

**SOUTH TOMS RIVER SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of South Toms River,**  
**County of Ocean, State of New Jersey)**

**Financial Statements and Supplementary Schedules**

**For the years ended December 31, 2019 and 2018**

**(With Independent Auditor's Report thereon)**

**SOUTH TOMS RIVER SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of South Toms River,**  
**County of Ocean, State of New Jersey)**  
**Financial Statements and Supplementary Schedules**  
**December 31, 2019 and 2018**

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## INDEPENDENT AUDITOR'S REPORT

The Chairman and Commissioners  
of South Toms River Sewerage Authority  
South Toms River, New Jersey 08757

### Report on the Financial Statements

We have audited the accompanying financial statements of business-type activities of the South Toms River Sewerage Authority, a component unit of the Borough of South Toms River, County of Ocean, State of New Jersey, 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.

### *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 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 standards prescribed by the Local Finance Board and by the 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

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 South Toms River Sewerage Authority, a component unit of the Borough of South Toms River, County of Ocean, State of New Jersey, as of December 31, 2019 and 2018, and the respective changes in financial position and 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 and other required supplementary information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of 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***

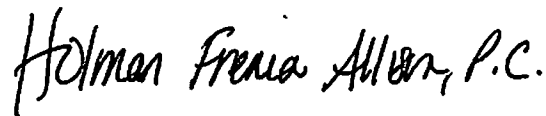
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Toms River Sewerage Authority's basic financial statements. The accompanying schedule of revenues and expenses – budget to actual is presented for purposes of additional analysis as required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and is not a required part of the basic financial statements.

The accompanying schedule of revenues and expenses – budget to actual is the responsibility of management and was derived from and relates 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 other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of revenues and expenses – budget to actual is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2020, on our consideration of the Authority's internal control over financial reporting and 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 the 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.

Respectfully Submitted,

A handwritten signature in black ink that reads "Holman Frenia Allison, P.C." in a cursive script.

**HOLMAN FRENIA ALLISON, P.C.**  
*Certified Public Accountants*

June 26, 2020  
Toms River, New Jersey





**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 Chairman and Commissioners  
of South Toms River Sewerage Authority  
South Toms River, 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 and audit requirements as prescribed by Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the business-type activities of the South Toms River Sewerage Authority, a component unit of the Borough of South Toms River, County of Ocean, State of New Jersey (herein referred to as "the Authority"), as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated June 26, 2020.

**Internal Control Over Financial Reporting**

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

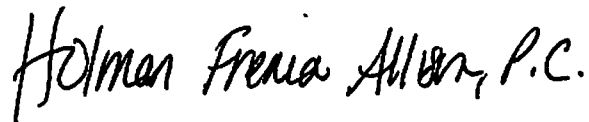
## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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* and audit requirements as prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Audit Standards* and audit requirements as prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully Submitted,



**HOLMAN FRENIA ALLISON, P.C.**  
*Certified Public Accountants*

June 26, 2020  
Toms River, New Jersey

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the South Toms River Sewerage Authority's (the Authority) financial activities for the fiscal year ended December 31, 2019 and as compared to the prior year. It should be read in conjunction with the accompanying financial statements.

### **Financial Statements**

The financial statements included on this report are the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows as of and for the years ended December 31, 2019 and 2018.

The Statements of Net Position show the financial position of the Authority at December 31<sup>st</sup> of each year. Assets and Deferred Outflow of Resources are compared with liabilities and Deferred Inflow of Resources and Net Position is the result.

The Statements of Revenues, Expenses and Changes in Net Position measure performance for each year and how this performance impacts the net assets of the Authority.

Finally, the Statements of Cash Flows demonstrates why cash balances increased or decreased during the two years shown on this report.

### **Financial Analysis**

The Authority at December 31, 2019 has total assets and deferred outflow of resources of \$3,618,796 compared to \$3,678,879 at December 31, 2018 and \$3,810,211 at December 31, 2017. The decrease from 2017 to 2019 can be primarily attributed to the decrease in capital assets due to depreciation and the sale of the Authority building.

The Authority at December 31, 2019 has total liabilities and deferred inflow of resources of \$298,084 compared to \$265,146 at December 31, 2018 and \$282,102 at December 31, 2017. The increase from 2017 to 2019 can be primarily attributed to the adjustment due to GASB 68.

The Authority at December 31, 2019 has a total net position of \$3,320,712 compared to \$3,413,733 at December 31, 2018 and \$3,528,109 at December 31, 2017. The decrease from 2017 to 2019 is primarily related to the operating loss for each year end.



## **Condensed Financial Information**

Key Authority financial information for the years ended December 31, 2019, 2018 and 2017 include the following balances:

### Financial Position:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b><i>ASSETS</i></b>			
Current assets	\$ 746,869	\$ 734,347	\$ 747,504
Property, plant and equipment, net	<u>2,822,117</u>	<u>2,892,387</u>	<u>2,981,784</u>
Total assets	<u>3,568,986</u>	<u>3,626,734</u>	<u>3,729,288</u>
<b><i>DEFERRED OUTFLOW OF RESOURCES</i></b>			
Deferred outflow of resources	<u>49,810</u>	<u>52,145</u>	<u>80,923</u>
Total assets and deferred outflow of resources	<u>\$ 3,618,796</u>	<u>\$ 3,678,879</u>	<u>\$ 3,810,211</u>
<b><i>LIABILITIES</i></b>			
Current liabilities	\$ 51,332	\$ 32,630	\$ 34,136
Noncurrent liabilities	<u>180,648</u>	<u>173,613</u>	<u>206,643</u>
Total liabilities	<u>231,980</u>	<u>206,243</u>	<u>240,779</u>
<b><i>DEFERRED INFLOW OF RESOURCES</i></b>			
Deferred inflow of resources	<u>66,104</u>	<u>58,903</u>	<u>41,323</u>
Total deferred inflow of resources	<u>66,104</u>	<u>58,903</u>	<u>41,323</u>
<b><i>NET POSITION</i></b>			
Net position	<u>3,320,712</u>	<u>3,413,733</u>	<u>3,528,109</u>
Total liabilities and deferred inflow of resources	<u>\$ 3,618,796</u>	<u>\$ 3,678,879</u>	<u>\$ 3,810,211</u>
<b><u>Other Financial Information:</u></b>			
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Revenues	\$ 591,323	\$ 547,983	\$ 554,351
Expenses	<u>(684,344)</u>	<u>(662,359)</u>	<u>(711,313)</u>
Changes in net position	<u>\$ (93,021)</u>	<u>\$ (114,376)</u>	<u>\$ (156,962)</u>

The Authority's revenues showed a favorable variance of \$9,437 for 2019 when compared to budget and the Authority's expenses showed a favorable variance of \$17,485 for 2019 when compared to budget for a total overall favorable variance to budget of \$26,922 for the year ended December 31, 2019. The Authority's revenues showed an unfavorable variance of (\$6,293) for 2018 when compared to budget, however, the Authority's expenses showed a favorable variance of \$11,622 for 2018 when compared to budget for a total overall favorable variance to budget of \$5,329 for the year ended December 31, 2018. Favorable and unfavorable revenue variances can be attributed to the collection of lower or higher than expected user charges and unbudgeted connection fees. Favorable and unfavorable expense variances can be attributed to lower or higher than expected expenses in each year across the Authority as a whole.

**Note from the Authority's Management**

The Authority's financial report is designed to provide users of the financial statements with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. The financial statements of the Authority are a matter of public record and may be examined at 19 Double Trouble Rd., South Toms River, New Jersey during the Authority's business hours.

Respectfully Submitted,

**George Rutzler**

George Rutzler  
Chairman

**SOUTH TOMS RIVER SEWERAGE AUTHORITY**  
(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)  
**Statements of Net Position**  
December 31, 2019 and 2018

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
<b>Current Assets:</b>		
<b>Unrestricted Assets:</b>		
Cash and Cash Equivalents	\$ 605,300	\$ 608,005
Accounts Receivable	80,712	83,261
Prepaid Expenses	39,391	43,081
<b>Total Current Unrestricted Assets</b>	<b>725,403</b>	<b>734,347</b>
<b>Restricted Assets:</b>		
Cash and Cash Equivalents	21,466	-
<b>Total Current Restricted Assets</b>	<b>21,466</b>	<b>-</b>
<b>Total Current Assets</b>	<b>746,869</b>	<b>734,347</b>
<b>Noncurrent Assets (Note 4):</b>		
Capital Assets	5,740,298	5,722,809
Less: Accumulated Depreciation	(2,918,181)	(2,830,422)
<b>Net Capital Assets</b>	<b>2,822,117</b>	<b>2,892,387</b>
<b>Total Noncurrent Assets</b>	<b>2,822,117</b>	<b>2,892,387</b>
<b>Total Assets</b>	<b>3,568,986</b>	<b>3,626,734</b>
<b><u>DEFERRED OUTFLOW OF RESOURCES</u></b>		
Deferred Outflows Related to Pensions (Note 6)	49,810	52,145
<b>Total Deferred Outflow of Resources</b>	<b>49,810</b>	<b>52,145</b>
<b>Total Assets and Deferred Outflow of Resources</b>	<b>\$ 3,618,796</b>	<b>\$ 3,678,879</b>
<b><u>LIABILITIES</u></b>		
<b>Current Liabilities Payable from Unrestricted Assets:</b>		
Accounts Payable	\$ 9,079	\$ 12,828
Accounts Payable - Related to Pensions (Note 6)	9,380	8,450
Accrued Expenses	9,672	10,191
Unearned Revenues	1,735	1,161
<b>Total Current Liabilities Payable from Unrestricted Assets</b>	<b>29,866</b>	<b>32,630</b>
<b>Current Liabilities Payable from Restricted Assets:</b>		
Reserve for Escrow & Inspection Deposits	21,466	-
<b>Total Current Liabilities Payable from Restricted Assets</b>	<b>21,466</b>	<b>-</b>
<b>Total Current Liabilities</b>	<b>51,332</b>	<b>32,630</b>
<b>Noncurrent Liabilities:</b>		
Compensated Absences Payable	6,892	6,346
Net Pension Liability (Note 6)	173,756	167,267
<b>Total Noncurrent Liabilities</b>	<b>180,648</b>	<b>173,613</b>
<b>Total Liabilities</b>	<b>231,980</b>	<b>206,243</b>
<b><u>DEFERRED INFLOW OF RESOURCES</u></b>		
Deferred Inflows Related to Pensions (Note 6)	66,104	58,903
<b>Total Deferred Inflow of Resources</b>	<b>66,104</b>	<b>58,903</b>
<b><u>NET POSITION</u></b>		
Net Investment in Capital Assets	2,822,117	2,892,387
Unrestricted	498,595	521,346
<b>Total Net Position</b>	<b>3,320,712</b>	<b>3,413,733</b>
<b>Total Liabilities, Deferred Inflow of Resources, and Net Position</b>	<b>\$ 3,618,796</b>	<b>\$ 3,678,879</b>

**SOUTH TOMS RIVER SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**For the years ended December 31, 2019 and 2018**

	<u>2019</u>	<u>2018</u>
Operating Revenues:		
Sewer User Charges	\$ 576,103	\$ 538,589
Connection Fees	1,350	100
Delinquent Charges	5,807	5,120
Inspection & Review	600	-
Total Operating Revenues	<u>583,860</u>	<u>543,809</u>
Operating Expenses:		
Cost of Providing Services	338,890	334,721
Administrative Expenses	229,264	211,088
Depreciation Expense	87,759	89,397
Total Operating Expenses	<u>655,913</u>	<u>635,206</u>
Operating Loss	<u>(72,053)</u>	<u>(91,397)</u>
Non-Operating Revenues (Expenses):		
Interest Income	7,463	4,174
Appropriation to Municipality	<u>(28,431)</u>	<u>(27,153)</u>
Total Non-Operating Revenues (Expenses)	<u>(20,968)</u>	<u>(22,979)</u>
Net Loss	(93,021)	(114,376)
Net Position, January 1,	<u>3,413,733</u>	<u>3,528,109</u>
Net Position, December 31,	<u>\$ 3,320,712</u>	<u>\$ 3,413,733</u>

**SOUTH TOMS RIVER SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)**  
**Statements of Cash Flows**  
**For the years ended December 31, 2019 and 2018**

	2019	2018
<b>Cash Flows from Operating Activities:</b>		
Cash Received from Service Users	\$ 608,449	\$ 546,713
Cash Paid to Suppliers and Employees	(551,231)	(538,744)
Net Cash Provided by Operating Activities	57,218	7,969
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Payment of Township Appropriations	(28,431)	(27,153)
Acquisition and Construction of Capital Assets	(17,489)	-
Net Cash Used by Capital and Related Financing Activities	(45,920)	(27,153)
<b>Cash Flows from Investing Activities:</b>		
Interest on Investments and Deposits	7,463	4,174
Net Cash Provided by Investing Activities	7,463	4,174
Net Increase/(Decrease) in Cash and Cash Equivalents	18,761	(15,010)
Cash and Cash Equivalents, January 1	608,005	623,015
Cash and Cash Equivalents, December 31	\$ 626,766	\$ 608,005
<b>Reconciliation to Statements of Net Position:</b>		
<b>Current Unrestricted Assets:</b>		
Cash and Cash Equivalents	\$ 605,300	\$ 608,005
<b>Current Restricted Assets:</b>		
Cash and Cash Equivalents	21,466	-
Cash and Cash Equivalents, December 31	\$ 626,766	\$ 608,005
<b>Reconciliation of Operating Income to Cash Flows from Operating Activities:</b>		
Operating Loss	\$ (72,053)	\$ (91,397)
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>		
<b>Items Which Did Not Use Cash:</b>		
Depreciation Expense	87,759	89,397
Pension Liability Expense - GASB 68	16,025	13,379
<b>Working Capital Changes which provided/(used) cash:</b>		
Decrease in Accounts Receivable	2,549	4,409
Decrease/(Increase) in Prepaid Expenses	3,690	(6,262)
(Decrease)/Increase in Accounts Payable	(2,819)	100
Decrease in Accrued Expenses	(519)	(301)
Increase/(Decrease) in Unearned Revenues	574	(1,505)
Increase in Compensated Absences	546	149
Increase in Reserve for Escrow & Inspection Deposits	21,466	-
Total Adjustments	129,271	99,366
Net Cash Provided by Operating Activities	\$ 57,218	\$ 7,969

**Noncash Investing, Capital, and Financing Activities:**

During the years ended December 31, 2019 and 2018, noncash capital contributions received were \$0 and \$0 respectively.

**SOUTH TOMS RIVER SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)**  
**Notes to Financial Statements**  
**For the years ended December 31, 2019 and 2018**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the South Toms River Sewerage Authority (the "Authority") have been prepared to conform with accounting principles generally accepted in the United States of America ("GAAP") as applied to governmental units. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant of these policies.

**Reporting Entity**

South Toms River Sewerage Authority is a public body, politic and corporate, constituting a political subdivision of the State of New Jersey created under Chapter 138 of the Sewerage Authorities Law of New Jersey of 1946 by a municipal ordinance adopted on December 18, 1974. The Authority was created pursuant to the act for the purpose of constructing and operating a sewerage system consisting of a wastewater collection system.

The Authority provides sewerage collection services to the territorial limits of the Borough of South Toms River.

The Authority consists of five members, who are appointed by resolution of the Borough Committee for three year terms.

**Component Unit**

The Authority is considered to be a "Component Unit" of the Borough of South Toms River under GAAP however, the Borough of South Toms River does not follow GAAP for accounting and financial reporting purposes rather it follows a regulatory basis of accounting, utilizing accounting principles which differ, in some cases significantly, from GAAP. Of particular note is the exclusion from the Borough's financial statements of potential component units, based on the separate legal status of these units. Accordingly, the financial statements of the Borough do not include the Authority as a component unit.

**Basis of Presentation**

The financial statements of the Authority have been prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles ("GAAP") applicable to enterprise funds of State and Local Governments on a going concern basis.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, accountability or other purposes.



**SOUTH TOMS RIVER SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)**  
**Notes to Financial Statements (continued)**  
**For the years ended December 31, 2019 and 2018**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Basis of Presentation (continued)**

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 statement of net position. Net position (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt and unrestricted components.

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Enterprise funds are accounted for using the accrual basis of accounting.

**Revenues -- Exchange and Non-Exchange Transactions** - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Sewer service charges are recognized as revenue when services are provided. Connection fees are collected in advance and, accordingly, the Authority defers these revenues until the municipality issues a release for certificate of occupancy and determines that sewage collection services are being provided to the properties.

Non-exchange transactions, is when the Authority receives value without directly giving equal value in return, include grants, contributed capital, and donations. Revenue from grants, contributed capital, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Authority must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

**Expenses** - On the accrual basis of accounting, expenses are recognized at the time they are incurred.

**Budgets and Budgetary Accounting**

The Authority must adopt an annual budget in accordance with *N.J.A.C. 5:31-2. N.J.A.C. 5:31-2*. This requires the governing body to introduce the annual Authority budget at least 60 days prior to the end of the current fiscal year and to adopt no later than the beginning of the Authority's fiscal year. The governing body may amend the budget at any point during the year by resolution of the Board of Commissioners. The budgetary basis of accounting is utilized to determine the Authority has sufficient cash to operate and pay debt service. As such, certain items such as bond payments are included in budgetary expenses while depreciation is not included.

The legal level of budgetary control is established at the detail shown on the Comparative Statements

**SOUTH TOMS RIVER SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)**  
**Notes to Financial Statements (continued)**  
**For the years ended December 31, 2019 and 2018**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Budgets and Budgetary Accounting (continued)**

of Revenues, Expenses and Changes in Net Position. All budget transfers and amendments to those accounts must be approved by resolution of the Authority as required by the Local Finance Board. Management may transfer among supplementary line items as long as the legal level line items are not affected. There are no statutory requirements that budgetary line items not be over-expended.

The Authority records encumbrances. An encumbrance represents a commitment related to unperformed contracts for goods or services. The issuance of a purchase order or the signing of a contract would create an encumbrance. The encumbrance does not represent an expenditure for the period, only a commitment to expend resources. At year-end, the accounting records are adjusted to record only expenses in accordance with generally accepted accounting principles.

**Cash, Cash Equivalents and Investments**

Cash and cash equivalents include cash in banks and may include petty cash and change funds. It may also include 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. Such is the definition of cash and cash equivalents used in the statement of cash flows.

New Jersey Authorities are required by *N.J.S.A. 40A:5-14* to deposit public funds into 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 of America or State of New Jersey or the New Jersey Cash Management Fund. *N.J.S.A. 40A:5-15.1* provides a list of securities which may be purchased by New Jersey Authorities. The Authority is required by *N.J.S.A. 17:9-41* to deposit funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (“GUDPA”). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey.

The Authority has established a restricted cash escrow account for advance payments and deposits required as a condition for the Authority to commence engineering reviews and inspections on new development. Funds held for reviews and inspections become earned revenues of the Authority as the services are performed and amounts remaining at project completion, including a portion of interest earnings, are returned to the developer.

Additionally, the Authority has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act. In lieu of designating a depository, the cash management plan may provide that the local unit make deposits with the State of New Jersey Cash Management Fund.

**Inventory**

Treatment of sewerage and sludge is provided by the Ocean County Utilities Authority. As a result, there is no inventory of chemicals or other materials required.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Prepaid Expenses**

Prepaid expenses recorded on the financial statements represent payments made to vendors for services that will benefit periods beyond the Authority’s fiscal year end.

**Capital Assets**

Capital assets primarily consist of expenditures to acquire, construct, place in operation and improve the facilities of the Authority. Assets purchased are stated at cost. Assets contributed by developer’s are valued at estimated fair market value as of the date of contribution. Costs incurred for construction projects are recorded as construction in progress. In the year that the project is completed, these costs are transferred to capital assets.

Depreciation is determined on a straight-line basis for all capital assets. Depreciation was provided over the following estimated useful lives:

	<u>Years</u>
Collection System	75
Leasehold Improvements	15
Equipment	5-15

**Deferred Outflows and Deferred 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.

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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**Compensated Absences**

Employees of South Toms River Sewerage Authority must use their vacation time in the current year, after the succeeding year, vacation time is lost. Employees will be paid out for one half of their sick days accumulated in accordance with the Authority’s Personnel Policy.

**Unearned Revenue**

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied and are recorded as a liability until the revenue is both measurable and the Authority is eligible to realize the revenue. The Authority receives payments for connection fees when new users connect to

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Unearned Revenue (continued)**

the water and/or sewer system. Since the Authority does not supply the user with supplies or services to make the physical connection, this would be considered a nonexchange transaction and recorded as deferred revenue under deferred inflows of resources. The Authority recognizes the revenue in the period that the user exercises their right to connect to the system.

**Pensions Section**

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

**Net Position**

In accordance with the provisions of GASB Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", the Authority has classified its net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Net Investment in Capital Assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position.

Restricted Net Position - Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted Net Position - All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

**Income Taxes**

As a public body, under existing statutes and Section 115, the Authority appropriately is exempt from income taxes.

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Operating and Non-Operating Revenues and Expenses (continued)**

The Authority defines its operating revenues as income derived from charges to residents and others for services provided as well as government subsidies and grants used for operating purposes. Non-operating revenues primarily consist of interest income and on investments of securities. Operating expenses are costs incurred in the operation of its program activities to provide services to residents and others. Non-operating expenses primarily include expenses attributable to the Authority's interest on debt, contribution to Borough and sales of capital assets.

**Use of Estimates**

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amount.

**Impact of Recently Issued Accounting Principles**

**Adopted Accounting Pronouncements**

Statement No. 83, *Certain Asset Retirement Obligations*. An asset retirement obligation is a legally enforceable liability associated with the retirement of a tangible capital asset. Statement No. 83 establishes guidance for determining the timing and patten of recognition for liabilities and corresponding deferred outflow of resources related to such obligations. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Implementation of this Statement did not have a significant impact on the Authority's financial statements.

**Recently Issued Accounting Pronouncements**

The GASB has issued the following Statements which will become effective in future fiscal years as shown below:

Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Statement No. 87 is effective for reporting periods beginning after December 15, 2019. Management has not yet determined the impact of this Statement on the financial statements.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Recently Issued Accounting Pronouncements (continued)**

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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Management does not expect this Statement to have a material impact on the Authority's financial statements.

**Subsequent Events**

South Toms River Sewerage Authority has evaluated subsequent events occurring after December 31, 2019 through June 26, 2020, which is the date the financial statements were available to be issued. See Note 11 for additional information.

**NOTE 2: CASH AND CASH EQUIVALENTS**

This Authority is governed by the deposit and investment limitations of New Jersey state law. The deposits held at December 31, 2019 and 2018, reported at fair value, are as follows:

	<u>2019</u>	<u>2018</u>
<b>Deposits:</b>		
Demand deposits	<u>\$626,766</u>	<u>\$608,005</u>
Total deposits	<u>\$626,766</u>	<u>\$608,005</u>
<b>Reconciliation to Statements of Net Position:</b>		
Current assets:		
Unrestricted cash and cash equivalents	\$605,300	\$608,005
Current assets:		
Restricted cash and cash equivalents	<u>21,466</u>	<u>-</u>
Total deposits	<u>\$626,766</u>	<u>\$608,005</u>

**Custodial Credit Risk Related to Deposits**

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. Although the Authority does not have a formal policy regarding custodial credit risk, *N.J.S.A. 17:9-41 et seq.* requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). 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 such as salary withholdings or funds that may pass to the Authority relative to the happening of a future condition. If the Authority had any such funds, they would be shown as Uninsured and Uncollateralized in the schedule below. As of December 31, 2019 and 2018, the Authority's bank balances were insured or exposed to credit risk as follows:



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**NOTE 4: CAPITAL ASSETS (continued)**

The activity in capital assets for the year ended December 31, 2018 is as followed:

	Balance December 31, <u>2017</u>	<u>Additions</u>	Retirements and Transfers	Balance December 31, <u>2018</u>
<b>Capital Assets being depreciated:</b>				
Collection System	\$ 5,464,617	\$ -	\$ -	\$ 5,464,617
Equipment	216,520	-	-	216,520
Leasehold Improvements	41,672	-	-	41,672
<b>Total Capital Assets being depreciated</b>	<u>5,722,809</u>	<u>-</u>	<u>-</u>	<u>5,722,809</u>
<b>Less: Accumulated Depreciation:</b>				
Collection System	(2,590,864)	(72,862)	-	(2,663,726)
Equipment	(148,406)	(13,757)	-	(162,163)
Leasehold Improvements	(1,755)	(2,778)	-	(4,533)
<b>Total Accumulated Depreciation</b>	<u>(2,741,025)</u>	<u>(89,397)</u>	<u>-</u>	<u>(2,830,422)</u>
<b>Total Capital Assets being depreciated, net</b>	<u>2,981,784</u>	<u>(89,397)</u>	<u>-</u>	<u>2,892,387</u>
<b>Total Governmental Activities Capital Assets, net</b>	<u>\$ 2,981,784</u>	<u>\$ (89,397)</u>	<u>\$ -</u>	<u>\$ 2,892,387</u>

**NOTE 5: LIABILITIES**

During the years ended December 31, 2019 and 2018, the following changes occurred in long-term obligations:

**Net Pension Liability**

For details on the net pension liability, see the Pension Obligations section below. The Authority's annual required contribution to the Public Employees' Retirement System is budgeted and paid on an annual basis.

**Compensated Absences**

For the years ended December 31, 2019 and 2018, the Authority accrued compensated absences in the amount of \$6,892 and \$6,346, respectively.

**Unearned Sewerage Charges**

The Authority's customers are billed in December for the previous quarter beginning October 1st. Appropriately, customer payments received in December for the following quarter are included in the Authority's liabilities as unearned income and not recognized as revenue until the following year. As of December 31, 2019 and 2018, the balances totaled \$1,735 and \$1,161, respectively.

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**Notes to Financial Statements (continued)**  
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**NOTE 6: PENSION OBLIGATIONS**

	Balance			Balance	Balance
	<u>December 31, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2019</u>	<u>Due Within</u>
					<u>One Year</u>
Net Pension Liability	\$ 167,267	\$ 6,489	\$ -	\$ 173,756	\$ -
Compensated Absences	6,346	546	-	6,892	-
	<u>\$ 173,613</u>	<u>\$ 7,035</u>	<u>\$ -</u>	<u>\$ 180,648</u>	<u>\$ -</u>

	Balance			Balance	Balance
	<u>December 31, 2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>December 31, 2018</u>	<u>Due Within</u>
					<u>One Year</u>
Net Pension Liability	\$ 200,446	\$ -	\$ 33,179	\$ 167,267	\$ -
Compensated Absences	6,197	149	-	6,346	-
	<u>\$ 206,643</u>	<u>\$ 149</u>	<u>\$ 33,179</u>	<u>\$ 173,613</u>	<u>\$ -</u>

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

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

The following represents the membership tiers for PERS:

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

Service retirement benefits of 1/55<sup>th</sup> 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 1/60<sup>th</sup> 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 with 25 or more years of service credit before age 62 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

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**Notes to Financial Statements (continued)**  
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**NOTE 6: PENSION OBLIGATIONS (continued)**

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

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.

**Basis of Presentation** - The schedules of employer and nonemployer allocations and the schedules of pension amounts by employer and nonemployer (collectively, the Schedules) present amounts that are considered elements of the financial statements of PERS or its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of PERS or the participating employers. The accompanying Schedules were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of PERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

**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 noncontributory group insurance benefits is based on actual claims paid. For the fiscal year 2019, the State's pension contribution was less than the actuarial determined amount. The local employers' contribution amounts are based on an actuarially determined rate, which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 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. For the year ended December 31, 2019, the Authority's contractually required contribution to PERS plan was \$9,380.

**Components of Net Pension Liability** - At December 31, 2019, the Authority's proportionate share of the PERS net pension liability was \$173,756. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined using update procedures to roll forward the total pension liability from an actuarial valuation as of July 1, 2018, which was rolled forward to June 30, 2019. The Authority's proportion of the net pension liability was based on the Authority's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2019. The Authority's proportion measured as of June 30, 2019, was 0.0009643207% which was an increase of 0.0001148007% from its proportion measured as of June 30, 2018.

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**NOTE 6: PENSION OBLIGATIONS (continued)**

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

**Balances at December 31, 2019 and December 31, 2018**

	<u>12/31/2019</u>	<u>12/30/2018</u>
Actuarial valuation date (including roll forward)	June 30, 2019	June 30, 2018
Deferred Outflows of Resources	\$ 49,810	\$ 52,145
Deferred Inflows of Resources	66,104	58,903
Net Pension Liability	173,756	167,267
Authority's portion of the Plan's total Net Pension Liability	0.00096%	0.00085%

**Pension Expense and Deferred Outflows/Inflows of Resources** – At December 31, 2019, the Authority's proportionate share of the PERS expense, calculated by the plan as of the June 30, 2019 measurement date is \$25,404. At December 31, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 3,119	\$ 768
Changes of Assumptions	17,350	60,310
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	2,743
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions	<u>29,341</u>	<u>2,283</u>
	<u>\$ 49,810</u>	<u>\$ 66,104</u>

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**NOTE 6: PENSION OBLIGATIONS (continued)**

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

The Authority will amortize the above sources of deferred outflows and inflows related to PERS over the following number of years:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
<b>Differences between Expected and Actual Experience</b>		
Year of Pension Plan Deferral:		
June 30, 2014	-	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
June 30, 2017	5.48	-
June 30, 2018	5.63	-
June 30, 2019	5.21	-
<b>Changes of Assumptions</b>		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	-
June 30, 2015	5.72	-
June 30, 2016	5.57	-
June 30, 2017	-	5.48
June 30, 2018	-	5.63
June 30, 2019	-	5.21
<b>Net Difference between Projected and Actual Earnings on Pension Plan Investments</b>		
Year of Pension Plan Deferral:		
June 30, 2014	-	5.00
June 30, 2015	-	5.00
June 30, 2016	5.00	-
June 30, 2017	5.00	-
June 30, 2018	5.00	-
June 30, 2019	5.00	-
<b>Changes in Proportion and Differences between Contributions and Proportionate Share of Contributions</b>		
Year of Pension Plan Deferral:		
June 30, 2014	6.44	6.44
June 30, 2015	5.72	5.72
June 30, 2016	5.57	5.57
June 30, 2017	5.48	5.48
June 30, 2018	5.63	5.63
June 30, 2019	5.21	5.21

**SOUTH TOMS RIVER SEWERAGE AUTHORITY**  
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**Notes to Financial Statements (continued)**  
**For the years ended December 31, 2019 and 2018**

**NOTE 6: PENSION OBLIGATIONS (continued)**

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

The following is a summary of the deferred outflows of resources and deferred inflows of resources related to PERS that will be recognized in future periods:

<b>Year Ending</b>	<b>Amount</b>
<b><u>Dec 31,</u></b>	
2020	\$ 4,076
2021	(3,795)
2022	(15,095)
2023	(1,833)
2024	<u>353</u>
	<u>\$ (16,294)</u>

**Actuarial Assumptions** - The total pension asset/(liability) as of the measurement date was determined by using an actuarial valuation as noted in the table below, with update procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

<b>Inflation</b>	
Price	2.75%
Wage	3.25%
<b>Salary Increases:</b>	
Through 2026	2.00 - 6.00% Based on Years of Service
Thereafter	3.00 - 7.00% Based on Years of Service
<b>Investment Rate of Return</b>	7.00%
<b>Mortality Rate Table</b>	Pub-2010 General classification headcount weighted mortality with fully generational mortality improvement projections from the central year using Scale MP-2019
<b>Period of Actuarial Experience</b>	
Study upon which Actuarial Assumptions were Based	July 1, 2014 - June 30, 2018



**SOUTH TOMS RIVER SEWERAGE AUTHORITY**  
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**Notes to Financial Statements (continued)**  
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**NOTE 6: PENSION OBLIGATIONS (continued)**

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

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, 2018. 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.

**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 Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic 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 Allocation</u>	<u>Long-Term Expected Real 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	28.00%	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%
	<hr style="width: 50%; margin: 0 auto;"/>	
	100.00%	

**SOUTH TOMS RIVER SEWERAGE AUTHORITY**  
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**NOTE 6: PENSION OBLIGATIONS (continued)**

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

**Discount Rate** - The discount rate used to measure the total pension liability was 6.28% as of June 30, 2019. The single blended discount rate was based on 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 municipals 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 70% of the actuarially determined contributions for the State employer and 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.

**Sensitivity of the Authority's proportionate share of the Net Pension Liability to Changes in the Discount Rate** - The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate as disclosed above, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.28%) or 1-percentage-point higher (7.28%) than the current rate:

	<b>1% Decrease <u>(5.28%)</u></b>	<b>Current Discount Rate <u>(6.28%)</u></b>	<b>1% Increase <u>(7.28%)</u></b>
Authority's Proportionate Share of the Net Pension Liability	<b><u>\$ 221,009</u></b>	<b><u>\$ 173,756</u></b>	<b><u>\$ 136,166</u></b>

**NOTE 7: RATE STRUCTURE**

The Authority adopted the following rate structures for residential and commercial users effective January 1, 2008.

**Residential User Charges**

- A residential private dwelling, single family house having four bedrooms or less shall be charged at the rate of one unit.
- Multiple residential dwellings; each apartment shall be charged at the rate of one unit.
- Each unit will be billed \$105 per quarter.

**SOUTH TOMS RIVER SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)**  
**Notes to Financial Statements (continued)**  
**For the years ended December 31, 2019 and 2018**

**NOTE 7: RATE STRUCTURE (continued)**

**Commercial User Charges**

- Commercial businesses will be billed on a quarterly basis at the rate of \$115 per quarter for the first four fixtures. Each additional fixture will be billed \$27.50 each per quarter. Fixtures are defined as sinks, toilets, bathtubs, showers, dishwashers, washing machines and floor drains.
- Commercial businesses will also be billed for water usage on a monthly basis for usage amounts exceeding 6,000 gallons. Monthly usage over 6,000 gallons will be billed at \$4.00 for every additional 1,000 gallons. As of December 31, 2018, the Authority no longer bills for this usage.

**NOTE 8: CONNECTION FEE AGREEMENT**

On November 30, 2018, the Authority entered into a redevelopment agreement with M&T at STR Urban Renewal, LLC ("M&T"). This Project requires the connection to the Authority's sewer system and for the feasibility of developing the project, the Authority granted M&T a 40% reduction on the original cost of \$1,258,560 to an amended cost of \$755,136. This reduction applies solely to the residential component of the Project and will be paid in segments by M&T to the Authority once the project begins. As of the date of this report, the project has not yet begun.

**NOTE 9: COMMITMENTS**

On March 13, 2017, the Authority entered into an agreement with the Borough of South Toms River for the leasing of premises at 19 Double Trouble Road. The lease is for a period of ninety-nine (99) years or until the building is no longer in use by the Borough of South Toms River, whichever comes first. This period of time shall be renewable by way of a resolution passed by both the Borough and the Authority. During said period, the Authority shall pay the Borough rent in the amount of \$500 per month. Total rent expense for the years ended December 31, 2019 and 2018 totaled \$6,000 and \$6,000, respectively.

On December 12, 2018, the Authority entered into an agreement with the Borough of South Toms River for the leasing of the property located between 1 Drew Lane and 1 Drake Lane. The lease is for a period of ninety-nine (99) years and authorizes the Authority to construct a pole barn or another similar structure for the sole purpose of storing Authority property and any and all equipment. This period of time shall be renewable by way of a resolution passed by both the Borough and the Authority. During said period, the Authority shall pay the Borough rent in the amount of \$1 per year payable to the Borough on the 10<sup>th</sup> of every January.

**NOTE 10: 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.

**SOUTH TOMS RIVER SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)**  
**Notes to Financial Statements (continued)**  
**For the years ended December 31, 2019 and 2018**

**NOTE 10: RISK MANAGEMENT (continued)**

Property and Liability Insurance - During the year ended December 31, 2019, the Authority continued to transfer all insurable risks through the purchase of commercial insurance policies. Settled claims resulting from these risks have not exceeded commercial insurance coverage during each of the past three fiscal years. During the year ended December 31, 2019, there were no significant reductions in coverages from those provided in the previous year.

**NOTE 11: SUBSEQUENT EVENT**

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. This pandemic has adversely affected global economic activity and greatly contributed to the instability in financial markets. As a result, the Authority is unable to predict how changing global economic conditions such as COVID-19 will affect the Authority’s operations.

**SOUTH TOMS RIVER SEWERAGE AUTHORITY**  
 (A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)  
 Schedule of Authority's Proportionate Share of the Net Pension Liability  
 Public Employees' Retirement System (PERS)  
 Last Seven Fiscal Years \*

	Measurement Date Ended June 30,						
	2019	2018	2017	2016	2015	2014	2013
Authority's proportion of the net pension liability	0.00096%	0.00085%	0.00086%	0.00087%	0.00080%	0.00080%	0.00044%
Authority's proportionate share of the net pension liability	\$ 173,756	\$ 167,267	\$ 200,446	\$ 256,837	\$ 180,397	\$ 150,075	\$ 84,110
Authority's covered payroll	\$ 68,524	\$ 59,656	\$ 59,656	\$ 69,116	\$ 60,777	\$ 61,454	\$ 58,741
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	253.57%	280.39%	336.00%	371.60%	296.82%	244.21%	143.19%
Plan fiduciary net position as a percentage of the total pension liability	56.27%	53.60%	48.10%	47.93%	52.08%	52.08%	48.72%

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

**SOUTH TOMS RIVER SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)**  
**Schedule of Authority Contributions**  
**Public Employees' Retirement System (PERS)**  
**Last Seven Fiscal Years \***

Year ended December 31,

	2019	2018	2017	2016	2015	2014	2013
Authority's contractually required contribution	\$ 9,380	\$ 8,450	\$ 7,977	\$ 7,704	\$ 6,909	\$ 6,608	\$ 3,316
Contributions in relation to the contractually required contribution	<u>(9,380)</u>	<u>(8,450)</u>	<u>(7,977)</u>	<u>(7,704)</u>	<u>(6,909)</u>	<u>(6,608)</u>	<u>(3,316)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered payroll	\$ 70,072	\$ 68,524	\$ 59,656	\$ 59,656	\$ 69,116	\$ 60,777	\$ 61,454
Contributions as a percentage of covered payroll	13.39%	12.33%	13.37%	12.91%	10.00%	10.87%	5.40%

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.



**SOUTH TOMS RIVER SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)**  
**Notes to Required Supplementary Information**  
**For the year ended December 31, 2019**

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

***Changes in Benefit Terms***

None.

***Changes in Assumptions***

The discount rate changed from 5.66% as of June 30, 2018, to 6.28% as of June 30, 2019.

**SOUTH TOMS RIVER SEWERAGE AUTHORITY**  
**Schedule of Revenues and Expenses - Budget to Actual**  
**For the year ended December 31, 2019**  
(With comparative totals for the year ended December 31, 2018)

	For the year ended December 31, 2019				For the year ended December 31, 2018			
	Original Budget	Final Budget	Actual	Favorable (Unfavorable)	Original Budget	Final Budget	Actual	Favorable (Unfavorable)
<b>REVENUES:</b>								
User Charges and Fees	\$ 570,990	\$ 570,990	\$ 576,103	\$ 5,113	\$ 544,180	\$ 544,180	\$ 538,589	\$ (5,591)
Connection Fees	3,896	3,896	1,350	(2,546)	3,896	3,896	100	(3,796)
Delinquent Charges	3,900	3,900	5,807	1,907	6,000	6,000	5,120	(880)
Interest Income	3,000	3,000	7,463	4,463	100	100	4,174	4,074
Other Revenue	100	100	-	(100)	100	100	-	(100)
<b>TOTAL REVENUES</b>	<b>581,886</b>	<b>581,886</b>	<b>591,323</b>	<b>9,437</b>	<b>554,276</b>	<b>554,276</b>	<b>547,983</b>	<b>(6,293)</b>
<b>EXPENSES:</b>								
Operating Appropriations:								
Cost of Providing Services:								
Salaries, Wages and Payroll Taxes	27,250	26,790	26,789	1	27,250	27,250	27,090	160
OCUA Fees	296,000	297,330	297,440	(110)	291,132	291,132	286,843	4,289
Engineering	23,200	13,980	4,765	9,215	7,500	7,500	11,618	(4,118)
Sewer Maintenance Supplies	12,000	10,510	2,226	8,284	15,000	15,000	1,906	13,094
Garage Rental	3,720	3,720	3,720	-	3,600	3,600	3,720	(120)
Renewal and Replacement	1,000	-	-	-	1,000	1,000	-	1,000
Total Cost of Providing Services	363,170	352,330	334,940	17,390	345,482	345,482	331,177	14,305
Administrative Expenses:								
Salaries, Wages and Payroll Taxes	70,000	81,905	81,886	19	79,500	79,500	75,192	4,308
Employee Fringe Benefits	23,400	12,665	12,656	9	18,500	18,500	8,897	9,603
Health Insurance	23,144	21,954	21,949	5	22,750	22,750	22,726	24
Legal Expense	12,000	15,180	15,172	8	8,000	8,000	14,444	(6,444)
Audit and Consulting	27,000	29,680	29,671	9	25,000	25,000	25,975	(975)
Office Expenses, Cleaning and Supplies	17,200	21,840	21,831	9	22,200	22,200	21,055	1,145
Insurance	21,000	20,240	20,136	104	13,000	13,000	18,864	(5,864)
Postage	3,000	3,960	3,953	7	3,000	3,000	550	2,450
Telephone	2,000	1,720	1,713	7	2,000	2,000	1,665	335
Utilities	2,200	2,940	2,931	9	1,920	1,920	2,706	(786)
Fuel	1,500	1,330	1,321	9	1,200	1,200	1,414	(214)
Licenses and Permits	3,000	3,000	3,000	-	-	-	3,000	(3,000)
Miscellaneous	1,000	870	970	(100)	1,500	1,500	4,765	(3,265)
Total Administrative Expenses	206,444	217,284	217,189	95	198,570	198,570	201,253	(2,683)
<b>TOTAL OPERATING APPROPRIATIONS</b>	<b>569,614</b>	<b>569,614</b>	<b>552,129</b>	<b>17,485</b>	<b>544,052</b>	<b>544,052</b>	<b>532,430</b>	<b>11,622</b>
<b>OTHER COSTS FUNDED BY REVENUES:</b>								
Appropriation to Municipality	28,431	28,431	28,431	-	27,153	27,153	27,153	-
<b>TOTAL COSTS FUNDED BY REVENUES</b>	<b>28,431</b>	<b>28,431</b>	<b>28,431</b>	<b>-</b>	<b>27,153</b>	<b>27,153</b>	<b>27,153</b>	<b>-</b>
<b>TOTAL EXPENSES</b>	<b>598,045</b>	<b>598,045</b>	<b>580,560</b>	<b>17,485</b>	<b>571,205</b>	<b>571,205</b>	<b>559,583</b>	<b>11,622</b>
<b>BUDGETARY REVENUES OVER EXPENSES</b>	<b>\$ (16,159)</b>	<b>\$ (16,159)</b>	<b>\$ 10,763</b>	<b>\$ 26,922</b>	<b>\$ (16,929)</b>	<b>\$ (16,929)</b>	<b>\$ (11,600)</b>	<b>\$ 5,329</b>

**SOUTH TOMS RIVER SEWERAGE AUTHORITY**  
**Schedule of Revenues and Expenses - Budget to Actual (continued)**  
**For the year ended December 31, 2019**  
**(With comparative totals for the year ended December 31, 2018)**

	<u>2019</u>	<u>2018</u>
	Actual	Actual
<b>Reconciliation of Budgetary Basis to Net Loss:</b>		
Budgetary Revenues Over Expenses	\$ 10,763	\$ (11,600)
Adjustments to Budgetary Basis:		
Depreciation Expense	(87,759)	(89,397)
Pension Liability Expense - GASB 68	<u>(16,025)</u>	<u>(13,379)</u>
Total Adjustments	<u>(103,784)</u>	<u>(102,776)</u>
Net Loss	<u>\$ (93,021)</u>	<u>\$ (114,376)</u>

**SOUTH TOMS RIVER SEWERAGE AUTHORITY**  
**(A Component Unit of the Borough of South Toms River, County of Ocean, State of New Jersey)**  
**Roster of Officials**  
**December 31, 2019**

	<u><b>Position</b></u>	<u><b>Term</b></u>
George Rutzler.....	Chairman	2022
Marianne Grasso .....	Vice Chairman	2023
William Britton .....	Secretary	2025
Kayla Rolzhausen.....	Treasurer	2021
Andrew Howard.....	Vice Treasurer	2024

The Chairman and Commissioners  
of South Toms River Sewerage Authority  
South Toms River, New Jersey

We have audited the financial accounts and transactions of the South Toms River Sewerage Authority, a component unit of the Borough of South Toms River, County of Ocean, State of New Jersey for the year ended December 31, 2019. In accordance with requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the following are the *General Comments and Recommendations* for the year then ended.

## GENERAL COMMENTS AND RECOMMENDATIONS

### **Contracts and Agreements Required to be advertised by (N.J.S.A.40A:11-4)**

*N.J.S.A.40A:11-4* - Every contract or agreement, for the performance of any work or furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of public funds not included within the terms of Section 3 of this act, shall be made or awarded only by the governing body of the contracting unit after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other Law. No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate \$17,500 except by contract or agreement.

It is pointed out that the Members of the Authority have the responsibility of determining whether the expenditures in any category will exceed the statutory minimum within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the solicitor's opinion should be sought before a commitment is made.

Review of the minutes and financial transactions did not identify any bids requested by public advertising.

The minutes indicate that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services," per *N.J.S.A.40A:11-5*.

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

### **Contracts and Agreements Required to be advertised by (N.J.S.A.40A:11-4)(continued)**

The examination of expenditures did not reveal any contracts or agreements in excess of \$2,625 "for the performance of any work or the furnishing or hiring of any materials or supplies", other than those where bids had been previously sought by public advertisement or where a resolution had been previously adopted under the provision of (N.J.S.A.40A:11-6.1).

The supporting documentation indicated that quotes were requested for all items that required them.

### **Examination of Bills**

A test check of paid bills was made and each bill, upon proper approval, was considered as a separate and individual contract unless the records disclosed it to be a part payment or estimate. The results of the examination did not disclose any discrepancies with respect to signatures, certification or supporting documentation.

### **Payroll Fund**

The examination of the payroll account included the detailed computation of various deductions or other credits from the payroll of the Authority employees and ascertained that the accumulated withholdings were disbursed to the proper agencies.

### **Property, Plant & Equipment**

The property, plant and equipment subsidiary ledger was maintained properly and a reconciliation between the physical and perpetual inventory records was performed at year-end.

### **Budget Adoption**

The State of New Jersey requires that the Authority's operating and capital budgets be approved and adopted for each fiscal year. The Authority approved its operating budget on November 7, 2018 and adopted its operating budget on December 12, 2018.

### **Follow-Up of Prior Years' Findings**

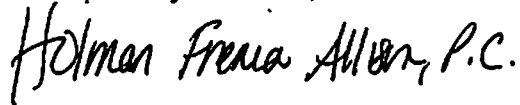
In accordance with *government auditing standards* and audit requirements prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, our procedures included a review of all prior year findings. There were no prior year findings.

**Acknowledgment**

We received the complete cooperation of all the Authority Officials and employees and we greatly appreciate the courtesies extended to the members of the audit team.

Should you have any questions concerning our comments or recommendations, or should you desire any assistance in implementing our recommendations, please call us.

Respectfully Submitted,

A handwritten signature in black ink that reads "Holman Frenia Allison, P.C." in a cursive style.

**HOLMAN FRENIA ALLISON, P.C.**

*Certified Public Accountants*

June 26, 2020  
Toms River, New Jersey