

**PEQUANNOCK RIVER BASIN
REGIONAL SEWERAGE AUTHORITY**

Financial Statements

Years Ended October 31, 2019 and 2018

(With Independent Auditors' Report Thereon)

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY

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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, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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



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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pequannock River Basin Regional Sewerage Authority as of October 31, 2019 and 2018, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 December 16, 2019 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,

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

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

December 16, 2019

Required Supplementary Information

Management Discussion and Analysis

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2019 and 2018. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- The Authority's assets exceeded its liabilities by \$14,700,912 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$13,841,598.
- Total net position are comprised of the following:
 - (1) Capital assets, net of related debt, of \$4,190,671 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 \$3,304,995 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net position of \$7,205,246 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority decreased by \$289,945 to \$1,963,169 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)

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)**

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 \$14,700,912. This is a \$859,314 increase over the prior year's net position of \$13,841,598. 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 2019</u>	<u>FY 2018</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>FY 2017</u>
Current and Other Assets	10,580	9,767	813	8.32%	9,546
Capital Assets	5,998	6,182	(184)	(2.98)%	6,196
Deferred Outflow of Resources	<u>174</u>	<u>260</u>	<u>(86)</u>	(33.08)%	<u>347</u>
Total Assets and Deferred Outflows	<u>16,752</u>	<u>16,209</u>	<u>543</u>		<u>16,089</u>
Liabilities	1,963	2,253	(290)	(12.87)%	3,049
Deferred Inflows of Resources	<u>88</u>	<u>115</u>	<u>(27)</u>	(23.48)%	<u>142</u>
Total Liabilities and Deferred Inflows	<u>2,051</u>	<u>2,368</u>	<u>(317)</u>		<u>3,191</u>
Invested in Capital Assets, Net of Related Debt	4,191	4,137	54	1.31%	3,585
Restricted	3,305	1,613	1,692	104.90%	1,723
Unrestricted	<u>7,205</u>	<u>8,091</u>	<u>(886)</u>	(10.95)%	<u>7,590</u>
Net Position	<u>14,701</u>	<u>13,841</u>	<u>860</u>	6.21%	<u>12,898</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 \$859,314.

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

Net Position (Continued)

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

	<u>FY 2019</u>	<u>FY 2018</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>FY 2017</u>
Operating Revenues	5,320	5,300	20	0.38%	5,244
Non-Operating Revenues	<u>240</u>	<u>159</u>	<u>81</u>	50.94%	<u>83</u>
Total Revenues	<u>5,560</u>	<u>5,459</u>	<u>101</u>		<u>5,327</u>
Depreciation Expense	348	348	0	0.00%	348
Amortization	60	60	0	0.00%	60
Other Operating Expenses	3,192	2,997	195	6.51%	3,080
Other Non-Operating Expense	<u>1,100</u>	<u>1,111</u>	<u>(11)</u>	(0.99)%	<u>1,143</u>
Total Expenses	<u>4,700</u>	<u>4,516</u>	<u>184</u>		<u>4,631</u>
Change in Net Position	860	943	(83)	(8.80)%	696
Beginning Net Position	<u>13,841</u>	<u>12,898</u>	<u>943</u>	7.31%	<u>12,202</u>
Ending Net Position	<u>14,701</u>	<u>13,841</u>	<u>860</u>	6.21%	<u>12,898</u>

The Authority's Operating Revenues increased by \$20,000 to \$5,320,000 in 2019 from \$5,300,000 in 2018. Nonoperating Revenues increased by \$80,415 to \$239,551 from \$159,136 mainly due to an increase in application fees and 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)**

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>

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

The following table provides a 2018 budget comparison:

Budget vs. Actual FY 2018 (000's)			
	<u>Amended Budget</u>	<u>Actual</u>	<u>Difference</u>
Revenues:			
Net Position Appropriated	162	162	0
Operating	5,315	5,300	(15)
Non-Operating	<u> </u>	<u>159</u>	<u>159</u>
	<u>5,477</u>	<u>5,621</u>	<u>144</u>
Expenses:			
Operating	3,397	2,997	400
Capital Reserve	650	650	0
2012 Series N Reserve	30	30	0
Debt Service	<u>1,400</u>	<u>1,362</u>	<u>38</u>
	<u>5,477</u>	<u>5,039</u>	<u>438</u>
Income Before Depreciation and Amortization	<u>-0-</u>	<u>582</u>	<u>582</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 2019 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)**

**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	34.79%		\$650,573	\$650,573			
991,000	38.11%		712,657		\$712,657		
204,500	7.87%		147,169			\$147,169	
500,000	19.23%		359,601				\$359,601
2,600,000	100.00%	\$1,870,000	\$1,870,000	\$650,573	\$712,657	\$147,169	\$359,601

**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>
720,000	34.62%		\$988,747	\$988,747			
950,000	45.67%		1,304,335		\$1,304,335		
100,000	4.81%		137,374			\$137,374	
310,000	14.90%		425,544				\$425,544
2,080,000	100.00%	\$2,856,000	\$2,856,000	\$988,747	\$1,304,335	\$137,374	\$425,544

**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>
720,000	34.62%		\$205,643	\$205,643			
950,000	45.67%		271,280		\$271,280		
100,000	4.81%		28,571			\$28,571	
310,000	14.90%		88,506				\$88,506
2,080,000	100.00%	\$594,000	\$594,000	\$205,643	\$271,280	\$28,571	\$88,506

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

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

<u>Total Annual Charge</u>	<u>Total</u>	<u>Bloomington</u>	<u>Butler</u>	<u>Kinnelon</u>	<u>Riverdale</u>
	\$1,844,963	\$1,844,963			
	2,288,272		\$2,288,272		
	313,114			\$313,114	
	873,651				\$873,651
\$5,320,000	\$5,320,000	\$1,844,963	\$2,288,272	\$313,114	\$873,651

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

REVENUES

Total Annual Charges	\$5,320,000
Plus:	
Retained Earnings	0
Investment Income	18,000
Application Fees and Misc.	2,000
Interest: State Loan Bonds	0
TBSA Debt Service Credit	<u>0</u>

TOTAL FY 2019 BUDGETED REVENUES	<u>\$5,340,000</u>
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APPROPRIATIONS

Debt Service:

TBSA Contract Payments	\$1,120,000
Direct PRBRSA	300,000
Capital Reserve Fund	450,000
2012 Series N Reserve (BRR)	<u>0</u>
Total	1,870,000

Administrative:

TBSA Contract Payments	272,000
Direct PRBRSA	<u>322,000</u>
Total	594,000

Operation and Maintenance:

TBSA Contract Payments	2,520,000
Direct PRBRSA	206,000
System Improvements	150,000
Operating Reserve	<u> </u>
Total	2,876,000

TOTAL FY 2019 BUDGETED APPROPRIATIONS	<u>\$5,340,000</u>
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**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Debt Service Payable

At October 31, 2019, the Authority had outstanding bonds and loans payable in the principal amount of \$2,045,066. 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, 2019 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 2019, the Authority had invested \$14,472,110 in capital assets. The Authority's net plant and equipment at fiscal year-end was \$5,998,349. This is a \$183,497 decrease under last year's net plant, property and equipment of \$6,181,846. A summary of the Authority's capital assets is presented in the following table:

	Capital Assets (000's)		Dollar Change	
	<u>FY 2019</u>	<u>FY 2018</u>		<u>FY 2017</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>(8,474)</u>	<u>(8,125)</u>	<u>(349)</u>	<u>(7,777)</u>
	<u>5,464</u>	<u>5,813</u>	<u>(349)</u>	<u>6,161</u>
Construction in Progress	<u>534</u>	<u>369</u>	<u>165</u>	<u>35</u>
Net Capital Assets	<u>\$5,998</u>	<u>\$6,182</u>	<u>(\$184)</u>	<u>\$6,196</u>

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

Debt Service Payable

At October 31, 2019, the Authority had outstanding bonds and loans payable in the amount of \$1,889,518. The debt payments extend to December 1, 2034. Interest rates range from 0% to 5.00%.

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 (i.e., the flow contributions from the four towns); 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, 2019, the Capital Reserve Fund balance was \$3,259,728.69. To plan for system improvements and rehabilitation, the Authority plans to make yearly contributions to the Renewal and Replacement Fund. In FY 2019, the Renewal and Replacement Fund balance was \$177,613, which included a recent contribution of \$125,000.

Contacting the Authority

This financial report is designed to provide the Authority's Participants and the Borough of Riverdale, 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).

Financial Statements

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

EXHIBIT A
Page 1 of 2

	<u>2019</u>	<u>2018</u>
<u>CURRENT ASSETS:</u>		
Cash and Cash equivalents	\$ 6,929,882	7,824,094
Prepaid Expenses	331,749	313,964
Total Current Assets	<u>7,261,631</u>	<u>8,138,058</u>
<u>NON-CURRENT ASSETS:</u>		
Restricted:		
Cash and Cash equivalents	3,013,142	1,312,226
Investments	295,288	307,400
Accrued Interest Receivable	9,773	9,629
	<u>3,318,203</u>	<u>1,629,255</u>
Capital Assets:		
Plant, Property and Equipment:		
Interceptor	13,937,885	13,937,885
Less: Accumulated Depreciation	<u>(8,473,761)</u>	<u>(8,125,314)</u>
	5,464,124	5,812,571
Construction in Progress	534,225	369,275
Net Capital Assets	<u>5,998,349</u>	<u>6,181,846</u>
Total Non-current Assets	<u>9,316,552</u>	<u>7,811,101</u>
TOTAL ASSETS	<u>16,578,183</u>	<u>15,949,159</u>
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>		
Unamortized Loss on Refunding of Debt	<u>173,752</u>	<u>260,628</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 173,752</u>	<u>260,628</u>
<u>LIABILITIES:</u>		
Current Liabilities:		
Payable from Unrestricted Assets:		
Accounts Payable and Accrued Liabilities	\$ 56,385	46,631
	<u>56,385</u>	<u>46,631</u>

See accompanying Notes to the Financial Statements.

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

EXHIBIT A
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	<u>2019</u>	<u>2018</u>
<u>LIABILITIES (cont.):</u>		
Current Liabilities (cont.):		
Payable from Restricted Assets:		
Bonds Payable - Current Portion	265,635	255,634
Accounts Payable	4,058	45,018
Accrued Interest Payable	13,208	16,313
	<u>282,901</u>	<u>316,965</u>
Total Current Liabilities	<u>339,286</u>	<u>363,596</u>
Non-Current Liabilities:		
Sewer Revenue Bonds Payable	<u>1,623,883</u>	<u>1,889,518</u>
Total Non-Current Liabilities	<u>1,623,883</u>	<u>1,889,518</u>
TOTAL LIABILITIES	<u>1,963,169</u>	<u>2,253,114</u>
<u>DEFERRED INFLOWS OF RESOURCES:</u>		
Unamortized Bond Premium	<u>87,854</u>	<u>115,075</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>87,854</u>	<u>115,075</u>
<u>NET POSITION:</u>		
Invested in Capital Assets, net of Related Debt	4,190,671	4,137,229
Restricted:		
Bond Reserve	208,000	208,000
Renewal and Replacement	175,000	50,000
Debt Service Reserve	169,583	160,417
Operating Requirement	1,147,500	1,083,741
Construction Funds	1,604,912	110,784
Unrestricted		
Designated	3,906,755	5,131,755
Undesignated	3,298,491	2,959,672
TOTAL NET POSITION	<u>\$ 14,700,912</u>	<u>13,841,598</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>2019</u>	<u>2018</u>
<u>Operating Revenues:</u>		
Service Contracts with Municipalities	\$ 5,320,000	5,300,000
Total Operating Revenues	<u>5,320,000</u>	<u>5,300,000</u>
<u>Operating Expenses:</u>		
Cost of Providing Services	2,620,113	2,506,758
Administrative and General	571,799	489,726
Depreciation	<u>348,447</u>	<u>348,447</u>
Total Operating Expenses	<u>3,540,359</u>	<u>3,344,931</u>
Operating Income/(Loss)	<u>1,779,641</u>	<u>1,955,069</u>
<u>Non Operating Revenues (Expenses):</u>		
Interest Earned on Investments	239,051	156,586
Application Fees	500	2,550
Amortization of Bond Premiums	27,222	27,222
Two Bridges Sewerage Authority Debt		
Service Charges	(1,061,682)	(1,065,070)
Interest Expense	(38,542)	(46,331)
Amortization of Loss on Advance		
Refunding	<u>(86,876)</u>	<u>(86,876)</u>
Total Non-Operating Revenues (Expenses)	<u>(920,327)</u>	<u>(1,011,919)</u>
Change in Net Position	859,314	943,150
Net Position - Beginning	<u>13,841,598</u>	<u>12,898,448</u>
Net Position - Ending	<u>\$ 14,700,912</u>	<u>13,841,598</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
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	<u>2019</u>	<u>2018</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Cash Received from Customers	\$ 5,320,000	5,300,000
Other Operating Receipts	500	2,550
Cash Paid to Suppliers	(3,199,943)	(3,149,894)
Interest Received	238,907	161,731
Interest Paid	(41,647)	(49,351)
Net Cash Provided (Used) by Operating Activities	<u>2,317,817</u>	<u>2,265,036</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Sale/(Purchase) of Investments	12,112	(6,185)
Purchase of Property, Plant and Equipment	(205,909)	(301,940)
Net Cash Provided (Used) by Financing Activities	<u>(193,797)</u>	<u>(308,125)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Two Bridges Sewerage Authority Debt Service (net)	(1,061,682)	(1,065,070)
Bonds Retired	(255,634)	(250,634)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,317,316)</u>	<u>(1,315,704)</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	806,704	641,207
CASH AND CASH EQUIVALENTS- BEGINNING OF YEAR	<u>9,136,320</u>	<u>8,495,113</u>
CASH AND CASH EQUIVALENTS- END OF YEAR	<u>\$ 9,943,024</u>	<u>9,136,320</u>
Classified As:		
Unrestricted Assets	\$ 6,929,882	7,824,094
Restricted Assets	<u>3,013,142</u>	<u>1,312,226</u>
	<u>\$ 9,943,024</u>	<u>9,136,320</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>2019</u>	<u>2018</u>
OPERATING INCOME/(LOSS)	\$ 1,779,641	1,955,069
Adjustments to Reconcile Operating Income/(Loss) to		
Net Cash Provided by Operating Activities:		
Depreciation	348,447	348,447
Interest Income	239,051	156,586
Interest Expense	(38,542)	(46,331)
Other Income	500	2,550
(Increase)/Decrease in:		
Accrued Interest Receivable	(144)	5,145
Prepaid Expenses	(17,785)	13,830
(Decrease)/Increase in:		
Accounts Payable	9,754	(167,240)
Accrued Interest Payable	(3,105)	(3,020)
Total Adjustments	<u>538,176</u>	<u>309,967</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,317,817</u>	<u>2,265,036</u>

See accompanying Notes to the Financial Statements.

Notes to Financial Statements

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2019 AND 2018

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, 2019 AND 2018

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.

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.

During the years ended October 31, 2019 and 2018, the charges between Two Bridges Sewerage Authority and the Pequannock River Authority for providing services were as follows:

	<u>2019</u>	<u>2018</u>
Operations and Maintenance	\$2,402,101	\$2,278,122
Administrative Expenses	231,383	226,507
Two Bridges Debt Service	<u>1,061,682</u>	<u>1,065,070</u>
	<u>\$3,695,166</u>	<u>\$3,569,699</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;

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2019 AND 2018

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

- 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.

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, 2019 AND 2018

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, 2019 AND 2018

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, 2019 AND 2018

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
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Interest expense is capitalized on qualified projects, net of interest revenue earned on the proceeds, from the time of borrowing funds for the project until the completion of the project. Thus, during the construction of a qualified project, there would be no impact upon operating results for interest expense or income. Instead, the net interest cost would be added to the cost of the project.

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, 2019 AND 2018

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 June 2017, the Government Accounting Standards Board issued GASB Statement No. 87, Leases, which improves accounting and financial reporting for leases by governments. This Statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the fundamental principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The Authority is currently reviewing what effect, if any, this Statement may have on future financial statements. Currently, the Authority has no leases and does not believe this Statement will have any effect on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placement. The objective of this Statement is to improve consistency in the information that is disclosed in

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2019 AND 2018

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

L. Recent Accounting Pronouncements, (continued)

notes to government financial statements related to debt, including direct borrowings and direct placements, and to provide financial statement users with additional essential information about debt. This Statement is effective for reporting periods beginning after June 15, 2018. The Authority believes this may impact the disclosures relating to debt in the notes to the financial statements.

The Government Accounting Standards Board issued GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the end of a Construction*. The objectives of this Statement is to (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Authority does not believe that this Statement will have any effect on the financial statements.

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

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

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2019 AND 2018

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, 2019, \$0- of the Authority's bank balance of \$10,888,378 was exposed to custodial credit risk.

As of October 31, 2019, the book or carrying amount of the Authority's cash and cash equivalents is summarized as follows:

<u>Accounts</u>	<u>Money Market/ Checking Accounts</u>	<u>NJ Cash Management Fund</u>	<u>Total</u>
Unrestricted:			
Operating Account	\$(935,392)	\$	(\$935,392)
Trustee funds		7,865,274	7,865,274
Restricted:			
Trustee Funds	<u>43,567</u>	<u>2,969,575</u>	<u>3,013,142</u>
	<u>(\$891,825)</u>	<u>\$10,834,849</u>	<u>\$9,943,024</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2019 AND 2018

NOTE 3. CASH AND CASH EQUIVALENTS, (continued)

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, 2019, the Authority had \$10,834,849 on deposit with the New Jersey Cash Management Fund.

The carrying amount of the Authority's cash and cash equivalents at October 31, 2019 was \$9,943,024 and the bank balance was \$10,888,378. Of this amount, \$10,834,849 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.

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.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2019 AND 2018

NOTE 4. INVESTMENTS, (continued)

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, 2019, the Authority had the following investments:

Investment Type	Average Credit/Quality Ratings	Face Amount	Carrying Amount	Investment Maturities (in Years)		
				<1	1-5	6-10
U.S. Treasury Notes	Aaa	\$297,900	\$295,288	\$295,288	\$ -0-	\$ -0-
		<u>\$297,900</u>	<u>\$295,288</u>	<u>\$295,288</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

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 10/31/18	Increases	Decreases	Balance 10/31/19
Capital Assets, Not Being Depreciated:				
Depreciated:				
Construction in Progress	\$369,275	\$164,950	\$	\$534,225
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, 2019 AND 2018

NOTE 5. PLANT AND EQUIPMENT, (continued)

	Balance 10/31/17	Increases	Decreases	Balance 10/31/18
Capital Assets, Not Being Depreciated:				
Depreciated:				
Construction in Progress	<u>\$35,122</u>	<u>\$334,329</u>	<u>\$176</u>	<u>\$369,275</u>
Total Capital Assets, Not Being Depreciated	<u>35,122</u>	<u>334,329</u>	<u>176</u>	<u>369,275</u>
Capital Assets, Being Depreciated:				
Interceptor	<u>13,937,709</u>	<u>176</u>	<u>—</u>	<u>13,937,885</u>
Total Capital Assets, Being Depreciated	<u>13,937,709</u>	<u>176</u>	<u>—</u>	<u>13,937,885</u>
Less: Accumulated Depreciation:				
Interceptor	<u>(7,776,867)</u>	<u>(348,447)</u>	<u>—</u>	<u>(8,125,314)</u>
Total Accumulated Depreciation	<u>(7,776,867)</u>	<u>(348,447)</u>	<u>—</u>	<u>(8,125,314)</u>
Total Capital Assets, Being Depreciated, Net	<u>6,160,842</u>	<u>(348,271)</u>	<u>—</u>	<u>5,812,571</u>
Capital Assets, Net	<u>\$6,195,964</u>	<u>(\$13,942)</u>	<u>\$176</u>	<u>\$6,181,846</u>

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.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2019 AND 2018

NOTE 7. BONDS PAYABLE, (continued)

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.

The following is a summary of the Authority's long-term debt transactions for the fiscal years ended October 31, 2019 and 2018:

	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>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>

	Principal Balance <u>10/31/17</u>	Issued <u>FY 2018</u>	Refunded/ Retired <u>FY 2018</u>	Balance <u>10/31/18</u>	Principal Amount Due Within <u>One Year</u>
2012 Series N	\$920,000	\$	\$170,000	\$750,000	\$175,000
2015 Series A-1	1,115,786		65,634	1,050,152	65,634
2015 Series B-1	<u>360,000</u>		<u>15,000</u>	<u>345,000</u>	<u>15,000</u>
	<u>\$2,395,786</u>	<u>\$</u>	<u>\$250,634</u>	<u>\$2,145,152</u>	<u>\$255,634</u>

As of October 31, 2019 and 2018, the Authority had the following principal amounts of debt outstanding:

	Interest Rate	Maturity Date	Original Issue Amount	2019	2018
2012 Series N	3.00%-4.00%	12/01/2021	\$4,195,000	\$575,000	\$750,000
2015 Series A-1	0%	08/01/2034	1,225,176	984,518	1,050,152
2015 Series B-1	4.00%-5.00%	08/01/2034	390,000	<u>330,000</u>	<u>345,000</u>
				<u>\$1,889,518</u>	<u>\$2,145,152</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2019 AND 2018

NOTE 7. BONDS PAYABLE, (continued)

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

	<u>2019</u>	<u>2018</u>
2012 Series N Bonds	\$23,584	\$30,567
2015 Series B-1 Bonds	<u>14,958</u>	<u>15,764</u>
	<u>38,542</u>	<u>46,331</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>\$98,196</u>	<u>\$105,985</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>
2020	\$265,635	\$33,800	\$299,435
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>\$1,889,518</u>	<u>\$155,550</u>	<u>\$2,045,068</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2019 AND 2018

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>2019</u>	<u>2018</u>
Invested in Capital Assets -		
Net of Related Debt	<u>\$4,190,671</u>	<u>\$4,137,229</u>
Restricted:		
Bond Reserve Fund	208,000	208,000
Renewal and Replacement Fund	175,000	50,000
Debt Service Reserve Fund	169,583	160,417
Operating Reserve Fund	1,147,500	1,083,741
Unexpended Construction funds	<u>1,604,912</u>	<u>110,784</u>
Subtotal Restricted	<u>3,304,995</u>	<u>1,612,942</u>
Unrestricted:		
Designated	3,906,755	5,131,755
Undesignated	<u>3,298,491</u>	<u>2,959,672</u>
Subtotal Unrestricted	<u>7,205,246</u>	<u>8,091,427</u>
	<u>\$14,700,912</u>	<u>\$13,841,598</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, 2019 AND 2018

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, 2019 AND 2018

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, 2019 and 2018 includes the following amounts:

<u>Purpose</u>	<u>2019</u>	<u>2018</u>
Capital Reserve	\$2,984,729	\$4,209,729
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>\$3,906,755</u>	<u>\$5,131,755</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2019 AND 2018

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, 2019, the Authority had net position of \$43,073 designated for estimated arbitrage earnings due to the IRS.

NOTE 14. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through December 16, 2019, the date which the financial statements were available to be issued and no additional items were noted for disclosure.

Supplementary Schedules

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, 2018

\$ (878,681)

Cash Receipts:

Interest on Investments

\$ 7

Transfer from:

Revenue Account

4,204,915

4,204,922

TOTAL CASH AND CASH EQUIVALENTS AVAILABLE

3,326,241

Cash Disbursements:

Operations

\$ 4,215,002

Accounts Payable

46,631

4,261,633

CASH AND CASH EQUIVALENTS -
OCTOBER 31, 2019

\$ (935,392)

Analysis of Balance:

Unrestricted

\$ (935,392)

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

	Revenue Fund	General Fund	Bond Service Fund	2012 Series N Interest
CASH, CASH EQUIVALENTS AND INVESTMENTS, NOVEMBER 1, 2018	\$ 3,892,549	\$ 5,938,796	\$ 210	\$ 7,070
<u>CASH RECEIPTS:</u>				
Interest on Investments	72,758	119,828	3	262
Service Contracts-Municipal	5,320,000			
Other	500			
Transfer From:				
Revenue Fund		450,000		24,570
General Fund				
2013 Project Fund				
Bond Reserve Fund	11,423			
	<u>5,404,681</u>	<u>569,828</u>	<u>3</u>	<u>24,832</u>
<u>CASH DISBURSEMENTS:</u>				
Bond Principal				
Interest on Bonds				26,500
Project Expenses				
Transfers To:				
Operating Account	4,204,915			
Revenue Fund				
2013 Project Fund		1,675,000		
General Fund	450,000			
NJEIT Debt Service Fund		95,791		
Renewal and Replacement Fund	125,000			
Bond Service Fund (Principal)	175,596			
Bond Service Fund (Interest)	24,570			
	<u>4,980,081</u>	<u>1,770,791</u>	<u>-</u>	<u>26,500</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, OCTOBER 31, 2019	\$ 4,317,149	\$ 4,737,833	\$ 213	\$ 5,402
<u>Analysis of Balance:</u>				
Restricted	\$ 1,196,178	\$ -	\$ 213	\$ 5,402
Unrestricted	<u>3,120,971</u>	<u>4,737,833</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,317,149</u>	<u>\$ 4,737,833</u>	<u>\$ 213</u>	<u>\$ 5,402</u>
Cash and Cash Equivalents	\$ 4,317,149	\$ 4,737,833	\$ 213	\$ 1,562
Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,840</u>
	<u>\$ 4,317,149</u>	<u>\$ 4,737,833</u>	<u>\$ 213</u>	<u>\$ 5,402</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

	2012 Series N Principal	Bond Reserve Fund	Bond Reserve Forward Delivery	Renewal and Replacement Fund
CASH, CASH EQUIVALENTS AND INVESTMENTS, NOVEMBER 1, 2018	<u>\$ 105,676</u>	<u>\$ 599</u>	<u>\$ 208,001</u>	<u>\$ 51,507</u>
<u>CASH RECEIPTS:</u>				
Interest on Investments	3,877	14	14,387	1,385
Service Contracts-Municipal				
Other				
Transfer From:				
Revenue Fund	175,596			125,000
General Fund				
2013 Project Fund				
Bond Reserve Fund				
	<u>179,473</u>	<u>14</u>	<u>14,387</u>	<u>126,385</u>
<u>CASH DISBURSEMENTS:</u>				
Bond Principal	175,000			
Interest on Bonds				
Project Expenses				
Transfers To:				
Operating Account				
Revenue Fund			11,423	
2013 Project Fund				
General Fund				
NJEIT Debt Service Fund				
Renewal and Replacement Fund				
Bond Service Fund (Principal)				
Bond Service Fund (Interest)				
	<u>175,000</u>	<u>-</u>	<u>11,423</u>	<u>-</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, OCTOBER 31, 2019	<u>\$ 110,149</u>	<u>\$ 613</u>	<u>\$ 210,965</u>	<u>\$ 177,892</u>
<u>Analysis of Balance:</u>				
Restricted	\$ 110,149	\$ -	\$ 208,000	\$ 175,000
Unrestricted	<u>-</u>	<u>613</u>	<u>2,965</u>	<u>2,892</u>
	<u>\$ 110,149</u>	<u>\$ 613</u>	<u>\$ 210,965</u>	<u>\$ 177,892</u>
Cash and Cash Equivalents	\$ 25,358	\$ 613	\$ 4,308	\$ 177,892
Investments	84,791	-	206,657	-
	<u>\$ 110,149</u>	<u>\$ 613</u>	<u>\$ 210,965</u>	<u>\$ 177,892</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, 2018	\$ 110,784	\$ 7,209	\$ 10,322,401
<u>CASH RECEIPTS:</u>			
Interest on Investments	25,036	1,356	238,906
Service Contracts-Municipal			5,320,000
Other			500
Transfer From:			
Revenue Fund			775,166
General Fund	1,675,000	95,791	1,770,791
2013 Project Fund			-
Bond Reserve Fund			11,423
	<u>1,700,036</u>	<u>97,147</u>	<u>8,116,786</u>
<u>CASH DISBURSEMENTS:</u>			
Bond Principal		80,634	255,634
Interest on Bonds		15,146	41,646
Project Expenses	205,908		205,908
Transfers To:			
Operating Account			4,204,915
Revenue Fund			11,423
2013 Project Fund			1,675,000
General Fund			450,000
NJEIT Debt Service Fund			95,791
Renewal and Replacement Fund			125,000
Bond Service Fund (Principal)			175,596
Bond Service Fund (Interest)			24,570
	<u>205,908</u>	<u>95,780</u>	<u>7,265,483</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, OCTOBER 31, 2019	<u>\$ 1,604,912</u>	<u>\$ 8,576</u>	<u>\$ 11,173,704</u>
<u>Analysis of Balance:</u>			
Restricted	\$ 1,604,912	\$ 8,576	\$ 3,308,430
Unrestricted	<u>-</u>	<u>-</u>	<u>7,865,274</u>
	<u>\$ 1,604,912</u>	<u>\$ 8,576</u>	<u>\$ 11,173,704</u>
 Cash and Cash Equivalents	 \$ 1,604,912	 \$ 8,576	 \$ 10,878,416
Investments	<u>-</u>	<u>-</u>	<u>295,288</u>
	<u>\$ 1,604,912</u>	<u>\$ 8,576</u>	<u>\$ 11,173,704</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET
YEAR ENDED OCTOBER 31, 2019
WITH COMPARATIVE ACTUAL AMOUNTS
FOR THE YEAR ENDED OCTOBER 31, 2018

	<u>2019 Budget</u>	<u>2019 Budget After Modifications</u>	<u>2019 Actual</u>	<u>2018 Actual</u>
<u>REVENUE:</u>				
Net Position Appropriated	\$	\$	\$	\$
Capital Reserve Appropriated				161,616
Service Contracts with Municipalities	5,320,000	5,320,000	5,320,000	5,300,000
Interest on Investments	18,000	18,000	239,051	156,586
Application Fees	2,000	2,000	500	2,550
TOTAL OPERATING REVENUES	5,340,000	5,340,000	5,559,551	5,620,752
<u>EXPENSES:</u>				
Operations and Maintenance Expenses:				
Professional Services	85,000	85,000	61,918	65,458
Contract Services	261,000	261,000	156,094	163,178
State and Federal Compliance	10,000	10,000		
Two Bridges Sewerage Authority	2,520,000	2,520,000	2,402,101	2,278,122
Total Operating Expenses	2,876,000	2,876,000	2,620,113	2,506,758
Administrative and General Expenses:				
Professional Services	254,000	254,000	290,118	214,172
Insurance	25,000	25,000	23,701	22,235
Office Expenses	16,000	16,000	11,947	13,016
Professional Expenses	11,000	11,000	7,624	4,500
Financial Services	16,000	16,000	7,026	9,296
Two Bridges Sewerage Authority	272,000	272,000	231,383	226,507
Total Administrative and General Expenses	594,000	594,000	571,799	489,726

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET
YEAR ENDED OCTOBER 31, 2019
WITH COMPARATIVE ACTUAL AMOUNTS
FOR THE YEAR ENDED OCTOBER 31, 2018

SCHEDULE 3
Page 2 of 2

	<u>2019 Budget</u>	<u>2019 Budget After Modifications</u>	<u>2019 Actual</u>	<u>2018 Actual</u>
Debt Service:				
Bond Principal	805,634	805,634	805,634	800,634
Interest on Bonds	614,366	614,366	550,224	561,401
Total Debt Service	1,420,000	1,420,000	1,355,858	1,362,035
Reserves:				
2012 Series N Reserve (BRR)				30,000
Capital Reserve Fund	450,000	450,000	450,000	650,000
Total Reserves	450,000	450,000	450,000	680,000
TOTAL COSTS FUNDED BY OPERATING REVENUE	5,340,000	5,340,000	4,997,770	5,038,519
EXCESS	\$	\$	\$ 561,781	\$ 582,233

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)
Capital Reserve Appropriated		(161,616)
Capital Reserve Fund Appropriation	450,000	650,000
2012 Series N Reserve Appropriation		30,000
TBSA Debt Service Principal	(550,000)	(550,000)
Bond Principal Payments	805,634	800,634
Total Adjustments	297,533	360,917
Change in Net Position	859,314	943,150

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF BONDS PAYABLE
OCTOBER 31, 2019

	Original		Interest Rate	Maturities Date	Amount	Balance Nov. 1, 2018	Issued	Redeemed or Retired	Balance Oct. 31, 2019
	Date	Amount							
2012 Series N	9/6/2012	\$ 4,195,000	4.000%	12/1/2019	185,000				
			4.000%	12/1/2020	190,000				
			4.000%	12/1/2021	200,000				
						750,000		175,000	575,000
New Jersey Environmental Infrastructure Trust - Series 2015A	5/28/2015	\$ 390,000	5.000%	8/1/2020	15,000				
			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				
						345,000		15,000	330,000

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF BONDS PAYABLE
OCTOBER 31, 2019

	<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, 2018</u>		<u>Retired</u>	<u>Oct. 31, 2019</u>
State of NJ - Fund Loan - Series 2015A	5/28/2015	1,225,176	0.000%	2/1/2020	21,879				
			0.000%	8/1/2020	43,756				
			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, 2019

	Original		Interest Rate	Maturities Date	Amount	Balance Nov. 1, 2018	Issued	Redeemed or Retired	Balance Oct. 31, 2019
	Date	Amount							
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				
						1,050,152		65,634	984,518
GRAND TOTALS						2,145,152	-	255,634	1,889,518
<u>Analysis of Balance:</u>									
Current Portion						255,634			265,635
Long-Term Portion						1,889,518			1,623,883
						2,145,152	-	-	1,889,518

ROSTER OF OFFICIALS

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

Robert Voorman	Chairman (1), (2)	Borough of Bloomingdale
Raymond Verdonik	Vice Chairman (1), (2)	Borough of Butler
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	
Ferraioli, Wielkotz, Cerullo & Cuva, P.A.	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, 2020.
- (2) Also serves as PRBRSA Member on the Two Bridges Sewerage Authority.

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

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

Certified Public Accountants
401 Wanaque Avenue
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973-835-7900
Fax 973-835-6631

Newton Office
100B Main Street
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973-579-3212
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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, 2019, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2019.

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.

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

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

December 16, 2019

General Comments

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.

Comments and Recommendations

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
COMMENTS AND RECOMMENDATIONS
YEAR ENDED OCTOBER 31, 2019

COMMENTS

There were no comments for the fiscal year ended October 31, 2019.

RECOMMENDATIONS

There were no recommendations for the fiscal year ended October 31, 2019.

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

Very truly yours,

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

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