. The Authority's policy is based on New Jersey Statutes requiring cash to be deposited only as described on the preceding page. As of October 31, 2020, \$-0- of the Authority's bank balance of \$10,869,758 was exposed to custodial credit risk.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

NOTE 3. CASH AND CASH EQUIVALENTS, (continued)

As of October 31, 2020, the book or carrying amount of the Authority's cash and cash equivalents is summarized as follows:

<u>Accounts</u>	Money Market/ <u>Checking</u> <u>Accounts</u>	NJ Cash Management <u>Fund</u>	<u>Total</u>
Unrestricted:			
Operating Account	(\$953,980)	\$	(\$953,980)
Trustee funds	12,167	8,656,998	8,669,165
Restricted:			
Trustee Funds	<u>10,252</u>	<u>2,172,377</u>	<u>2,182,629</u>
	<u>(\$931,561)</u>	<u>\$10,829,375</u>	<u>\$9,897,814</u>

New Jersey Cash Management Fund

All investments in the Fund are governed by the regulations of the Investment Council, which prescribe specific standards designed to insure the quality of investments and to minimize the risks related to investments. In all the years of the Division of Investment's existence, the Division has never suffered a default of principal or interest on any short-term security held by it due to the bankruptcy of a securities issuer; nevertheless, the possibility always exists, and for this reason a reserve is being accumulated as additional protection for the "Other-than-State" participants. In addition to the Council regulations, the Division sets further standards for specific investments and monitors the credit of all eligible securities issuers on a regular basis.

As of October 31, 2020, the Authority had \$10,829,375 on deposit with the New Jersey Cash Management Fund.

The carrying amount of the Authority's cash and cash equivalents at October 31, 2020 was \$9,897,814 and the bank balance was \$10,869,758. Of this amount, \$10,829,375 in the New Jersey Cash Management Fund is not covered by either the federal depository insurance or the collateral pool maintained by the banks as required by New Jersey Statutes.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

NOTE 4. INVESTMENTS

The Authority's investment policy permits the investing of funds in the following types of investments:

- (a) Any direct and general obligations of the United States of America.
- (b) Negotiable or nonnegotiable certificates of deposit as defined under "Investment Obligations" of the General Bond Resolution.
- (c) Other investments, as defined in the Authority's Bond Resolution.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law and the Authority's Bond Resolution limit the type of investments made by the Authority as described above.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority's investment policy permits the investing of funds in the types of investments described above as defined by the Authority's Bond Resolution.

As of October 31, 2020, the Authority had the following investments:

Investment Type	Average Credit/Quality Ratings	Face Amount	Carrying Amount	Investment Maturities (in Years)		
				<u>≤1</u>	<u>1-5</u>	<u>6-10</u>
U.S. Treasury Bills	AA+	\$ 26,200	\$ 26,014	\$ 26,014		
FNMA		255,000	250,442	250,442		
Fed. Home Loan Bank		<u>40,000</u>	<u>39,521</u>	<u>39,521</u>		
		<u>\$321,200</u>	<u>\$315,977</u>	<u>\$315,977</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

NOTE 5. PLANT AND EQUIPMENT

Plant and equipment are depreciated using the straight-line method over estimated useful lives of 40 years for the interceptor. Activity for the Authority's plant and equipment is summarized below:

	Balance 10/31/19	Increases	Decreases	Balance 10/31/20
Capital Assets, Not Being Depreciated:				
Depreciated:				
Construction in Progress	<u>\$534,225</u>	<u>\$1,182,690</u>	<u>\$</u>	<u>\$1,716,915</u>
Total Capital Assets, Not Being Depreciated	<u>534,225</u>	<u>1,182,690</u>	<u>—</u>	<u>1,716,915</u>
Capital Assets, Being Depreciated:				
Interceptor	<u>13,937,885</u>	<u>—</u>	<u>—</u>	<u>13,937,885</u>
Total Capital Assets, Being Depreciated	<u>13,937,885</u>	<u>—</u>	<u>—</u>	<u>13,937,885</u>
Less: Accumulated Depreciation:				
Interceptor	<u>(8,473,761)</u>	<u>(348,447)</u>	<u>—</u>	<u>(8,822,208)</u>
Total Accumulated Depreciation	<u>(8,473,761)</u>	<u>(348,447)</u>	<u>—</u>	<u>(8,822,208)</u>
Total Capital Assets, Being Depreciated, Net	<u>5,464,124</u>	<u>(348,447)</u>	<u>—</u>	<u>5,115,677</u>
Capital Assets, Net	<u>\$5,998,349</u>	<u>\$834,243</u>	<u>\$</u>	<u>\$6,832,592</u>
	Balance 10/31/18	Increases	Decreases	Balance 10/31/19
Capital Assets, Not Being Depreciated:				
Depreciated:				
Construction in Progress	<u>\$369,275</u>	<u>\$164,950</u>	<u>\$</u>	<u>\$534,225</u>
Total Capital Assets, Not Being Depreciated	<u>369,275</u>	<u>164,950</u>	<u>—</u>	<u>534,225</u>
Capital Assets, Being Depreciated:				
Interceptor	<u>13,937,885</u>	<u>—</u>	<u>—</u>	<u>13,937,885</u>
Total Capital Assets, Being Depreciated	<u>13,937,885</u>	<u>—</u>	<u>—</u>	<u>13,937,885</u>
Less: Accumulated Depreciation:				
Interceptor	<u>(8,125,314)</u>	<u>(348,447)</u>	<u>—</u>	<u>(8,473,761)</u>
Total Accumulated Depreciation	<u>(8,125,314)</u>	<u>(348,447)</u>	<u>—</u>	<u>(8,473,761)</u>
Total Capital Assets, Being Depreciated, Net	<u>5,812,571</u>	<u>(348,447)</u>	<u>—</u>	<u>5,464,124</u>
Capital Assets, Net	<u>\$6,181,846</u>	<u>(\$183,497)</u>	<u>\$</u>	<u>\$5,998,349</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

NOTE 6. PREMIUM ON BONDS PAYABLE

The Authority received premiums of \$225,574 in connection with the issuance of the Sewer Revenue Refunding Bonds (Series 2012 N) and \$49,656 in connection with the issuance of the Series 2015A-1 NJ Environmental Infrastructure Trust bonds. This premium is being amortized over the life of the bonds using the straight-line method. The unamortized balance of this premium is shown on the Statement of Net Position as a Deferred Inflow of Resources.

NOTE 7. BONDS PAYABLE

On September 6, 2012, the Authority issued \$4,195,000 of Sewer Revenue Refunding Bonds (2012 Series N). The Bonds bear interest from 3.00% to 4.00% depending upon their maturity and have a final maturity of December 1, 2021. The bonds yields range from 1.100% to 2.720% providing a net original issuance premium of \$225,574 over the \$4,195,000 par amount of the Bonds and an underwriter's discount of \$25,170 yielding net proceeds of \$4,395,404.

The proceeds of the 2012 Series N Bonds have been used to currently refund all of the \$475,000 aggregate outstanding principle amount of the Authority's Sewer Revenue Bonds (1996 Series L) and all of the \$4,020,000 aggregate principal amount of the Authority's callable Sewer Revenue Refunding Bonds (2002 Series M) and pay the costs and expenses in connection with the issuance of the Bonds. The refunding resulted in a deferred loss on the refunding (difference between the reacquisition price and the net carrying amount of the old debt) of \$796,364 including \$555,244 of unamortized difference related to the 2002 defeasance transaction described above. This difference, reported in the accompanying financial statements as a deferred outflow of resources, is being amortized over the life of the bonds using the straight-line method.

On May 27, 2015, the Authority issued \$1,225,176 Subordinate Bonds Series 2015A-1 and \$390,000 Subordinate Bonds Series 2015B-1 to the State of New Jersey Environmental Infrastructure Trust. The Series 2015A-1 and 2015B-1 Bonds were issued to evidence a loan from the New Jersey Environmental Infrastructure Trust, and a 0% loan from the State of New Jersey. The bonds were issued to make various capital improvements to the Authority's wastewater system.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

NOTE 7. BONDS PAYABLE, (continued)

The following is a summary of the Authority's long-term debt transactions for the fiscal years ended October 31, 2020 and 2019:

	Principal Balance <u>10/31/19</u>	Issued <u>FY 2020</u>	Refunded/ Retired <u>FY 2020</u>	Balance <u>10/31/20</u>	Principal Amount Due Within <u>One Year</u>
2012 Series N	\$575,000	\$	\$185,000	\$390,000	\$190,000
2015 Series A-1	984,518		65,635	918,883	65,635
2015 Series B-1	<u>330,000</u>	<u> </u>	<u>15,000</u>	<u>315,000</u>	<u>15,000</u>
	<u>\$1,889,518</u>	<u>\$</u>	<u>\$265,635</u>	<u>\$1,623,883</u>	<u>\$270,635</u>

	Principal Balance <u>10/31/18</u>	Issued <u>FY 2019</u>	Refunded/ Retired <u>FY 2019</u>	Balance <u>10/31/19</u>	Principal Amount Due Within <u>One Year</u>
2012 Series N	\$750,000	\$	\$175,000	\$575,000	\$185,000
2015 Series A-1	1,050,152		65,634	984,518	65,635
2015 Series B-1	<u>345,000</u>	<u> </u>	<u>15,000</u>	<u>330,000</u>	<u>15,000</u>
	<u>\$2,145,152</u>	<u>\$</u>	<u>\$255,634</u>	<u>\$1,889,518</u>	<u>\$265,635</u>

As of October 31, 2020 and 2019, the Authority had the following principal amounts of debt outstanding:

	Interest <u>Rate</u>	Maturity <u>Date</u>	Original Issue <u>Amount</u>	<u>2020</u>	<u>2019</u>
2012 Series N	3.00%-4.00%	12/01/2021	\$4,195,000	\$390,000	\$575,000
2015 Series A-1	0%	08/01/2034	1,225,176	918,883	984,518
2015 Series B-1	4.00%-5.00%	08/01/2034	390,000	<u>315,000</u>	<u>330,000</u>
				<u>\$1,623,883</u>	<u>\$1,889,518</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

NOTE 7. BONDS PAYABLE, (continued)

Net interest expense on bonds, including amortization of deferred losses on refundings, is comprised of the following:

	<u>2020</u>	<u>2019</u>
2012 Series N Bonds	\$16,216	\$23,584
2015 Series B-1 Bonds	<u>14,204</u>	<u>14,958</u>
	<u>30,420</u>	<u>38,542</u>
Amortization of Deferred Losses/Gains		
Resulting from Refunding Transactions:		
2012 Defeasance of Series 1996 L and 2002 M	86,876	86,876
Amortization of Bond Premium:		
2012 Series N	(24,608)	(24,608)
2015 Series A-1/B-1	<u>(2,614)</u>	<u>(2,614)</u>
Total Interest Expense (Net)	<u>\$90,074</u>	<u>\$98,196</u>

Aggregate debt service requirements to maturity, including interest expense, are as follows:

<u>Year Ending</u> <u>October 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$270,634	\$25,550	\$296,184
2022	285,635	17,000	302,635
2023	85,634	12,000	97,634
2024	85,634	11,000	96,634
2025	85,634	10,000	95,634
2026	85,634	9,000	94,634
2027	85,634	8,000	93,634
2028	90,635	7,200	97,835
2029	90,635	6,200	96,835
2030	90,635	5,200	95,835
2031	90,635	4,200	94,835
2032	90,635	3,200	93,835
2033	95,634	2,200	97,834
2034	<u>90,635</u>	<u>1,000</u>	<u>91,635</u>
	<u>\$1,623,883</u>	<u>\$121,750</u>	<u>\$1,745,633</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

NOTE 8. NET ASSETS – RESTRICTED AND UNRESTRICTED

The Authority's net position include the following reserves, each of which is fully funded with the trustee, and unrestricted net position:

	<u>2020</u>	<u>2019</u>
Invested in Capital Assets -		
Net of Related Debt	<u>\$4,914,155</u>	<u>\$4,190,671</u>
Restricted:		
Bond Reserve Fund	208,000	208,000
Renewal and Replacement Fund	175,000	175,000
Debt Service Reserve Fund	174,167	169,583
Operating Reserve Fund	1,192,500	1,147,500
Unexpended Construction funds	<u>748,610</u>	<u>1,604,912</u>
Subtotal Restricted	<u>2,498,277</u>	<u>3,304,995</u>
Unrestricted:		
Designated	4,181,755	3,906,755
Undesignated	<u>3,821,643</u>	<u>3,298,491</u>
Subtotal Unrestricted	<u>8,003,398</u>	<u>7,205,246</u>
	<u>\$15,415,830</u>	<u>\$14,700,912</u>

NOTE 9. INVESTMENT IN FORWARD DELIVERY AGREEMENTS

On April 27, 2000, the Pequannock River Basin Regional Sewerage Authority entered into two investment agreements with First Union National Bank (currently, Wells Fargo) as "Provider" and with First Union National Bank (currently, US Bank) as "Trustee" for the "Debt Service Reserve Forward Delivery Agreement" and the "Debt Service Forward Delivery Agreement".

Under the Debt Service Reserve Forward Delivery Agreement, "DSRF Agreement", the Authority invested the proceeds of funds available within the Bond Reserve Fund (i.e. the annual Bond Reserve Requirement) in return for a \$75,000 lump sum payment and a net guaranteed investment return of 5.86% through the term of the agreement on December 1, 2021.

Under the Debt Service Forward Delivery Agreement, "DSF Agreement", the Authority invested dedicated cash flows for the principal and the interest payments on the 1992 Series F Sewer Revenue Refunding Bonds to the Provider in exchange for a guaranteed investment return of 6.54% through the maturity of the agreement on December 1, 2021.

All funds made available to the Provider are fully collateralized by U.S. Government Securities deposited with the Trustee.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

NOTE 9. INVESTMENT IN FORWARD DELIVERY AGREEMENTS, (continued)

Effective December 2, 2002, the First Amendment to the Debt Service Reserve Forward Delivery Agreement and the First Amendment to the Debt Service Forward Delivery Agreement between the Authority and Wachovia Securities Group (the "Provider") (currently, Wells Fargo) modified the terms of the respective April 27, 2000 Agreements to reflect the modified debt service repayment schedule resulting from the December 2, 2002 issuance of the Sewer Revenue Refunding Bonds (2002 Series M).

Simultaneously with the issuance of the 2012 Series N Refunding Bonds, the Forward Delivery Agreements/Guaranteed Investment Contracts were amended through the Second Amendment to the Debt Service Reserve Forward Delivery Agreement and the Second Amendment to the Debt Service Forward Delivery Agreement between and among the Authority, Wells Fargo, NA and US Bank, NA. The previously guaranteed interest rates were not amended. The Guaranteed Investment Contracts will continue to earn a net of 5.86% on the DSRF and 6.54% on the Bond Service Fund (DSF). However, since the DSRF arbitrage yield was lowered to 1.656503% as a result of the refunding, the investment income earned on the DSRF balances will be subject to substantially higher rebates due to the Internal Revenue Service in future years. The DSF cash flows are not subject to rebate or yield restrictions.

Effective September 26, 2013, the Authority entered into the Third Amendment to the Debt Service Forward Delivery Agreement between and among Wells Fargo NA, US Bank NA and the Authority (the "Third Amendment").

The Third Amendment resolved an outstanding issue between the Authority and Wells Fargo on investments due under the Forward Delivery Agreement for the months of June, July, August and September of 2013, during which time the principal amounts residing within the Authority's Forward Delivery account remained uninvested. As of October 1, 2014, the principal amount of \$302,500 along with ongoing deposits of principal and interest were and will continue to be invested at the 6.54% guaranteed investment yield in accordance with the original Forward Delivery Agreement.

NOTE 10. SHARED SERVICES AGREEMENT – BOROUGH OF BUTLER

On December 6, 2017, by Resolution No. R-17-12-6, the Authority established the position of Authority Administrator. Concurrently, by Resolution No. R-17-12-7, the Kelly Engineering contract was amended to provide reimbursement to the Authority by Kelly Engineering for salary costs related to the Authority Administrator position.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

NOTE 10. SHARED SERVICES AGREEMENT – BOROUGH OF BUTLER, (continued)

On January 17, 2018, by Resolution No. R-18-1-4, the Authority approved a Shared Services Agreement by and between the Borough of Butler and the Pequannock River Basin Regional Sewerage Authority (the “Agreement”).

Under the Agreement dated January 18, 2018, the Borough of Butler consented to provide the services of a part time employee for Year 1 and Year 2 of the Agreement and a full time employee in Year 3 for a total 10 year term to serve as Authority Administrator.

The Agreement provides that the Borough of Butler will retain the Authority Administrator as an employee of the Borough. The Agreement further provides that the Authority will reimburse the Borough for all expenses incurred related to the Authority Administrator position.

NOTE 11. COMMITMENTS AND CONTINGENCIES

The Authority’s management and attorney has informed us that they are unaware of any other commitments and contingencies that would have a material effect on the financial statements.

NOTE 12. DESIGNATION OF UNRESTRICTED NET POSITION

The Authority's Unrestricted Net Position – Designated at October 31, 2020 and 2019 includes the following amounts:

<u>Purpose</u>	<u>2020</u>	<u>2019</u>
Capital Reserve	\$3,259,729	\$2,984,729
Operating Reserve	550,245	550,245
Bond Service Reserve	211,000	211,000
Insurance Reserve	20,000	20,000
TBSA User Charge Reserve	97,708	97,708
Series 2012 N Arbitrage Rebate Reserve	<u>43,073</u>	<u>43,073</u>
	<u>\$4,181,755</u>	<u>\$3,906,755</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2020 AND 2019

NOTE 13. FEDERAL ARBITRAGE REGULATIONS

The Authority is subject to Section 148 of the Internal Revenue Code as it pertains to the arbitrage rebate on all tax-exempt obligations, both long and short-term debt. Under the 1986 Tax Reform Act, the Internal Revenue Service (IRS) required that all excess earnings from investment proceeds be rebated to the IRS. Arbitrage, for purposes of these regulations, is defined as the difference between the yield on the investment and the yield on the obligations issued. If there are excess earnings, this amount may be required to be rebated to the IRS. At October 31, 2020, the Authority had net position of \$43,073 designated for estimated arbitrage earnings due to the IRS.

NOTE 14. SUBSEQUENT EVENTS

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

The Authority has evaluated subsequent events through February 1, 2021, the date which the financial statements were available to be issued and no additional items were noted for disclosure.

SCHEDULE 1

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND CASH EQUIVALENTS
UNRESTRICTED OPERATING ACCOUNT

CASH AND CASH EQUIVALENTS -		
NOVEMBER 1, 2019		\$ <u>(935,392)</u>
Cash Receipts:		
Transfer from:		
Revenue Account		<u>4,078,703</u>
TOTAL CASH AND CASH EQUIVALENTS AVAILABLE		3,143,311
Cash Disbursements:		
Operations	\$ 4,040,907	
Accounts Payable	<u>56,384</u>	
		<u>4,097,291</u>
CASH AND CASH EQUIVALENTS -		
OCTOBER 31, 2020		\$ <u><u>(953,980)</u></u>
<u>Analysis of Balance:</u>		
Unrestricted		\$ <u><u>(953,980)</u></u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN CASH,
CASH EQUIVALENTS AND INVESTMENTS
TRUSTEE RESTRICTED AND UNRESTRICTED ACCOUNTS

	<u>Revenue Fund</u>	<u>General Fund</u>	<u>Bond Service Fund</u>	<u>2012 Series N Interest</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, NOVEMBER 1, 2019	<u>\$ 4,317,149</u>	<u>\$ 4,737,833</u>	<u>\$ 213</u>	<u>\$ 5,402</u>
<u>CASH RECEIPTS:</u>				
Interest on Investments	28,908	39,610	1	197
Service Contracts-Municipal	5,135,119			
Other	8,270			
Transfer From:				
Revenue Fund		275,000		17,382
General Fund				
Bond Reserve Fund	13,177			
	<u>5,185,474</u>	<u>314,610</u>	<u>1</u>	<u>17,579</u>
<u>CASH DISBURSEMENTS:</u>				
Bond Principal				19,300
Interest on Bonds				
Project Expenses				
Transfers To:				
Operating Account	4,078,703			
Revenue Fund				
Bond Reserve Fund	16			
General Fund	275,000			
NJEIT Debt Service Fund		94,424		
Bond Service Fund (Principal)	185,215			
Bond Service Fund (Interest)	17,382			
	<u>4,556,316</u>	<u>94,424</u>	<u>-</u>	<u>19,300</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, OCTOBER 31, 2020	<u>\$ 4,946,307</u>	<u>\$ 4,958,019</u>	<u>\$ 214</u>	<u>\$ 3,681</u>
<u>Analysis of Balance:</u>				
Restricted	\$ 1,240,137	\$ -	\$ 214	\$ 3,681
Unrestricted	3,706,170	4,958,019	-	-
	<u>\$ 4,946,307</u>	<u>\$ 4,958,019</u>	<u>\$ 214</u>	<u>\$ 3,681</u>
 Cash and Cash Equivalents	 \$ 4,946,307	 \$ 4,958,019	 \$ 214	 \$ 138
Investments	-	-	-	3,543
	<u>\$ 4,946,307</u>	<u>\$ 4,958,019</u>	<u>\$ 214</u>	<u>\$ 3,681</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN CASH,
CASH EQUIVALENTS AND INVESTMENTS
TRUSTEE RESTRICTED AND UNRESTRICTED ACCOUNTS

	<u>2012 Series N Principal</u>	<u>Bond Reserve Fund</u>	<u>Bond Reserve Forward Delivery</u>	<u>Renewal and Replacement Fund</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, NOVEMBER 1, 2019	\$ 110,149	\$ 613	\$ 210,965	\$ 177,892
<u>CASH RECEIPTS:</u>				
Interest on Investments	4,036	5	10,197	1,465
Service Contracts-Municipal				
Other				
Transfer From:				
Revenue Fund	185,215		16	
General Fund				
Bond Reserve Fund				
	<u>189,251</u>	<u>5</u>	<u>10,213</u>	<u>1,465</u>
<u>CASH DISBURSEMENTS:</u>				
Bond Principal	185,000			
Interest on Bonds				
Project Expenses				
Transfers To:				
Operating Account				
Revenue Fund			13,177	
Bond Reserve Fund				
General Fund				
NJEIT Debt Service Fund				
Bond Service Fund (Principal)				
Bond Service Fund (Interest)				
	<u>185,000</u>	<u>-</u>	<u>13,177</u>	<u>-</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, OCTOBER 31, 2020	\$ 114,400	\$ 618	\$ 208,001	\$ 179,357
<u>Analysis of Balance:</u>				
Restricted	\$ 114,400	\$ -	\$ 208,000	\$ 175,000
Unrestricted	<u>-</u>	<u>618</u>	<u>1</u>	<u>4,357</u>
	<u>\$ 114,400</u>	<u>\$ 618</u>	<u>\$ 208,001</u>	<u>\$ 179,357</u>
 Cash and Cash Equivalents	 \$ 9,524	 \$ 618	 \$ 443	 \$ 179,357
Investments	<u>104,876</u>	<u>-</u>	<u>207,558</u>	<u>-</u>
	<u>\$ 114,400</u>	<u>\$ 618</u>	<u>\$ 208,001</u>	<u>\$ 179,357</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN CASH,
CASH EQUIVALENTS AND INVESTMENTS
TRUSTEE RESTRICTED AND UNRESTRICTED ACCOUNTS

	<u>Const. Fund</u> <u>2013 Project</u>	<u>NJEIT Debt</u> <u>Service</u>	<u>Total</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, NOVEMBER 1, 2019	\$ 1,604,912	\$ 8,576	\$ 11,173,704
<u>CASH RECEIPTS:</u>			
Interest on Investments	12,950	589	97,958
Service Contracts-Municipal			5,135,119
Other			8,270
Transfer From:			
Revenue Fund			477,613
General Fund		94,424	94,424
Bond Reserve Fund			13,177
	<u>12,950</u>	<u>95,013</u>	<u>5,826,561</u>
<u>CASH DISBURSEMENTS:</u>			
Bond Principal		80,634	265,634
Interest on Bonds		14,391	33,691
Project Expenses	869,252		869,252
Transfers To:			
Operating Account			4,078,703
Revenue Fund			13,177
Bond Reserve Fund			16
General Fund			275,000
NJEIT Debt Service Fund			94,424
Bond Service Fund (Principal)			185,215
Bond Service Fund (Interest)			17,382
	<u>869,252</u>	<u>95,025</u>	<u>5,832,494</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, OCTOBER 31, 2020	\$ 748,610	\$ 8,564	\$ 11,167,771
<u>Analysis of Balance:</u>			
Restricted	\$ 748,610	\$ 8,564	\$ 2,498,606
Unrestricted	-	-	8,669,165
	<u>\$ 748,610</u>	<u>\$ 8,564</u>	<u>\$ 11,167,771</u>
Cash and Cash Equivalents	\$ 748,610	\$ 8,564	\$ 10,851,794
Investments	-	-	315,977
	<u>\$ 748,610</u>	<u>\$ 8,564</u>	<u>\$ 11,167,771</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET
YEAR ENDED OCTOBER 31, 2020
WITH COMPARATIVE ACTUAL AMOUNTS
FOR THE YEAR ENDED OCTOBER 31, 2019

	<u>2020 Budget</u>	<u>2020 Budget After Modifications</u>	<u>2020 Actual</u>	<u>2019 Actual</u>
<u>REVENUE:</u>				
Service Contracts with Municipalities	\$ 5,420,000	\$ 5,135,118	\$ 5,135,118	\$ 5,320,000
Interest on Investments	50,000	50,000	97,795	239,051
Application Fees	1,000	1,000	500	500
TOTAL OPERATING REVENUES	<u>5,471,000</u>	<u>5,186,118</u>	<u>5,233,413</u>	<u>5,559,551</u>
<u>EXPENSES:</u>				
Operations and Maintenance Expenses:				
Professional Services	128,000	128,000	26,966	61,918
Contract Services	377,000	377,000	89,024	156,094
State and Federal Compliance	10,000	10,000	5,085	
Two Bridges Sewerage Authority	2,500,000	2,215,118	2,274,778	2,402,101
Total Operating Expenses	<u>3,015,000</u>	<u>2,730,118</u>	<u>2,395,853</u>	<u>2,620,113</u>
Administrative and General Expenses:				
Professional Services	305,000	305,000	356,939	290,118
Insurance	25,500	25,500	24,385	23,701
Office Expenses	15,000	15,000	13,507	11,947
Professional Expenses	9,000	9,000	6,414	7,624
Financial Services	8,500	8,500	3,670	7,026
Two Bridges Sewerage Authority	272,000	272,000	229,437	231,383
Total Administrative and General Expenses	<u>635,000</u>	<u>635,000</u>	<u>634,352</u>	<u>571,799</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET
YEAR ENDED OCTOBER 31, 2020
WITH COMPARATIVE ACTUAL AMOUNTS
FOR THE YEAR ENDED OCTOBER 31, 2019

SCHEDULE 3
Page 2 of 2

	<u>2020 Budget</u>	<u>2020 Budget After Modifications</u>	<u>2020 Actual</u>	<u>2019 Actual</u>
Debt Service:				
Bond Principal	815,635	815,635	815,635	805,634
Interest on Bonds	605,365	605,365	530,189	550,224
Total Debt Service	<u>1,421,000</u>	<u>1,421,000</u>	<u>1,345,824</u>	<u>1,355,858</u>
Reserves:				
Renewal & Replacement Fund	125,000	125,000	125,000	
Capital Reserve Fund	275,000	275,000	275,000	450,000
Total Reserves	<u>400,000</u>	<u>400,000</u>	<u>400,000</u>	<u>450,000</u>
TOTAL COSTS FUNDED BY OPERATING REVENUE	<u>5,471,000</u>	<u>5,186,118</u>	<u>4,776,029</u>	<u>4,997,770</u>
EXCESS	<u>\$</u>	<u>\$</u>	<u>\$ 457,384</u>	<u>\$ 561,781</u>

Reconciliation of Budgetary Basis

To Change in Net Position:

Depreciation Expense	(348,447)	(348,447)
Amortization of Bond Premium	27,222	27,222
Amortization of Deferred Gain/Loss on Early Extinguishment of Debt	(86,876)	(86,876)
Renewal & Replacement Appropriation	125,000	
Capital Reserve Fund Appropriation	275,000	450,000
TBSA Debt Service Principal	(550,000)	(550,000)
Bond Principal Payments	815,635	805,634
Total Adjustments	<u>257,534</u>	<u>297,533</u>
Change in Net Position	<u>714,918</u>	<u>859,314</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF BONDS PAYABLE
OCTOBER 31, 2020

	Original		Interest Rate	Maturities		Balance Nov. 1, 2019	Issued	Redeemed or Retired	Balance Oct. 31, 2020
	Date	Amount		Date	Amount				
2012 Series N	9/6/2012	\$ 4,195,000	4.000%	12/1/2020	190,000				
			4.000%	12/1/2021	200,000				
						575,000		185,000	390,000
New Jersey Environmental Infrastructure Trust - Series 2015A	5/28/2015	\$ 390,000	5.000%	8/1/2021	15,000				
			5.000%	8/1/2022	20,000				
			5.000%	8/1/2023	20,000				
			5.000%	8/1/2024	20,000				
			5.000%	8/1/2025	20,000				
			5.000%	8/1/2026	20,000				
			4.000%	8/1/2027	20,000				
			4.000%	8/1/2028	25,000				
			4.000%	8/1/2029	25,000				
			4.000%	8/1/2030	25,000				
			4.000%	8/1/2031	25,000				
			4.000%	8/1/2032	25,000				
			4.000%	8/1/2033	30,000				
			4.000%	8/1/2034	25,000				
						330,000		15,000	315,000

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF BONDS PAYABLE
OCTOBER 31, 2020

	<u>Original</u>		<u>Interest</u>	<u>Maturities</u>		<u>Balance</u>	<u>Issued</u>	<u>Redeemed or</u>	<u>Balance</u>
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Amount</u>	<u>Nov. 1, 2019</u>			<u>Oct. 31, 2020</u>
State of NJ - Fund Loan - Series 2015A	5/28/2015	1,225,176	0.000%	2/1/2021	21,879				
			0.000%	8/1/2021	43,756				
			0.000%	2/1/2022	21,879				
			0.000%	8/1/2022	43,756				
			0.000%	2/1/2023	21,878				
			0.000%	8/1/2023	43,756				
			0.000%	2/1/2024	21,879				
			0.000%	8/1/2024	43,756				
			0.000%	2/1/2025	21,878				
			0.000%	8/1/2025	43,756				
			0.000%	2/1/2026	21,879				
			0.000%	8/1/2026	43,756				
			0.000%	2/1/2027	21,878				
			0.000%	8/1/2027	43,756				
			0.000%	2/1/2028	21,879				
			0.000%	8/1/2028	43,756				
			0.000%	2/1/2029	21,878				

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF BONDS PAYABLE
OCTOBER 31, 2020

	<u>Original</u>		<u>Interest</u> <u>Rate</u>	<u>Maturities</u>		<u>Balance</u> <u>Nov. 1, 2019</u>	<u>Issued</u>	<u>Redeemed or</u> <u>Retired</u>	<u>Balance</u> <u>Oct. 31, 2020</u>
	<u>Date</u>	<u>Amount</u>		<u>Date</u>	<u>Amount</u>				
State of NJ - Fund Loan - Series 2015A	5/28/2015	1,225,176	0.000%	8/1/2029	43,756				
			0.000%	2/1/2030	21,879				
			0.000%	8/1/2030	43,756				
			0.000%	2/1/2031	21,878				
			0.000%	8/1/2031	43,756				
			0.000%	2/1/2032	21,879				
			0.000%	8/1/2032	43,756				
			0.000%	2/1/2033	21,878				
			0.000%	8/1/2033	43,756				
			0.000%	2/1/2034	21,878				
			0.000%	8/1/2034	43,756				
						984,518		65,635	918,883
GRAND TOTALS						1,889,518	-	265,635	1,623,883
Analysis of Balance:									
Current Portion						265,635			270,635
Long-Term Portion						1,623,883			1,353,248
						1,889,518			1,623,883

ROSTER OF OFFICIALS

The following officials were in office during the period under audit:

Raymond Verdonik	Chairman (1), (2)	Borough of Butler
Robert Voorman	Vice Chairman (1), (2)	Borough of Bloomingdale
Edwin Howard	Secretary (1)	Borough of Bloomingdale
James P. Lampmann	Treasurer/Asst. Secretary (1)	Borough of Butler
E. J. Gall	Commissioner (1)	Borough of Kinnelon
Paul Metcalfe	Commissioner (1)	Borough of Kinnelon
Kelly Engineering	Consulting Engineer	
Maraziti & Falcon, LLP	General Counsel	
Wielkotsz & Company, LLC	Auditors	
U.S. Bank	Trustee	
Hawkins, Delafield & Wood	Bond Counsel	

- (1) All Authority Commissioners are covered by an Employment Practices Liability Policy in the amount of \$1,000,000 per occurrence/\$3,000,000 aggregate issued by the Philadelphia Indemnity Insurance Company expiring June 23, 2021.
- (2) Also serves as PRBRSA Member on the Two Bridges Sewerage Authority.



WIELKOTZ & COMPANY ^{LLC}

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN D. WIELKOTZ, CPA, RMA, PSA
MATTHEW B. WIELKOTZ, CPA, PSA
PAUL J. CUVA, CPA, RMA, PSA
JAMES J. CERULLO, CPA, RMA, PSA
THOMAS M. FERRY, CPA, RMA, PSA

HEADQUARTERS
401 WANAQUE AVENUE
POMPTON LAKES, NEW JERSEY 07442
(973)-835-7900
OFFICE@W-CPA.COM

ROCKAWAY OFFICE
100 ENTERPRISE DRIVE
SUITE 301
ROCKAWAY, NEW JERSEY 07866
(973)-835-7900

**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**

The Honorable Chairman and Members of the
Pequannock River Basin Regional Sewerage Authority
Butler, NJ 07405

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 Pequannock River Basin Regional Sewerage Authority, as of and for the year ended October 31, 2020, and the related notes to the financial statements, and have issued our report thereon dated February 1, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Pequannock River Basin Regional 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 Pequannock River Basin Regional Sewerage Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Pequannock River Basin Regional Sewerage Authority's internal control.

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



The Honorable Chairman and Members of the
Pequannock River Basin Regional Sewerage Authority
Page 2.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Pequannock River Basin Regional 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

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

Wielkatz & Company, LLC

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

February 1, 2021

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY

GENERAL COMMENTS

N.J.S.A. 40A:11-4 states "Every contract awarded by the contracting agent for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefor, except as is provided otherwise in this act or specifically by any other law."

The governing body has the responsibility of determining whether the expenditures in any category will exceed the statutory thresholds 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. No violations were discovered.

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.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
COMMENTS AND RECOMMENDATIONS
YEAR ENDED OCTOBER 31, 2020

COMMENTS

There were no comments for the fiscal year ended October 31, 2020.

RECOMMENDATIONS

There were no recommendations for the fiscal year ended October 31, 2020.

We wish to thank Pequannock River Basin Regional Sewerage Authority for their cooperation during the performance of our audit.

Very truly yours,

Wielkatz & Company, LLC

WIELKOTZ & COMPANY, LLC
Certified Public Accountants