

READINGTON-LEBANON SEWERAGE AUTHORITY

COUNTY OF HUNTERDON

December 31, 2019



READINGTON-LEBANON SEWERAGE AUTHORITY

For the Years Ended December 31, 2019 and 2018

TABLE OF CONTENTS

	<u>Page</u>
Roster of Officials	1
Independent Auditors' Report	2 - 4
Management's Discussion and Analysis	5 - 8
Basic Financial Statements	
Statements of Net Position	9 - 10
Statements of Revenues, Expenses and Changes in Net Position	11
Statements of Cash Flows	12 - 13
Notes to the Financial Statements	14 - 33
Supplementary Information	
Schedule of the Authority's Proportionate Share of the Net Pension Liability	34
Schedule of Authority Contributions Public Employee's Retirement System	35
Schedule of the Authority's Proportionate Share of the Other Postemployment Employee Benefits Liability	36
Schedule of Authority's Contributions for Other Postemployment Benefits	37
Notes to the Required Supplementary Information	38
Schedule of Changes in Net Position - Restricted Accounts	39
Schedule of Budgetary Comparison Information	40 - 41
Independent Auditors' 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	42 - 43
Schedule of Findings and Responses	44

READINGTON-LEBANON SEWERAGE AUTHORITY
Roster of Officials
Year Ended December 31, 2019

<u>Members of the Authority</u>	<u>Title</u>
Dr. Vincent Schaible	Chairman
Richard Burton	Vice Chairman
Dr. Charles Westfield	Secretary/Treasurer
Edward Cichone	Member
Ronald Monaco	Member
Tanya Rohrbach	Member
<u>Administration and Professionals of the Authority</u>	<u>Title</u>
Jill A. Plesnarski	Administrator
R3M Engineers	Engineer
Edward Buzak	Attorney

See independent auditor's report.



Certified Public Accountants, PC

www.bkc-cpa.com

Independent Auditors' Report

Honorable Chairman and Members of
Readington-Lebanon Sewerage Authority
Whitehouse, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Readington-Lebanon Sewerage Authority (the Authority), as of and for the years ended December 31, 2019 and 2018, 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 misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and in compliance with audit requirements as prescribed by the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of December 31, 2019 and 2018, and the respective changes in financial position and its cash flows thereof 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, Schedule of the Authority's Proportionate Share of the Net Pension Liability, Schedule of the Authority Contributions to the Public Employees Retirement System, and Schedule of Budgetary Comparison Information. Schedules Related to Accounting and Reporting for Other Postemployment Employee Benefits identified in the Table of Contents are presented to supplement the Basic Financial Statements. Such information, although not a part of the Basic Financial Statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the Basic Financial Statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted 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 Authority's Basic Financial Statements. The Schedule of Changes in Net Position - Restricted Accounts is presented for purposes of additional analysis and is not a required part of the Basic Financial Statements.

The Schedule of Changes in Net Position - Restricted Accounts is the responsibility of management and was 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 Schedule of Changes in Net Position - Restricted Accounts is 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 July 10, 2020 on our consideration of the 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 Authority's internal control over financial reporting and compliance.



BKC, CPAs, PC

July 10, 2020
Flemington, New Jersey

Readington-Lebanon Sewerage Authority

Old Route 28, PO Box 136
Whitehouse, NJ 08888

Vincent Schaible
Chairman

Richard Burton
Vice-Chairman

Charles Westfield
Secretary-Treasurer

Jill A. Plesnarski
Administrator

908-534-6171
908-534-5688 Fax

Management's Discussion and Analysis (MD&A)

This section of the Readington-Lebanon Sewerage Authority (the Authority) annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year ending December 31, 2019. Please read it in conjunction with the Authority's condensed financial statements (Exhibits A and B), which follow this section.

Financial Highlights

1. The Authority's total current assets increased 1.14% over the course of this year's operations as a result of operating revenues and other financing sources exceeding operating expenditures.
2. Deferred outflows of resources decreased by 29.92% compared to the prior year. This was attributable to the changes in assumptions and proportion, in addition to the difference between actual and expected experience of the pension plan.
3. Current liabilities decreased 6.33%. This is due to a decrease in the accounts payable.
4. Long-term liabilities decreased by 5.95% compared to the prior year. This is the result of an adjustment of the actuarially determined net pension liability of the Authority.
5. During the year, the Authority's operating revenues increased by 2.17%. Operating revenues were realized as budgeted by the Authority.
6. Operating expenses increased by 3.74%. This is attributable to an increase in salaries and wages and sludge disposal expenses.
7. Net position increased by 1.6%. Net investment in capital assets decreased by 3.05% as increases in capital expenditures were offset by depreciation expense. Restricted net position increased by 15.23% as a result of an increase in capital expenditures. Unrestricted net position increased by 25.08% as a result of operating revenues and other financing sources exceeding operating expenditures.

Overview of Annual Financial Report

The financial statements report information about the Authority using the accrual accounting method as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The financial statement includes the Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows, and Notes to the Financial Statements.

Overview of Annual Financial Report (continued)

The Statements of Net Position presents information on all of the Authority's assets and liabilities, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the Authority is improving or deteriorating.

The Statements of Revenues, Expenses and Changes in Net Position presents the results of the Authority's activities over the course of the fiscal year and information as to how the net position changed during the year.

The Statements of Cash Flow presents changes in cash and cash equivalents resulting from operational, financing and investing activities. These statements present cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The Notes to the Financial Statements provide disclosures and other information that is essential to a full understanding of material data provided in the statements. Supplementary information comparing the budget to actual revenues and expenses as well as changes in restricted accounts is provided.

Financial Analysis

The attached comparative condensed financial statements serve as the key financial data and indicators for management, monitoring and planning.

Availability of Financial Report

This report is prepared in compliance with State mandates and will be made available to residents, taxpayers and any interested person or entity upon request at the Authority's office located at 1A Old Highway 28, Whitehouse, NJ 08888

Readington-Lebanon Sewerage Authority

READINGTON-LEBANON SEWERAGE AUTHORITY
Management's Discussion and Analysis
Condensed Financial Statements

Condensed Statement of Net Position

Exhibit A

	December 31,		Increase (Decrease)
	2019	2018	
Assets			
Current assets			
Unrestricted assets	\$ 3,332,018	\$ 3,007,993	\$ 324,025
Restricted assets	2,031,136	1,762,607	268,529
Capital assets, net	12,477,613	12,869,642	(392,029)
Total current assets	<u>17,840,767</u>	<u>17,640,242</u>	<u>200,525</u>
Deferred outflows of resources	<u>159,263</u>	<u>227,258</u>	<u>(67,995)</u>
Total assets and deferred outflows of resources	<u><u>\$ 18,000,030</u></u>	<u><u>\$ 17,867,500</u></u>	<u><u>\$ 132,530</u></u>
Liabilities			
Current liabilities	\$ 102,821	\$ 109,772	\$ (6,951)
Non-current liabilities	961,252	1,022,029	(60,777)
Total liabilities	<u>1,064,073</u>	<u>1,131,801</u>	<u>(67,728)</u>
Deferred inflows of resources	<u>525,236</u>	<u>582,864</u>	<u>(57,628)</u>
Net position			
Net investment in capital assets	12,477,613	12,869,642	(392,029)
Restricted	2,031,136	1,762,607	268,529
Unrestricted	1,901,972	1,520,586	381,386
Total net position	<u>16,410,721</u>	<u>16,152,835</u>	<u>257,886</u>
Total liabilities, deferred inflows of resources and net position	<u><u>\$ 18,000,030</u></u>	<u><u>\$ 17,867,500</u></u>	<u><u>\$ 132,530</u></u>

See independent auditors' report.

READINGTON-LEBANON SEWERAGE AUTHORITY
Management's Discussion and Analysis
Condensed Financial Statements (continued)

Condensed Statement of Revenues, Expenses and Changes in Net Position

Exhibit B

	For the Year Ended December 31,		Increase (Decrease)
	2019	2018	
Operating revenues	\$ 1,666,675	\$ 1,631,329	\$ 35,346
Operating expenses	1,444,518	1,392,440	52,078
Operating income (loss)	<u>222,157</u>	<u>238,889</u>	<u>(16,732)</u>
Non-operating revenues	<u>35,729</u>	<u>28,675</u>	<u>7,054</u>
Other financing (uses) sources	<u>-</u>	<u>(575)</u>	<u>575</u>
Increase in net position	257,886	266,989	(9,103)
Net position - beginning of year	<u>16,152,835</u>	<u>15,885,846</u>	<u>266,989</u>
Net position - end of year	<u><u>\$ 16,410,721</u></u>	<u><u>\$ 16,152,835</u></u>	<u><u>\$ 257,886</u></u>

See independent auditors' report.

Basic Financial Statements

READINGTON-LEBANON SEWERAGE AUTHORITY
Statements of Net Position
December 31,

	2019	2018
Assets		
Current assets		
Cash and cash equivalents	\$ 3,324,849	\$ 3,007,993
Accounts receivable	7,169	-
Total current assets	3,332,018	3,007,993
Non-current restricted assets		
Cash and cash equivalents	2,031,136	1,762,607
Capital assets		
Capital assets not being depreciated	262,767	262,767
Capital assets being depreciated	21,190,523	21,182,005
Less: accumulated depreciation	(8,975,677)	(8,575,130)
Net capital assets	12,477,613	12,869,642
Total assets	17,840,767	17,640,242
Deferred outflows of resources	159,263	227,258
Total assets and deferred outflows of resources	\$ 18,000,030	\$ 17,867,500

See accompanying notes to the financial statements.

READINGTON-LEBANON SEWERAGE AUTHORITY
Statements of Net Position (continued)
December 31,

	2019	2018
Liabilities		
Current liabilities		
Accounts payable	\$ 73,311	\$ 81,819
Payroll taxes and withholdings payable	1,952	581
Accrued vacation pay	27,558	27,372
Total current liabilities	102,821	109,772
Non-current liabilities (payable from unrestricted assets)		
Net pension liability	961,252	1,022,029
Total liabilities	1,064,073	1,131,801
Deferred inflows of resources	525,236	582,864
Net position		
Net investment in capital assets	12,477,613	12,869,642
Restricted	2,031,136	1,762,607
Unrestricted	1,901,972	1,520,586
Total net position	16,410,721	16,152,835
Total liabilities, deferred inflows of resources, and net position	\$ 18,000,030	\$ 17,867,500

See accompanying notes to the financial statements.

READINGTON-LEBANON SEWERAGE AUTHORITY
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31,

	2019	2018
Operating revenues		
User charges	\$ 1,617,000	\$ 1,602,000
Interest income	49,675	29,329
Total operating revenues	1,666,675	1,631,329
Operating expenses		
Cost of providing services	673,460	634,906
Administrative and general	361,829	362,809
Depreciation	409,229	394,725
Total operating expenses	1,444,518	1,392,440
Operating income (loss)	222,157	238,889
Non-operating revenues		
Interest income	35,729	28,675
Total non-operating revenues	35,729	28,675
Other financing sources (uses)		
Gain (loss) on disposal of assets	-	(575)
Change in net position	257,886	266,989
Net position, beginning	16,152,835	15,885,846
Net position, ending	\$ 16,410,721	\$ 16,152,835

See accompanying notes to the financial statements.

READINGTON-LEBANON SEWERAGE AUTHORITY
Statements of Cash Flows
For the Years Ended December 31,

	2019	2018
Cash flows from operating activities		
Cash received from customers	\$ 1,609,831	\$ 1,602,000
Other operating cash receipts	49,675	29,329
Cash payments to suppliers and employees	(1,092,650)	(1,026,510)
Net cash provided by (used for) operating activities	566,856	604,819
Cash flow from capital and related financing activities		
Purchase of capital assets	(17,200)	(368,880)
Interest income	35,729	28,675
Net cash provided by (used for) capital and related financing activities	18,529	(340,205)
Net increase (decrease) in cash and cash equivalents	585,385	264,614
Cash and cash equivalents, beginning	4,770,600	4,505,986
Cash and cash equivalents, ending	\$ 5,355,985	\$ 4,770,600
Reconciliation of balance sheet		
Unrestricted cash and cash equivalents	\$ 3,324,849	\$ 3,007,993
Restricted cash and cash equivalents	2,031,136	1,762,607
Total cash and cash equivalents	\$ 5,355,985	\$ 4,770,600

See accompanying notes to the financial statements.

READINGTON-LEBANON SEWERAGE AUTHORITY
Statements of Cash Flows (continued)
For the Years Ended December 31,

	2019	2018
Reconciliation of income (loss) from operations to net cash provided by (used for) operating activities		
Operating income (loss)	\$ 222,157	\$ 238,889
Adjustments to reconcile income (loss) from operations to net cash provided by (used for) operating activities		
Depreciation	409,229	394,725
Change in assets and liabilities		
Increase (decrease) in accounts payable	(8,508)	21,105
(Increase) decrease in accounts receivable	(7,169)	-
Increase (decrease) in accrued vacation pay	186	(150)
Increase (decrease) in deferred inflow of resources	(57,628)	33,656
(Increase) decrease in deferred outflow of resources	67,995	112,999
Increase (decrease) in net pension liability	(60,777)	(190,975)
Increase (decrease) in payroll taxes and withholdings payable	1,371	(5,430)
Net cash provided by (used for) operating activities	\$ 566,856	\$ 604,819

See accompanying notes to the financial statements.

Notes to the Financial Statements

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 1 - Summary of significant accounting policies

The financial statements of the Readington-Lebanon Sewerage Authority (the Authority) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to Governmental Units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Authority's accounting policies are described below.

Reporting entity

The Authority was created to construct and operate a wastewater treatment system to serve Readington Township, Lebanon Borough, and the State of New Jersey for the Round Valley recreational area.

The Authority consists of six appointed officials and is responsible for the fiscal control of the operations of the sewer system. The various funds used by the Authority to control assets are authorized in the Bond Resolution adopted on August 8, 1984. The Bond Resolution restricts various transactions and requires certain transfers be made between funds. The Bond Resolution is on file in the Authority's office.

Basis of presentation - fund accounting

The operations of the Authority are recorded in a proprietary fund type. Proprietary funds are used to account for activities that are financed and operated in a manner similar to business enterprises and the intention is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis are to be financed or recovered primarily through user charges.

Basis of accounting

The Authority's financial statements are presented on the accrual basis in accordance with accounting principles generally accepted in the United States of America, which includes the Management's Discussion and Analysis as required supplementary information.

The accrual basis of accounting is used for measuring financial position and operating results of proprietary fund types. Under this method of accounting, revenues are recorded in the accounting period in which they are earned, and expenses are recorded as incurred.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, liabilities and deferred inflow or outflow of resources associated with the operations are included on the Statements of Net Position. The net position (i.e., total assets net of total liabilities) is segregated into invested capital assets, restricted and unrestricted components.

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 1 - Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of American requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent net assets and liabilities at the date of the Statements of Net Position and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, among other accounts. Actual results may differ from those estimates.

Budget and budgetary accounting

At least 60 days prior to the Authority's year-end (December 31), the Authority must file its operating budget with the Director of the Division of Local Government Services for approval. Within 45 days after receipt of the Authority's budget, the Director shall either approve or notify the Authority of the reasons for non-approval of the budget and to state the conditions upon which the approval will be granted. After approval, the Authority will formally adopt the budget. The budget is prepared based on the accounting principles and practices as prescribed by the Division of Local Government Services.

Income taxes

The Authority, under existing statute, is exempt from Federal and State income taxes. Accordingly, no provision for income taxes has been made in the financial statements.

Restricted assets

The Authority has restricted the below summarized accounts which may only be utilized for the purposes indicated:

Account	Use for which Restricted
Reserve for capital improvements	Construction and/or reconstruction of assets

Net position

Net position represents the difference between the summation of assets and deferred outflows of resources, and the summation of liabilities and deferred inflows of resources. In the government-wide financial statements, net position is classified into the following three components:

- *Net investment in Capital Assets* - This component represents capital assets, less accumulated depreciation, and net of outstanding balances of borrowings used for the acquisition, construction, or improvement of those assets.
- *Restricted* - Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- *Unrestricted* - Net position is reported as unrestricted when it does not meet the criteria of the other two components of net position.

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 1 - Summary of significant accounting policies (continued)

Capital assets

Capital assets are recorded as expenditures at the time of purchase and the related assets are capitalized at cost, which includes direct construction costs and other expenditures related to construction. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Building and improvements	25 - 75 years
Sewer mains and interceptors	75 years
Other equipment	5 - 15 years
Pumps and dewatering equipment	75 years
Vehicles	5 years

Deferred outflows/inflows of resources

In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has one item that qualifies for reporting in this category, deferred amount on pension activity. In addition to liabilities, the Statements of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category, deferred amount on pension activity.

Note 2 - Deposits, cash equivalents, and investments

Cash and cash equivalents include petty cash, change funds, cash and certificates of deposit in banks, and cash with the New Jersey Cash Management Fund.

New Jersey Governmental Units are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or in the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of investments which may be purchased by New Jersey Governmental Units. In addition, other state statutes permit investments in obligations issued by local authorities and other state agencies. The State of New Jersey does not place any limit on the amount that the District may invest with any one issuer.

New Jersey Governmental Units are limited as to the types of investments and types of financial institutions they may invest in. New Jersey Statute 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey Governmental Units.

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 2 - Deposits, cash equivalents, and investments (continued)

N.J.S.A. 17:9-41 e.t. 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 saving banks the deposits of which are federally insured.

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a policy for custodial credit risk. New Jersey statutes require cash be deposited only in New Jersey based banking institutions that participate in the New Jersey Governmental Unit Deposit Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. Under the act, the first \$250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the Authority in excess of FDIC insured amounts are protected by GUDPA.

However, GUDPA does not protect intermingled trust funds, employee salary withholdings, or funds that may pass to the Authority relative to the happening of a future condition.

Deposits with the New Jersey Cash Management Fund are not subject to custodial credit risk as defined above. The New Jersey Cash Management Fund is governed by regulations of the State Investment Council, who prescribe standards designed to ensure the quality of investments in order to minimize risk to the Fund participants.

As of December 31, 2019 and 2018, the Authority's bank balances were exposed to custodial credit risk as follows:

	2019	2018
Deposits insured by the FDIC	\$ 500,000	\$ 500,000
Deposits insured by the GUDPA	1,585,851	1,316,865
Deposits with New Jersey Cash Management Fund	3,270,438	2,954,144
Total bank balances	\$ 5,356,289	\$ 4,771,009

The Authority's carrying (Statements of Net Position) amounts were \$5,355,985 and \$4,770,600 for December 31, 2019 and 2018, respectively.

Note 3 - Authority revenues

Sewer charges are based on an amount approved annually by the governing body and is based on the prior year sewer flows. The billing for the approved amount is allocated to three entities: Township of Readington, the Borough of Lebanon, and State of New Jersey for a recreation area. Bills are payable in monthly installments.

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 4 - Pension plans
Public employees' retirement systems (PERS)

Plan description

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

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

The following represents the membership Tiers for PERS:

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

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

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 4 - Pension plans

Public employees' retirement systems (PERS)

Allocation methodology and reconciliation to financial statements

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, requires participating employers in PERS to recognize their proportionate share of the collective net pension liability, collective deferred outflows of resources, collective deferred inflows of resources and collective pension expense. The employer allocation percentages presented in the Schedule of Employer Allocations and applied to amounts presented in the Schedule of Pension Amounts by Employer, are based on the ratio of the contributions of an individual employer to the total contributions to PERS during the measurement period July 1, 2018 through June 30, 2019. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the Schedule of Pension Amounts by Employer may result in immaterial differences. Contributions from employers are recognized when due, based on statutory requirements.

Although the Division administers one cost-sharing, multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the disclosure of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each individual employer of the State and local groups of the plan.

To facilitate the separate (sub) actuarial valuations, the Division maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages presented for each group in the Schedule of Employer Allocations are applied to amounts presented in the Schedules of Pension Amounts by Employer. The allocation percentages for each group as of June 30, 2019, are based on the ratio of each employer's contributions to total employer contributions of the group for the State fiscal year ended June 30, 2019.

Contributions

The contribution policy for PERS is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the state. The state's pension contribution is based on an actuarially determined amount, which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for non-contributory group insurance benefits is based on actual claims paid. For State fiscal year 2019, the state's pension contribution was less than the actuarial determined amount.

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 4 - Pension plans (continued)
Public employees' retirement systems (PERS) (continued)
Contributions (continued)

The local employers' contribution amounts are based on an actuarially determined rate, which includes the normal cost and unfunded accrued liability. Chapter 19, PL 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The Actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets.

The contribution rate was 7.50% of base salary effective July 1, 2018.

Two-year trend information for PERS:

Year Funded	Annual Contribution	
	Authority	Employee
2019	\$ 51,631	\$ 40,496
2018	48,273	38,880

Collective net pension liability and actuarial information

The components of the Authority's allocable share of the net pension liability for PERS as of December 31, 2019 and 2018 are as follows:

	2019	2018
Net pension liability	\$ 961,252	\$ 1,022,029
Proportionate share	0.0052979547%	0.0051907300%
Plan fiduciary net position as a percentage of the total pension liability	56.27%	53.60%

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 4 - Pension plans (continued)
Public employees' retirement systems (PERS) (continued)
Collective net pension liability and actuarial information (continued)
Actuarial assumptions

The collective total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of July 1, 2018, which was rolled forward to June 30, 2019. This actuarial valuation used the following actuarial assumptions:

Inflation rate	
Price	2.75%
Wage	3.25%
Salary increases (based on years of service)	
Through 2026	2.00% - 6.00%
Thereafter	3.00% - 7.00%
Investment rate of return	7.00%

Pre-retirement mortality rates were based on the Pub-2010 General Below-Median Income Employee mortality table with an 82.2% adjustment for males and 101.4% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Post-retirement mortality rates were based on the Pub-2010 General Below-Median Income Healthy Retiree mortality table with a 91.4% adjustment for males and 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2010 Non-Safety Disabled Retiree mortality table with a 127.7% adjustment for males and 117.2% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.

The actuarial assumptions used in the July 1, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2014 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 4 - Pensions (continued)

Public employee's retirement system (continued)

Collective net pension liability and actuarial information (continued)

Long-term expected rate of return

In accordance with state statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2019) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions and Benefits, the Board of Trustees, and the Actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocations</u>	<u>Long-Term Expected Rate of Return</u>
Risk mitigation strategies	3.00%	4.67%
Cash equivalents	5.00%	2.00%
U.S. Treasuries	5.00%	2.68%
Investment grade credit	10.00%	4.25%
High yield	2.00%	5.37%
Private credit	6.00%	7.92%
Real assets	2.50%	9.31%
Real estate	7.50%	8.33%
U.S. equity	28.0%	8.26%
Non-U.S. developed markets equity	12.50%	9.00%
Emerging markets equity	6.50%	11.37%
Private equity	12.00%	10.85%

Discount rate

The discount rate used to measure the total pension liability was 6.28% as of June 30, 2019. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.50% as of June 30, 2019, based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be based on 100% of actuarially determined contributions for the local employers. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2057. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2057 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 4 - Pensions (continued)

Public employee's retirement system (continued)

Collective net pension liability and actuarial information (continued)

Sensitivity of the collective net pension liability to changes in the discount rate

The following presents the Authority's proportionate share of the collective net pension liability of as of December 31, 2019 and 2018 calculated using the discount rate as disclosed above, as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

<u>Authority's proportionate share of the net pension liability</u>	2019
At current discount rate (6.28%)	\$ 961,252
At a 1% lower rate (5.28%)	1,214,217
At a 1% higher rate (7.28%)	748,093

<u>Authority's proportionate share of the net pension liability</u>	2018
At current discount rate (5.66%)	\$ 1,022,029
At a 1% lower rate (4.66%)	1,285,084
At a 1% higher rate (6.66%)	801,343

Collective deferred outflows of resources and deferred inflows of resources

At December 31, 2019 and 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 17,253	\$ 4,246	\$ 19,490	\$ 5,270
Changes of assumptions	95,985	333,648	168,413	326,791
Net difference between projected and actual earnings on pension plan investments	-	15,174	-	9,587
Changes in proportion and differences between Authority contributions and proportionate share of contributions	46,025	172,168	39,355	241,216
Total	\$ 159,263	\$ 525,236	\$ 227,258	\$ 582,864

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 4 - Pension plans (continued)

Public employees' retirement systems (PERS) (continued)

Collective net pension liability and actuarial information (continued)

Collective deferred outflows of resources and deferred inflows of resources (continued)

The following presents a summary of changes in the collective deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the year ended December 31, 2019 and 2018:

<u>December 31, 2019</u>	<u>Beginning Balance</u>	<u>Net Change in Activity</u>	<u>Ending Balance</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 19,490	\$ (2,237)	\$ 17,253
Changes of assumptions	168,413	(72,428)	95,985
Deferred inflows of resources			
Differences between expected and actual experience	(5,270)	1,024	(4,246)
Changes of assumptions	(326,791)	(6,857)	(333,648)
Differences between projected and actual investment earnings on pension plan investments	(9,587)	(5,587)	(15,174)
Net changes in deferred outflows (inflows) of resources	<u>\$ (153,745)</u>	<u>\$ (86,085)</u>	<u>\$ (239,830)</u>
<u>December 31, 2018</u>	<u>Beginning Balance</u>	<u>Net Change in Activity</u>	<u>Ending Balance</u>
Deferred outflows of resources			
Differences between expected and actual experience	\$ 28,451	\$ (8,961)	\$ 19,490
Changes of assumptions	243,434	(75,021)	168,413
Deferred inflows of resources			
Differences between expected and actual experience	-	(5,270)	(5,270)
Changes of assumptions	(242,543)	(84,248)	(326,791)
Differences between projected and actual investment earnings on pension plan investments	8,228	(17,815)	(9,587)
Net changes in deferred outflows (inflows) of resources	<u>\$ 37,570</u>	<u>\$ (191,315)</u>	<u>\$ (153,745)</u>

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 4 - Pension plans (continued)

Public employees' retirement systems (PERS) (continued)

Collective net pension liability and actuarial information (continued)

Collective deferred outflows of resources and deferred inflows of resources (continued)

Deferred outflows of resources and deferred inflows of resources related to pensions (excluding employer specific amounts, deferrals from the Municipality's contributions subsequent to the measurement date, and deferrals from change on proportion) will occur in future periods for the year ending December 31, 2019 and 2018 are as follows:

	<u>2019</u>		<u>2018</u>
2020	\$ (27,757)	2019	\$ 7,093
2021	(90,042)	2020	(9,821)
2022	(80,402)	2021	(70,424)
2023	(37,753)	2022	(61,045)
2024	(3,876)	2023	(19,548)
Total	<u>\$ (239,830)</u>	Total	<u>\$ (153,745)</u>

Pension expense

The components of allocable pension expense, which exclude pension expense related to specific liabilities of individual employers, for the Authority for the year ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Service cost	\$ 37,021	\$ 48,242
Interest on total pension liability	109,727	115,976
Member contributions	(25,499)	(27,702)
Administrative expense	675	767
Expected investment return net of investment expense	(68,085)	(72,814)
Pension expense related to specific liabilities of individual employers	(319)	(427)
Recognition of deferred inflows/outflows of resources		
Amortization of expected versus actual experience	8,261	7,823
Amortization of assumption changes or inputs	(25,249)	(9,007)
Amortization of projected versus actual investment earnings on pension plan investments	8,033	(6,202)
Pension expense	<u>\$ 44,565</u>	<u>\$ 56,656</u>

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 5 - Capital assets

A summary of changes in capital assets and accumulated depreciation is as follows:

<u>December 31, 2019</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Land	\$ 231,628	\$ -	\$ -	\$ 231,628
Construction in progress	31,139	-	-	31,139
Plant	16,026,139	-	-	16,026,139
Building	3,342,487	-	-	3,342,487
Building improvements	1,043,853	-	-	1,043,853
Vehicles	57,890	-	-	57,890
Operating equipment	711,636	17,200	8,682	720,154
Total capital assets	21,444,772	17,200	8,682	21,453,290
Accumulated depreciation	(8,575,130)	(409,229)	(8,682)	(8,975,677)
Capital assets, net	<u>\$ 12,869,642</u>	<u>\$ (392,029)</u>	<u>\$ -</u>	<u>\$ 12,477,613</u>

<u>December 31, 2018</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Land	\$ 231,628	\$ -	\$ -	\$ 231,628
Construction in progress	125,429	198,453	292,743	31,139
Plant	16,026,139	-	-	16,026,139
Building	3,342,487	-	-	3,342,487
Building improvements	896,808	147,045	-	1,043,853
Vehicles	57,890	-	-	57,890
Operating equipment	401,261	316,125	5,750	711,636
Subtotal	21,081,642	661,623	298,493	21,444,772
Transfers	-	(292,743)	(292,743)	-
Total capital assets	21,081,642	368,880	5,750	21,444,772
Accumulated depreciation	(8,185,580)	(394,725)	(5,175)	(8,575,130)
Capital assets, net	<u>\$ 12,896,062</u>	<u>\$ (25,845)</u>	<u>\$ 575</u>	<u>\$ 12,869,642</u>

Note 6 - Long-term liabilities

Long-term liability activity for the years ended December 31, 2019 and 2018 is as follows:

<u>December 31, 2019</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
PERS net pension liability	<u>\$ 1,022,029</u>	<u>\$ -</u>	<u>\$ 60,777</u>	<u>\$ 961,252</u>

<u>December 31, 2018</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
PERS net pension liability	<u>\$ 1,213,004</u>	<u>\$ -</u>	<u>\$ 190,975</u>	<u>\$ 1,022,029</u>

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 7 - Accrued vacation payable

The Authority has allowed unused vacation time to be accumulated to a maximum of 120 days per employee. Up to one half of accumulated sick days may be paid upon disability or retirement or compensating time-off may be taken. If present employees were eligible for this benefit at December 31, 2019 and 2018, the liability to the Authority would be approximately \$27,558 and \$27,372, respectively.

Note 8 - Postretirement benefits

Plan description - The Authority contributes to the State Health Benefits Program (SHBP), a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan administered by the State of New Jersey Division of Pensions and Benefits. It covers employees of local government employers that have adopted a resolution to participate in the Plan. The plan meets the definition of an equivalent arrangement as defined in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions* (GASB Statement No. 75); therefore, assets are accumulated to pay associated benefits. For additional information, please refer to the Division) Comprehensive Annual Financial Report (CAFR), which can be found at <https://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

The SHBP provides medical and prescription drug to retirees and their covered dependents. Under the provisions of Chapter 88, P.L 1974 and Chapter 48, P.L. 1999, local government employers electing to provide postretirement medical coverage to their employees must file a resolution with the Division. Under Chapter 88, local employers elect to provide benefit coverage based on the eligibility rules and regulations promulgated by the State Health Benefits Commission. Chapter 48 allows local employers to establish their own age and service eligibility for employer paid health benefits coverage for retired employees. Under Chapter 48, the employer may assume the cost of postretirement medical coverage for employees and their dependents who: 1) retired on a disability pension; or 2) retired with 25 or more years of service credit in a locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 3) retired and reached the age of 65 with 25 or more years of service credit in a locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 4) retired and reached age 62 with at least 15 years of service with the employer. Further, the law provides that the employer paid obligations for retiree coverage may be determined by means of a collective negotiation's agreement.

The Authority has adopted a resolution to participate in the SHBP.

Funding policy - Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Postretirement medical benefits under the plan have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 8 - Post-retirement benefits (continued)

Pursuant to Chapter 78, P.L. 2011, future retirees eligible for postretirement medical coverage who have less than 20 years of creditable service on June 28, 2011 will be required to pay a percentage of the cost of their health care coverage in retirement provided they retire with 25 or more years of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level of coverage.

Contributions to pay for the health premiums of participating retirees in the SHBP are billed to the Authority monthly. Premiums are funded entirely by the Authority and are based on the type of coverage selected by the employee. The Authority's contributions to the SHBP for post-retirement benefits for the years ended December 31, 2019 and 2018 were \$22,101 and \$37,743, which equaled the required benefit contribution for each year. There were two retired participants eligible at December 31, 2019 and 2018.

Allocation methodology

GASB Statement No. 75 requires participating employers to recognize their proportionate share of the collective net OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective OPEB expense. For the nonspecial funding situation, the total OPEB liability for the years ended June 30, 2019 and June 2018 was \$741,402 and \$925,945, respectively. The nonspecial funding situation's net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense are allocated to employers based on the ratio of the plan members of an individual employer to the total members of the nonspecial funding situation during the measurement period July 1, 2018 through June 30, 2019.

Components of net OPEB liability

The Authority's proportionate share of the net OPEB liability of the participating employers in the SHBP as of December 31, 2019 and 2018 were as follows:

	2019	2018
Net OPEB liability	\$ 726,747	\$ 907,724
Proportionate share	0.005365%	0.005794%
 Plan fiduciary net position as a percentage of the total OPEB liability	1.98%	1.97%

The net OPEB liability as of December 31, 2019 was determined by an actuarial valuation as of June 30, 2018, which was rolled forward to June 30, 2019. The actuarial assumptions vary for each plan member depending on the pension plan the member is enrolled in. Salary increases are based on the defined benefit plan that the member is enrolled in and the member's age. The actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 8 - Postretirement benefits (continued)

Components of net OPEB liability (continued)

Inflation rate	2.50%
Salary increases (based on years of service)	
PERS	
Initial fiscal year applied	
Rate through 2026	2.00% to 6.00%
Rate thereafter	3.00% to 7.00%
PFRS	
Rate for all future years	3.25% to 15.25%

Mortality:

PERS	Pub-2010 General classification head count weighted mortality with fully generational mortality improvement projections from the central year using Scale MP-2019	
PFRS	Pub-2010 Safety classification headcount weighted mortality with fully generational mortality improvement projections from the central year using Scale MP-2019	

Actuarial assumptions used in the July 1, 2018 valuation were based on the results of the PFRS and PERS experience studies prepared for July 1, 2013 to June 30, 2018 and July 1, 2014 to June 30, 2018, respectively

100% of active members are considered to participate in the plan upon retirement.

Healthcare trend assumptions

For pre-Medicare medical benefits, the trend is initially 5.7% and decreases to a 4.5% long-term trend rate after eight years. For post-65 medical benefits, the actual fully-insured Medicare Advantage trend rates for fiscal year 2020 are reflected. The assumed post-65 medical trend is 4.5% for all future years. For prescription drug benefits, the initial trend rate is 7.5% and decreases to a 4.5% long-term trend rate after eight years.

Discount rate

The discount rate for June 30, 2019 and 2018 was 3.50% and 3.87%, respectively. This represents the municipal bond return rate as chosen by the state. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 8 - Post-retirement benefits (continued)

Sensitivity of net OPEB liability to changes in the discount rate

The following presents the collective net OPEB liability of the participating employers as of December 31, 2019 and 2018, calculated using the discount rate as disclosed above as well as what the collective net OPEB liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	2019	2018
At current discount rate (3.50% and 3.87%)	\$ 726,747	\$ 907,724
At a 1% lower rate (2.50% and 2.87%)	840,304	1,065,000
At a 1% higher rate (4.50% and 4.87%)	634,466	782,096

Sensitivity of net OPEB liability to changes in the healthcare trend rate

The following presents the net OPEB liability as of December 31, 2019 and 2018, respectively, calculated using the healthcare trend rate as disclosed above as well as what the net OPEB liability would be if it was calculated using a healthcare trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	2019	2018
Healthcare cost trend rate	\$ 726,747	\$ 907,724
At a 1% lower rate (1% decrease)	613,285	757,187
At a 1% higher rate (1% increase)	871,487	1,102,541

Collective deferred outflows of resources and deferred inflows of resources

At December 31, 2019 and 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019		2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 212,529	\$ -	\$ 184,300
Changes of assumptions	-	257,543	-	230,256
Net difference between projected and actual earnings on OPEB plan investments	599	-	480	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	12,830	310,886	14,919	269,852
Total	\$ 13,429	\$ 780,958	\$ 15,399	\$ 684,408

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 8 - Postretirement benefits (continued)

Sensitivity of net OPEB liability to changes in the healthcare trend rate (continued)

The following presents a summary of changes in the collective deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the year ended December 31, 2019 and 2018:

<u>December 31, 2019</u>	<u>Beginning Balance</u>	<u>Net Change in Activity</u>	<u>Ending Balance</u>
Deferred outflows of resources			
Differences between projected and actual investment earnings on OPEB plan investments	\$ 480	\$ 119	\$ 599
Deferred inflows of resources			
Differences between expected and actual experience	(184,300)	(28,229)	(212,529)
Changes of assumptions	(230,256)	(27,287)	(257,543)
Net changes in deferred outflows (inflows) of resources	<u>\$ (414,076)</u>	<u>\$ (55,397)</u>	<u>\$ (469,473)</u>
 <u>Year ended December 31, 2019,</u>			
2020			\$ (76,463)
2021			(76,462)
2022			(76,509)
2023			(76,585)
2024			(76,654)
Thereafter			(86,800)
Total			<u>\$ (469,473)</u>
<u>December 31, 2018</u>	<u>Beginning Balance</u>	<u>Net Change in Activity</u>	<u>Ending Balance</u>
Deferred outflows of resources			
Differences between projected and actual investment earnings on OPEB plan investments	\$ 203	\$ 277	\$ 480
Deferred inflows of resources			
Differences between expected and actual experience	-	(184,300)	(184,300)
Changes of assumptions	(131,291)	(98,965)	(230,256)
Net changes in deferred outflows (inflows) of resources	<u>\$ (131,088)</u>	<u>\$ (282,988)</u>	<u>\$ (414,076)</u>

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 8 - Postretirement benefits (continued)

Sensitivity of net OPEB liability to changes in the healthcare trend rate (continued)

The amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31, 2018,

2019	\$ (60,802)
2020	(60,802)
2021	(60,802)
2022	(60,852)
2023	(60,934)
Thereafter	(109,884)
Total	<u>\$ (414,076)</u>

The year of deferral for the differences between projected and actual investment earnings on OPEB plan investments was 2018 and 2019 and the amortization period was 5 years for each year. The year of deferral for the change of assumptions was 2018 and 2019 and the amortization period was 8.14 years and 8.05 years, respectively.

Changes in proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflow of resources related to the changes in proportion. These amounts should be recognized (amortized) by each employer over the average remaining service lives of all plan members, which is 8.14 years for the 2018 amounts and 8.05 years for 2019.

OPEB (benefit) expense

The components of allocable OPEB (benefit) expense, which exclude OPEB (benefit) expense related to specific liabilities of individual employers, for the years ended December 31, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Service cost	\$ 35,761	\$ 51,927
Interest on total OPEB liability	34,126	44,271
Expected investment return	(606)	(544)
Administrative expense	509	475
Changes in benefit terms	(102)	-
Current period recognition (amortization) of deferred inflows/outflows of resources	(33,231)	(25,812)
Changes of assumptions	(43,423)	(35,122)
Differences between projected and actual investment earnings on OPEB plan investments	192	133
Total OPEB (benefit) expense	<u>\$ (6,774)</u>	<u>\$ 35,328</u>

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 9 - Risk management

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

Property and Liability Insurance - Risks of losses from worker's compensation, property, automobile, liability, and public official's liability are covered by insurance with New Jersey Utilities Authorities Joint Insurance Fund, plus separate policies for employee bonds and official's liability. Significant losses are covered by commercial insurance and there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current or the three prior years.

Note 10 - Deferred compensation plan

The Authority has a deferred compensation plan available to all full-time employees who wish to participate. The plan is fully funded by employee contributions and is administered by Lincoln National Insurance Company.

Note 11 - Subsequent events

On January 30, 2020, the World Health Organization ("WHO") announced a global health emergency because of a new strain of coronavirus originating in Wuhan, China (The "COVID-19 outbreak") and the risks to the international community as the virus spreads globally beyond its point of origin. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Authority's financial condition, liquidity, and future results of operations. Management has evaluated subsequent events through July 10, 2020, the date the financial statements were available to be issued. The spread of the COVID-19 Coronavirus has resulted in stay-at-home orders issued by the State of New Jersey and the duration of the impact may be only temporary. However, the related financial impact cannot be reasonably estimated at this time.

Supplementary Information

**Schedules Related To Accounting
And Reporting For Pensions (GASB 68) (Unaudited)**

READINGTON-LEBANON SEWERAGE AUTHORITY
Schedule of the Authority's Proportionate Share of the Net Pension Liability
Public Employee's Retirement System
Last Seven Years
Unaudited

	Years Ending December 31,						
	2019	2018	2017	2016	2015	2014	2013
Authority's proportion of the net pension liability	0.0052979547%	0.0051907300%	0.0052108543%	0.0069261582%	0.0067088364%	0.0064723355%	0.0033779620%
Authority's proportion of the net pension liability	\$ 961,252	\$ 1,022,029	\$ 1,213,004	\$ 2,051,329	\$ 1,505,999	\$ 1,211,798	\$ 1,211,799
Authority's covered employee payroll	399,270	379,100	364,010	359,684	452,810	460,866	445,872
Authority's proportionate share of the net pension liability as a percentage of its covered employee payroll	240.75%	269.59%	333.23%	570.31%	332.59%	262.94%	271.78%
Plan fiduciary net position as a percentage of the total pension liability	56.27%	53.60%	48.10%	40.14%	47.93%	52.08%	48.72%

See independent auditor's report.

READINGTON-LEBANON SEWERAGE AUTHORITY
Schedule of the Authority Contributions
Public Employee's Retirement System
Last Seven Years
Unaudited

	Years Ending December 31,						
	2019	2018	2017	2016	2015	2014	2013
Contractually required contributions	\$ 51,892	\$ 51,631	\$ 48,273	\$ 61,531	\$ 57,678	\$ 53,357	\$ 47,754
Contributions in relation to the contractually required contribution	<u>51,892</u>	<u>51,631</u>	<u>48,273</u>	<u>61,531</u>	<u>57,678</u>	<u>53,357</u>	<u>47,754</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered employee payroll	\$ 399,270	\$ 379,100	\$ 364,010	\$ 359,684	\$ 452,810	\$ 460,866	\$ 445,872
Contributions as a percentage of covered employee payroll	13.00%	13.62%	13.26%	17.11%	12.74%	11.58%	10.71%

See independent auditor's report.

**Schedules Related to Accounting and Reporting For
Other Post Employment Employee Benefits (GASB 75) (Unaudited)**

READINGTON-LEBANON SEWERAGE AUTHORITY
Schedule of the Authority's Proportionate Share of the Other
Postemployment Employee Benefits Liability
Last Four Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Authority's proportionate share of the other postemployment				
employee benefits liability (asset) - percentage	0.005365%	0.005794%	0.005719%	0.007373%
Authority's proportionate share of the other postemployment				
employee benefits liability (asset) - value	\$ 726,747	\$ 907,724	\$ 1,167,579	\$ 1,601,229
State's proportionate share of the other postemployment				
employee benefits liability (asset) associated with the Authority	<u>14,655</u>	<u>18,221</u>	<u>12,196</u>	<u>11,088</u>
Total	<u>\$ 741,402</u>	<u>\$ 925,945</u>	<u>\$ 1,179,775</u>	<u>\$ 1,612,317</u>
Authority's covered employee payroll other postemployment	\$ 399,270	\$ 379,100	\$ 364,010	\$ 359,684
Authority's proportionate share of the employee liability (asset)				
as a percentage of its covered employee payroll	54.94%	41.76%	31.18%	22.46%
Plan fiduciary net position as a percentage of the total				
other post employment employee benefits liability	1.98%	1.97%	1.03%	0.69%

Note: Information prior to 2016 is not available.

See independent auditor's report.

READINGTON-LEBANON SEWERAGE AUTHORITY
Schedule of Authority's Contributions for Other Postemployment Benefits
Last Four Years
Unaudited

	Years Ending December 31,			
	2018	2018	2017	2016
Contractually required contributions	\$ 22,101	\$ 37,743	\$ 42,027	\$ 56,205
Contributions in relation to the contractually required contribution	<u>22,101</u>	<u>37,743</u>	<u>42,027</u>	<u>56,205</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered employee payroll	\$ 399,270	\$ 379,100	\$ 364,010	\$ 359,684
Contributions as a percentage of covered employee payroll	5.54%	9.96%	11.55%	15.63%

Note: Information prior to 2016 is not available.

See independent auditor's report.

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Required Supplementary Information
(Unaudited)
December 31, 2019

- Note 1 - Changes in benefit term assumptions - pension
There were no changes in benefit terms.
- Note 2 - Changes in assumptions - pension
The discount rate used to measure the total pension liability was 6.28% as of the June 30, 2019 plan measurement date and 5.66% as of the June 30, 2018 plan measurement date. The single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and 7.00% and municipal bond rates of 3.50% and 3.87% for the respective plan measurement dates of June 30, 2019 and June 30, 2018.
- Note 3 - Changes in assumptions - other postretirement employee benefits
For pre-Medicare medical benefits, the trend is initially 5.7% and decreases to a 4.5% long-term trend rate after eight years. For post-65 medical benefits, the actual fully-insured Medicare Advantage trend rates for fiscal year 2020 are reflected. The assumed post-65 medical trend is 4.5% for all future years. For prescription drug benefits, the initial trend rate is 7.5% and decreases to a 4.5% long-term trend rate after eight years.
- Note 4 - Changes in healthcare trend assumptions - other postretirement employee benefits
For pre-Medicare Preferred Provider Organization (PPO) and Health Maintenance Organization (HMO) medical benefits, the trend rate is initially 5.7% and decreases to a 4.5% long-term trend rate after eight years. For self-insured post-65 PPO benefits, the trend rate is 4.5%. For HMO medical benefits, the trend rate is 5.7% and decreases to a 4.5% long-term trend rate after eight years. For prescription drug benefits, the initial trend rate is 7.5% decreasing to a 4.5% long-term trend rate after eight years. The Medicare Advantage trend rate is 4.5% and will continue in all future years.
- Note 5 - Changes in benefit term assumptions - other postretirement employee benefits
There were no changes of the benefit terms from June 30, 2017 to June 30, 2018. There was a decrease in liability from June 30, 2018 to June 30, 2019 due to updates to the Chapter 48 provision.
- Note 6 - Change in plan members covered - other postretirement employee benefits
There were 6 plan members covered in 2018 and in 2019 there were 6 plan members covered.

Supplementary Information

READINGTON-LEBANON SEWERAGE AUTHORITY
Schedule of Changes in Net Position - Restricted Accounts
For the Year Ended December 31, 2019

	Net Position	
	Capital Improvement Fund	Total Net Position
Balance at beginning of year	\$ 1,762,607	\$ 1,762,607
Additions		
Budget transfer	250,000	250,000
Interest income	35,729	35,729
Total additions	285,729	285,729
Deductions		
Capital expenditures	17,200	17,200
Balance at end of year	\$ 2,031,136	\$ 2,031,136

See independent auditors' report.

READINGTON-LEBANON SEWERAGE AUTHORITY
Schedule of Budgetary Comparison Information
For the Years Ended

	December 31, 2019		December 31, 2018	
	Unaudited Budget	Actual	Unaudited Budget	Actual
Revenues				
Net position appropriated	\$ 125,000	\$ 125,000	\$ 125,000	\$ 125,000
Operating revenues				
User charges and fees				
Readington Township	1,129,960	1,129,960	1,198,296	1,198,296
Lebanon Borough	458,096	458,096	372,145	372,145
Round Valley - State of NJ	28,944	28,944	31,559	31,559
Interest income	-	49,675	-	29,329
Total operating revenues	1,617,000	1,666,675	1,602,000	1,631,329
Non-operating revenues				
Interest income	-	35,729	-	28,675
Total non-operating revenues	-	35,729	-	28,675
Total revenues	\$ 1,742,000	\$ 1,827,404	\$ 1,727,000	\$ 1,785,004
Expenses				
Administrative and general				
Salaries and wages	\$ 210,000	\$ 229,365	\$ 210,000	\$ 220,540
PERS and other employee benefits	119,700	88,924	119,700	95,042
Pension expense - GASB 68	-	(28,959)	-	(25,783)
Legal fees	7,000	345	7,000	360
Engineering fees	10,000	-	10,000	-
Auditing and accounting fees	15,500	15,700	14,750	15,230
Medical services	1,000	-	1,000	-
Trustee fees	1,000	-	1,000	-
Insurance	24,000	20,033	24,500	19,565
Workers compensation insurance	13,600	11,487	13,500	12,464
Education, seminars, conferences	5,000	865	5,000	1,259
Travel expenses and meals	7,000	3,311	7,000	4,565

See independent auditors' report.

READINGTON-LEBANON SEWERAGE AUTHORITY
Schedule of Budgetary Comparison Information (continued)
For the Years Ended

	December 31, 2019		December 31, 2018	
	Budget	Actual	Budget	Actual
Expenses (continued)				
Administrative and general (continued)				
Dues and memberships	\$ 4,700	\$ 3,555	\$ 4,500	\$ 2,612
Office supplies and expenses	8,500	8,223	8,000	6,629
Public advertisements	1,500	1,149	1,500	506
Permits and licenses	15,000	7,831	12,500	9,820
Total administrative and general	<u>443,500</u>	<u>361,829</u>	<u>439,950</u>	<u>362,809</u>
Cost of providing services				
Salaries and wages	290,000	210,021	290,000	177,710
PERS and other employee benefits	165,300	75,066	165,300	78,228
Pension expense - GASB 68	-	(21,451)	-	(18,537)
Communications	8,000	8,718	8,000	6,131
Utilities	156,700	108,467	156,500	114,011
Chemicals	54,000	39,187	53,250	46,815
Sludge disposal	156,500	134,827	155,500	111,755
Fuel	5,000	1,342	5,000	1,565
Uniforms	1,000	554	1,000	116
Laboratory	6,000	4,850	6,000	2,676
Outside lab service	24,500	23,158	15,000	17,062
Safety equipment	5,000	4,247	5,000	2,452
Maintenance outside services	40,000	26,998	40,000	20,151
Plant maintenance	34,000	32,297	34,000	27,653
Lawn care	17,000	14,708	17,000	13,636
Janitorial service	3,000	2,070	3,000	1,800
Instrument and meter calibration	2,500	735	2,500	735
Vehicle maintenance	5,000	1,280	5,000	1,520
Equipment replacement	50,000	2,226	50,000	25,504
Contingencies	20,000	100	20,000	100
Plant security	5,000	4,060	5,000	3,823
Total cost of providing services	<u>1,048,500</u>	<u>673,460</u>	<u>1,037,050</u>	<u>634,906</u>
Reserves and capital outlay				
Capital acquisition	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>	<u>250,000</u>
Total expenses	<u>\$ 1,742,000</u>	<u>\$ 1,285,289</u>	<u>\$ 1,727,000</u>	<u>\$ 1,247,715</u>

See independent auditors' report.



Certified Public Accountants, PC
www.bkc-cpa.com

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Honorable Chairman and Members of the
Readington-Lebanon Sewerage Authority
Whitehouse, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Financial Statements as of and for the year ended December 31, 2019 and December 31, 2018 and the related Notes to the Financial Statements, which collectively comprise the Readington-Lebanon Sewerage Authority's (the Authority) Basic Financial Statements, and have issued our report thereon dated July 10, 2020.

Internal Control over Financial Reporting

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

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 and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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 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 compliance. The report is an integral part of any 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.



BKC, CPAs, PC

July 10, 2020
Flemington, New Jersey

READINGTON-LEBANON SEWERAGE AUTHORITY
Schedule of Findings and Responses

General Comments and Recommendations

No findings or recommendations have been developed as a result of this audit.

Status of Prior Year's Audit Findings/Recommendations

There were no prior year recommendations.

We would be pleased to confer on questions that might arise with respect to any matters in this report.

We wish to express our appreciation for the assistance and courtesies rendered by the Authority officials and employees during the course of the examination.



BKC, CPAs, PC