



**Township of Ocean Sewerage Authority
(A Component Unit of the Township of Ocean)
Financial Statements
with Supplementary Information**

**Years ended December 31, 2019 and 2018
and
Independent Auditors' Report**

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
(A Component Unit of the Township of Ocean)**

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**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
(A Component Unit of the Township of Ocean)**

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Independent Auditors' Report

Honorable Chairman and Members
of the Board
Township of Ocean Sewerage Authority
Township of Ocean, New Jersey
County of Monmouth

Report on the Financial Statements

We have audited the accompanying financial statements of the Township of Ocean Sewerage Authority, County of Monmouth, New Jersey ("Authority"), a component unit of the Township of Ocean 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards and requirements 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 auditors' 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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority 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 management's discussion and analysis, schedule of the Authority's proportionate share of the net pension liability-PERS, schedule of the Authority's pension contributions - PERS, schedule of the Authority's proportionate share of the net OPEB liability – State Health Benefits Local Government Retired Employees Plan and schedule of Authority's OPEB contributions - State Health Benefits Local Government Retired Employees Plan as identified 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information, which consists of the schedule of cash receipts, cash disbursements and changes in cash and cash equivalents and investments – unrestricted accounts, schedule of cash receipts, cash disbursements and changes in cash and cash equivalents and investments – restricted accounts, comparative schedule of revenues and expenses compared to budget and schedule of long-term revenue bonds payable and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)* and the other information such as the roster of officials and surety bond, insurance coverage and the general comments and recommendations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information identified above 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 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 supplementary information

identified above is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The roster of officials and surety bond, insurance coverage and general comments and recommendations have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 24, 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 solely 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 effectiveness of the Authority's 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.

Wiss & Company

WISS & COMPANY, LLP

June 24, 2020
Florham Park, New Jersey

REQUIRED SUPPLEMENTARY INFORMATION
PART I
MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
(A Component Unit of the Township of Ocean)

MANAGEMENT’S DISCUSSION AND ANALYSIS
(Required Supplementary Information)

This section presents management’s analysis of the Authority’s financial condition and activities of the Authority for the fiscal years ended on December 31, 2019 and 2018.

This information should be read in conjunction with the basic financial statements and accompanying notes to the basic financial statements, which immediately follow this section.

Management’s Discussion and Analysis (MD&A) is Required Supplementary Information specified in the Governmental Accounting Standards Board’s (GASB) Statement No. 34, *Basic Financial Statements-Management’s Discussion and Analysis for Local Governments*. Certain comparative information between the current fiscal year and the prior two fiscal years are presented in the MD&A as required by GASB Statement No. 34.

Discussion of Financial Statements Included in Annual Audit

The Authority prepares and presents its financial statements on several different bases, because of accounting requirements and for internal use purposes.

The first set of statements which consist of the Comparative Statement of Net Position, the Comparative Statement of Revenues, Expenses and Changes in Net Position, and the Comparative Statement of Cash Flows are prepared on the accrual basis and are in accordance with accounting principles generally accepted in the United States of America (GAAP). These statements are the official basic financial statements of the Township of Ocean Sewerage Authority.

After the first set of statements and the “Notes to the Basic Financial Statements” that follow is the second set of schedules. These schedules are considered “Supplementary Information.”

The Authority has historically presented its financial statements on a “GAAP Basis,” and continues to do so because it relates more fairly to the annual budget for the same period.

Contained in the supplementary information are schedules that report the Comparative Schedule of Operating Revenues and Expenses Compared to Budget (Schedule 3). This schedule compares the “Budget” revenues and expenses to “Actual” revenues and expenses. Principal and interest are reported in this statement as debt service expense, and depreciation is not reported as an expense. On the “GAAP” based statements, depreciation expense is included, and only the interest expense component of the debt service expense is reported.

The Budget to Actual schedule is a very important schedule to the Authority management staff, because it is how we measure our financial performance, particularly as it compares to the approved and adopted annual budget and how it relates to the operational performance.

Other information or schedules incorporated within the annual audit report are the Schedules of Cash Receipts, Cash Disbursements and Changes in Cash, Cash Equivalents and Investments – Restricted and Unrestricted and the Schedule of Long-Term Revenue Bonds Payable. For the purpose of the Management Discussion and Analysis, the ensuing discussion will review the financial statements of the Township of Ocean Sewerage Authority, those prepared on an accrual basis and in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to enterprise funds of state and local governments. This is the first set of statements included in the annual audit report.

Financial Condition

The Authority’s financial condition was satisfactory at year end, as depicted by the financial data which follows.

Comparative Statement of Net Position

The Authority’s total assets and deferred outflow of resources increased by \$1,123,762 due mainly to increases in net capital assets offset by decreases in restricted cash and cash equivalents, amounts due from the New Jersey Environmental Infrastructure Trust (“NJEIT”) and pension related deferred outflows of resources. Total liabilities decreased by \$1,108,583 due mainly to decreases in the net pension liability, the net OPEB liability and bonds payable offset by an increase in construction loans payable. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$28,245,630. This compares to 2018 where assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$26,412,855. The Authority’s Net Position of \$28,245,630 is comprised of the following:

1. Net investment in capital assets of \$29,513,563, as shown below, includes land, construction in progress, property plant and equipment, net of accumulated depreciation, and net of long-term debt related to the purchase or construction of capital assets. Net investment in capital assets increased by \$1,785,520 from the prior year.

Capital assets, net	\$	49,669,950
Less:		
Revenue bonds payable, net of unamortized premium		(22,411,328)
Short term construction loans		(1,815,395)
Add:		
Due from NJ EIT		214,843
Unexpended bond proceeds		3,855,493
		3,855,493
Net investment in capital assets	\$	29,513,563

2. Net position of \$568,588 is restricted for the purpose of future debt service.
3. Net position of \$500,000 is restricted for the purpose of renewals and replacements.
4. Net position of \$311,492 is unrestricted - designated for rate stabilization.
5. Net position of \$1,139,097 is unrestricted - designated for working capital.
6. Net position of \$960,935 is unrestricted - designated for capital outlay.

7. Unrestricted, undesignated net position (deficit) of \$(4,748,044) represents the portion available to maintain the Authority's continuing obligations to the contractual customers of its service area, its creditors and for its current liabilities.

Unrestricted undesignated net position increased by \$298,510 mainly due to the positive change in net position offset by the increase in the net investment in capital assets.

Comparative Condensed Statements of Net Position

	<u>2019</u>	December 31, <u>2018</u>	<u>2017</u>
Total unrestricted current assets	\$ 8,403,707	\$ 8,463,409	\$ 7,358,565
Total restricted assets	5,656,967	10,796,500	13,072,262
Capital assets, net	49,669,950	43,145,809	41,698,696
Deferred outflows of resources	<u>681,989</u>	<u>883,133</u>	<u>1,211,113</u>
Total assets and deferred outflow of resources	<u>\$ 64,412,613</u>	<u>\$ 63,288,851</u>	<u>\$ 63,340,636</u>
Total current liabilities payable from unrestricted assets	\$ 465,974	\$ 669,618	\$ 348,122
Total current liabilities payable from restricted assets	4,777,421	2,932,407	3,063,149
Deferred inflows of resources	3,978,937	3,579,367	1,678,910
Net pension liability	2,703,202	2,890,091	3,843,603
Net OPEB liability	3,876,208	4,538,306	5,837,691
Compensated absences payable	4,957	8,928	8,346
Bonds payable, net	<u>20,360,284</u>	<u>22,257,279</u>	<u>24,308,480</u>
Total liabilities and deferred inflow of resources	<u>\$ 36,166,983</u>	<u>\$ 36,875,996</u>	<u>\$ 39,088,301</u>
Total Net Position	<u>\$ 28,245,630</u>	<u>\$ 26,412,855</u>	<u>\$ 24,252,335</u>

Total unrestricted current assets remained relatively constant.

Total restricted assets decreased because cash and cash equivalents in the construction account decreased due to the use of 2017 MCIA bond and NJEIT bond proceeds for ongoing capital projects and the decrease in due from the NJEIT/Water Bank \$1,295,248.

Capital assets, net increased because the current year's capital asset acquisitions exceeded depreciation expense.

Total current liabilities payable from unrestricted assets decreased mainly due to the decrease in the accounts payable.

Total current liabilities payable from restricted assets increased due to increases in the current portion of bonds payable, increases in construction loans payable and increase in accounts payable.

Non-current liabilities decreased due to the decreases in bonds payable, the net pension liability and the net OPEB liability.

Total net position has increased as a result of the reported positive change in net position for the 2019 fiscal year.

Comparative Condensed Statements of Revenues, Expenses and Changes in Fund Net Position

2019 operating revenues decreased slightly from 2018 levels. Total operating expenses decreased mainly due to decreases in both OPEB and pension related expenses. Depreciation expense increased slightly.

Total operating revenues less total operating expenses produced operating income of \$1,423,255 which is greater than 2018 operating income of \$1,363,375.

Total Net Position as of December 31, 2019 increased by \$1,832,775 as is depicted below.

	Years ended December 31,		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total operating revenues	\$ <u>7,130,128</u>	\$ <u>7,187,865</u>	\$ <u>7,082,963</u>
Operating expenses	4,307,714	4,505,153	4,760,496
Depreciation	<u>1,399,159</u>	<u>1,319,337</u>	<u>1,243,710</u>
Total operating expenses	<u>5,706,873</u>	<u>5,824,490</u>	<u>6,004,206</u>
Operating income	1,423,255	1,363,375	1,078,757
Nonoperating revenues (expenses), net	<u>409,520</u>	<u>797,145</u>	<u>37,975</u>
Change in net position	1,832,775	2,160,520	1,116,732
Total net position - beginning	<u>26,412,855</u>	<u>24,252,335</u>	<u>23,135,603</u>
Total net position - ending	<u>\$ <u>28,245,630</u></u>	<u>\$ <u>26,412,855</u></u>	<u>\$ <u>24,252,335</u></u>

Comparative Statements of Cash Flows

The net decrease in cash and cash equivalents was \$4,898,806. This compares to a net decrease in cash and cash equivalents in 2018 of \$1,103,049. The main reasons for the 2019 decrease are the purchase of capital assets of \$6,830,441 and the purchase of investments of \$893,347.

Debt Administration

As of December 31, 2019, the Authority had \$29,539,905 of outstanding long-term liabilities. Of this amount, \$2,703,202 relates to the net pension liability, \$3,876,208 relates to the net OPEB liability, \$4,957 is for compensated absences and \$21,473,907 is for revenue bonds payable and \$1,481,631 represents unamortized premiums. As of December 31, 2018, the Authority had \$31,688,158 of outstanding long-term liabilities. The decrease in outstanding long-term liabilities is mainly attributed to decreases in bonds payable, the net pension liability and the net OPEB liability.

It is the current policy of the Township of Ocean Sewerage Authority Commissioners, Executive Director, and senior staff, that funding for capital improvements, additions or replacements, is to be accomplished using one or more of the following methods:

Borrowings from the New Jersey Environmental Infrastructure Trust
Borrowings through the Monmouth County Improvement Authority
Funding incrementally or annually from annual operating budget

Refunding of existing public debt is routinely reviewed, analyzed and recommended when appropriate. The Authority has defeased various bond issues and achieved significant debt service savings. See Note 4 to the basic financial statements for additional information.

Capital Assets

As of the December 31, 2019 and 2018, the Authority had \$49,669,950 and \$43,145,809, respectively, invested in land, construction in progress, buildings and improvements, other improvements, sewer mains and interceptors, pump stations, other equipment and vehicles, net of accumulated depreciation. The increase in net capital assets is due to the current year's capital asset additions being greater than the current year's depreciation expense.

See Note 3 to the basic financial statements for additional information related to capital assets.

Core Competencies

The Authority provides wastewater conveyance and treatment services for the Township of Ocean residents and under contracts with four customer municipalities.

The System consists of a wastewater treatment plant, a wastewater collection system of approximately 6 miles of force mains, 165 miles of gravity mains, 11 pumping stations and an ocean outfall line discharging into the Atlantic Ocean through a diffuser system.

The wastewater treatment plant provides primary and secondary wastewater treatment and is situated on about 3 acres located at 224 Roosevelt Avenue, Oakhurst, NJ.

The treatment plant has a designed capacity of 7.5 million gallons per day. The plant is designed to serve the projected treatment needs of the service area based on current zoning ordinances.

The Township of Ocean Sewerage Authority owns and operates the piping and pumping systems that receive, meter, and transport the municipal wastewater to the Authority's Plant for treatment and discharge.

The user fees charged to the users of the system, which include Ocean Township users as well as those in the communities of Allenhurst, Deal, Interlaken and Loch Arbor are the major source of revenue for the Authority. This is shown on the Comparative Statement of Revenues, Expenses and Changes in Fund Net Position as “User Charges” and reported as operating revenue.

Budget Variations

There were adjustments made during the year to the adopted 2019 budget. All of these adjustments were made via Board approved budgetary amendments. The most significant adjustments to the adopted budget was a decreases to Administration – Hospitalization Insurance and an increase to Treatment Plant – Sludge Disposal. Significant variations between final budgeted amounts and actual expenses occurred in the following budgetary line items: administration – Hospitalization Insurance where actual costs were less than budgeted to a lower than expected rate increase and in collection system – Repairs and Supplies – Pumps due to lesser of a need for pump repairs than expected and administration – public employees retirement system due to the requirements of GASBS No. 68 and 71 and administration – OPEB expense due to the requirements of GASB No. 75.

The Chairman’s Outlook for the Future

“Our mission for the Township of Ocean Sewerage Authority is to provide the ultimate wastewater collection and treatment. Always responsive to the customers’ needs and the growing community, in compliance with the applicable laws, rules and regulations, the Township of Ocean Sewerage Authority will continue to set and exceed the standards for the protection of the environment, while operating the most efficient system and maintaining a cost effective budget.”

As the mission reads, this is who and what the Authority is accountable to. The Authority’s accountability, first and foremost, is to protect the environment. The goal is to provide a cost effective and reliable service, and at the same time to protect the environment. This means the Authority is accountable to its customers, the agencies and people served using the same principals: cost effective, efficient, reliable and protective. This is what the employees of the Authority strive for each and every day. And each and every day, the Authority is accountable to its employees.

As an environmental utility, the Authority is also guided by or accountable to state government and the applicable rules and regulations that govern the Township of Ocean Sewerage Authority. More specifically, the Authority is accountable to the Department of Community Affairs, Division of Local Government Services and the Department of Environmental Protection.

As an environmental utility, the Authority is accountable to the U.S. Environmental Protection Agency. The Authority is also accountable to its governing body and the Township of Ocean, and as such, accountable to certain government officials.

Governing Body

The governing body of the Authority consists of a five member board that is appointed for five-year terms by the Township of Ocean. Currently, they are:

Dennis Galvin, Chairman
Richard Bernhardt, Vice Chairman
Ralph E. Stubbs, Secretary/Treasurer
Charles Theodora, Assistant Secretary and Assistant Treasurer
John Villapiano, Member

Management of the Authority

The Executive Director of the Township of Ocean Sewerage Authority, William Schmeling, manages the daily operations of the Authority. He oversees a staff of 18 and a 2019 final budget of \$7.33 million. Senior staff is charged with the management of the operations and financial affairs of the Authority. The Executive Director is William Schmeling.

Independent Auditors

The independent audit firm is Wiss & Company, LLP, Florham Park, New Jersey.

Financial Information

Prior audits and budgets can be obtained by contacting the Township of Ocean Sewerage Authority or by visiting the Authority's website at www.tosa-nj.org.

BASIC FINANCIAL STATEMENTS

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
A COMPONENT UNIT OF THE TOWNSHIP OF OCEAN
COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2019 AND 2018

	December 31,	
	2019	2018
Assets		
Unrestricted Current Assets:		
Cash and cash equivalents	\$ 5,550,421	\$ 6,604,942
Investments	2,325,063	1,431,716
Petty cash and change funds	50	50
	7,875,534	8,036,708
Accrued interest receivable	9,344	16,884
Customer accounts receivable	432,807	332,338
Miscellaneous accounts receivable	4,888	
Prepaid expenses	40,011	37,555
Inventory	41,123	39,924
Total unrestricted current assets	8,403,707	8,463,409
Restricted assets:		
Developer deposits:		
Cash and cash equivalents	44,710	40,812
Debt service account:		
Cash and cash equivalents	173,257	173,254
Debt service reserve account:		
Cash and cash equivalents	560,270	549,188
Construction account:		
Cash and cash equivalents	4,663,847	8,523,115
Due from NJ EIT/Water Bank	214,883	1,510,131
Total restricted assets	5,656,967	10,796,500
Non-current assets:		
Capital Assets - Non-depreciable	15,962,706	8,264,083
Capital Assets - Depreciable, net of depreciation	33,707,244	34,881,726
Total capital assets, net	49,669,950	43,145,809
Total assets	63,730,624	62,405,718
Deferred outflows of resources		
OPEB deferrals	67,170	76,795
Pension deferrals	614,819	806,338
Total deferred outflows of resources	681,989	883,133
Total assets and deferred outflows of resources	\$ 64,412,613	\$ 63,288,851

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
A COMPONENT UNIT OF THE TOWNSHIP OF OCEAN
COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2019 AND 2018**

	December 31,	
	2019	2018
Liabilities		
Current liabilities payable from unrestricted assets:		
Accounts payable	\$ 453,050	\$ 662,215
Accrued expenses	11,511	7,403
Payroll taxes payable	1,413	
Total current liabilities payable from unrestricted assets	465,974	669,618
Current liabilities payable from restricted assets:		
Reserve for developer's escrow deposits	44,710	40,812
Accrued interest on revenue bonds payable	250,448	269,919
Accounts payable	615,824	40,900
Construction loans payable	1,815,395	587,222
Bonds payable - current portions	2,051,044	1,993,554
Total current liabilities payable from restricted assets	4,777,421	2,932,407
Non-current liabilities:		
Net pension liability	2,703,202	2,890,091
Net OPEB liability	3,876,208	4,538,306
Compensated absences payable - noncurrent portion	4,957	8,928
Bonds payable, net	20,360,284	22,257,279
Total non-current liabilities	26,944,651	29,694,604
Total liabilities	32,188,046	33,296,629
Deferred inflows of resources		
OPEB deferrals	2,700,112	2,219,311
Pension deferrals	1,278,825	1,360,056
Total deferred inflows of resources	3,978,937	3,579,367
Net position		
Net investment in capital assets	29,513,563	27,768,943
Restricted for:		
Future debt service	568,588	538,137
Renewal and replacement	500,000	500,000
Unrestricted:		
Designated for:		
Rate stabilization	311,492	641,221
Working capital	1,139,097	1,150,255
Capital outlay	960,935	860,854
Undesignated (deficit)	(4,748,044)	(5,046,555)
Total net position	\$ 28,245,630	\$ 26,412,855

See accompanying notes to the basic financial statements.

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
A COMPONENT UNIT OF THE TOWNSHIP OF OCEAN
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	December 31,	
	2019	2018
Operating revenues:		
User charges	\$ 7,130,128	\$ 7,187,865
Total operating revenues	7,130,128	7,187,865
Operating expenses:		
Cost of providing services	2,692,022	2,658,321
Administration and general	1,615,692	1,846,832
Depreciation	1,399,159	1,319,337
Total operating expenses	5,706,873	5,824,490
Operating income	1,423,255	1,363,375
Nonoperating revenues (expenses):		
Connection fees	393,047	733,032
Interest on bonds	(113,485)	(148,683)
Major repairs and costs	(238,493)	(216,013)
FEMA Proceeds		14,889
Costs of bond issuance	(30,436)	(3,500)
Interest income	298,553	256,917
Miscellaneous income	100,334	160,503
Total nonoperating revenues (expenses)	409,520	797,145
Change in net position	1,832,775	2,160,520
Total net position-beginning	26,412,855	24,252,335
Total net position - ending	\$ 28,245,630	\$ 26,412,855

See accompanying notes to the basic financial statements.

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
A COMPONENT UNIT OF THE TOWNSHIP OF OCEAN
COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019 AND 2018**

Exhibit C

	December 31,	
	2019	2018
Cash flows from operating activities:		
Receipts from users of system	\$ 7,029,659	\$ 7,076,245
Payments to employees	(1,280,275)	(1,179,717)
Payments to suppliers	(3,491,870)	(3,049,121)
	2,257,514	2,847,407
Net cash provided by operating activities		
Cash flows from capital and related financing activities:		
Purchase of capital assets	(6,830,441)	(2,247,987)
Federal Emergency Management Agency		14,889
Received from NJEIT	1,979,251	683,165
Proceeds from sale of MCIA bonds:		
Bond principal	685,000	
Bond reserve	30,450	
Premium on sale of bonds	112,230	
Costs of bond issuance	(30,436)	(3,500)
Repayment of bonds payable	(1,993,555)	(1,909,381)
	(6,047,501)	(3,462,814)
Net cash (used in) capital and related financing activities		
Cash flows from investing activities:		
Interest received	306,093	243,285
Investments (purchased) redeemed	(893,347)	(336,906)
Interest paid on bonds	(734,563)	(742,183)
	(1,321,817)	(835,804)
Net cash (used in) investing activities		
Cash flows from noncapital financing activities:		
Escrow refunds and replacements	3,898	(20,290)
Major repairs and replacements	(238,493)	(216,013)
Connection fees	393,047	733,032
Prior year construction fund accounts payable paid	(40,900)	(332,070)
NJDOT refundable deposit		23,000
Miscellaneous income	95,446	160,503
	212,998	348,162
Net cash provided by noncapital financing activities		
Net (decrease) in cash and cash equivalents	(4,898,806)	(1,103,049)
Cash and cash equivalents, beginning of year	15,891,361	16,994,410
Cash and cash equivalents, end of year	\$ 10,992,555	\$ 15,891,361
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,423,255	\$ 1,363,375
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,399,159	1,319,337
Changes in assets and liabilities:		
(Increase) decrease in receivables and other assets:		
Unrestricted accounts	(109,012)	(132,923)
(Decrease) increase in current liabilities:		
Payable from unrestricted assets	(202,306)	341,896
(Decrease) increase in other liabilities	(3,971)	582
Increase (decrease) in accounts payable - pension	(1,338)	(20,400)
(Decrease) in net pension liability	(186,889)	(953,512)
(Decrease) in net OPEB liability	(662,098)	(1,299,385)
(Decrease) increase in deferred inflows - pension related	(81,231)	500,036
Increase in deferred inflows - OPEB related	480,801	1,400,421
Decrease in deferred outflows - pension related	191,519	403,775
Decrease (increase) in deferred outflows - OPEB related	9,625	(75,795)
	2,257,514	2,847,407
Net cash provided by operating activities		
Reconciliation to Statement of Net Position:		
Unrestricted cash and cash equivalents	\$ 5,550,471	\$ 6,604,992
Restricted cash and cash equivalents	5,442,084	9,286,369
	\$ 10,992,555	\$ 15,891,361

See accompanying notes to the basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
(A Component Unit of the Township of Ocean)
Notes to the Basic Financial Statements
Years Ended December 31, 2019 and 2018

1. Summary of Significant Accounting Policies

The financial statements of the Township of Ocean Sewerage Authority (“Authority”) have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as applied to local governments. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority’s accounting policies are described below.

A. Reporting Entity:

The Township of Ocean Sewerage Authority, Monmouth County, New Jersey is a public body politic and corporate of the State of New Jersey, created by virtue of an ordinance of the Township of Ocean on September 8, 1964, pursuant to the Sewerage Authority Law of the State of New Jersey (P.L. 1946, Chapter 138 as amended and supplemented). The Authority functions independently through a five member Board appointed to three-year terms. The purpose of the Authority is to keep the local waters free of pollution.

The Authority has adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34*. The Authority is a component unit of the primary government unit, the Township of Ocean.

B. Basis of Presentation, Basis of Accounting:

Basis of Presentation

The operations of the Authority are accounted for as a proprietary fund. The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America applicable to proprietary funds as defined by the GASB. All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets, deferred outflows of resources and all liabilities and deferred inflows of resources, whether current or non-current, associated with their activity are included on their Comparative Statement of Net Position. Their reported fund equity (net position) is segregated into net investment in capital assets and restricted and unrestricted net position. Unrestricted net position is segregated into designated and undesignated portions. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position. Depreciation of all exhaustive capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the proprietary fund Comparative Statement of Net Position. Depreciation has been provided over the estimated useful lives using the straight-line method.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
(A Component Unit of the Township of Ocean)
Notes to the Basic Financial Statements
Years Ended December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation, Basis of Accounting (Continued):

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

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

C. Assets, Liabilities and Net Position:

Cash and Cash Equivalents:

Amounts include petty cash and change funds, interest-bearing checking accounts and short-term investments with an original maturity date of three months or less from the date of purchase, carried at cost, which equals fair value.

Investments:

Investments as of December 31, 2019 consist of United States Treasury Bills and Bond Anticipation Notes issued by New Jersey municipalities and are carried at fair value. Investments as of December 31, 2018 consist of Bond Anticipation Notes issued by New Jersey municipalities and are carried at fair value.

Consumer Accounts Receivable:

User charges are established by the Board annually. The charges are subject to adjustment by the Board and a public hearing must be advertised and held prior to adjustment. Receivables are evaluated periodically for collectability. Unpaid user charges are reported to the Township of Ocean and referred for inclusion in the annual tax sale. Allowances for doubtful accounts are established when deemed necessary.

Inventories:

Inventories are valued at cost, which approximates market, using the first-in-first-out (FIFO) method. At December 31, 2019 and 2018, the value of the inventory, consisting of chemicals and supplies, not held for resale, was \$41,123 and \$39,924, respectively.

Capital Assets:

Capital assets, which include land, property, plant, equipment and construction in progress, are reported in the financial statements. The Authority has established a formal system of accounting for its capital assets. Purchased or constructed capital assets are reported at cost. Donated capital assets are valued at their acquisition value on the date of acquisition. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
(A Component Unit of the Township of Ocean)
Notes to the Basic Financial Statements
Years Ended December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (Continued)

C. Assets, Liabilities and Net Position – (Continued):

are not capitalized. The capitalization threshold used by Authorities in the State of New Jersey is \$2,000. All reported capital assets except for land and construction in progress are depreciated.

Depreciation is computed using the straight-line method under the half-year convention over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Treatment Plant Buildings and Improvements	40-75 Years
Sewer Mains, Interceptors and Pump Stations	75 Years
Other Equipment	5 - 25 Years
Vehicles	3 - 5 Years

Net Position:

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Designations of unrestricted net position are imposed by action of the Authority’s Board.

D. Revenues, Operating Revenues and Expenses:

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. On the accrual basis, revenue from system user charges is recognized in the fiscal year for which the user fees are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Revenues and Expenses:

Operating revenues are those revenues that are generated directly from the primary activity of the Authority. For the Authority, these revenues are for the collection and treatment of waste water. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Authority. All other revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
(A Component Unit of the Township of Ocean)
Notes to the Basic Financial Statements
Years Ended December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (Continued)

E. Management Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense / expenditure) until then. The Authority has two items that qualify for reporting in this category, deferred amounts related to pensions and deferred amounts related to other postemployment benefits.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial element 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 two items that qualify for reporting in this category, deferred amounts related to pensions and deferred amounts related to other postemployment benefits at December 31, 2019 and 2018.

G. Recent Pronouncements

The GASB issued Statement No. 84, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2019. Management has not yet determined the impact of this Statement on the financial statements.

The GASB issued Statement No. 87, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019. Management has not yet determined the impact of this Statement on the financial statements.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
(A Component Unit of the Township of Ocean)
Notes to the Basic Financial Statements
Years Ended December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (Continued)

H. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State Health Benefits Local Government Retired Employees Plan (SHBP) and additions to/deductions from SHBP's fiduciary net position have been determined on the same basis as they are reported by SHBP.

I. Subsequent Events

Management has reviewed and evaluated all events and transactions occurring from December 31, 2019 through the date of the financial statement issuance, June 24, 2020, for possible disclosure and recognition in the accompanying financial statements. Other than as follows, no such items have come to the attention of the Authority which would require disclosure or recognition.

Subsequent to December 31, 2019, the COVID-19 (coronavirus) pandemic has resulted in substantial economic volatility on a global scale. As a result, the Authority's economically sensitive revenues (i.e. user charges, interest earnings and connection fees) might be negatively impacted. Collection rates on sewer billings might be slowed as unemployment rates are expected to spike. Meanwhile, the Authority's expenditures for operations, health service functions and pension benefits (due to stock market declines) would all be expected to increase sharply. Credit markets may tighten and interest rates could fluctuate. None of these factors were taken into consideration in the development of the 2020 adopted budget. Federal and or State assistance to mitigate this volatility have not yet been established or confirmed. Given the uncertainty around the extent and timing of the potential future spread or mitigation of the coronavirus and around the imposition or relaxation of protective measures, management cannot reasonably estimate the actual impact on the Authority's financial position at this time.

2. Deposits and Investments

Cash and Cash Equivalents:

Operating cash, in the form of checking and money market accounts, is held in the Authority's name by commercial banking institutions. At December 31, 2019 and 2018, the carrying amount of the Authority's deposits (excluding petty cash) were \$10,992,505 and \$15,891,311, respectively and the bank balances at December 31, 2019 and 2018 were \$11,591,625 and \$15,979,903, respectively.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
(A Component Unit of the Township of Ocean)
Notes to the Basic Financial Statements
Years Ended December 31, 2019 and 2018

2. Deposits and Investments – (Continued)

Of the bank balances, \$750,000 was insured with Federal Deposit Insurance Corporation for both 2019 and 2018 and the remaining balances were covered by GUDPA.

Pursuant to GASB Statement No. 40, “Deposit and Investment Risk Disclosures” (“GASB 40”), the Authority’s accounts are examined in order to determine exposure, if any, to Custodial Credit Risk (risk that in the event of bank failure, the Authority’s deposits or investments may not be returned).

Deposits are considered to be exposed to Custodial Credit Risk if they are: uncollateralized (securities not pledged to the depositor), collateralized with securities held by the pledging financial institution, or collateralized with securities held by the financial institution’s trust department or agent but not in the Authority’s name.

The Authority does not have a policy for the management of custodial credit risk, other than depositing all of its funds in banks covered by GUDPA. The Authority has adopted a cash management plan that requires it to deposit public 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 Government Units from a loss of funds on deposit with a failed banking institution in New Jersey.

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

Investments:

New Jersey statutes permit the Authority to purchase the following types of securities:

- Bonds and other obligations of the United States or obligations guaranteed by the United States.
- Bonds of any Federal Intermediate Credit Bank, Federal Home Loan Bank, Federal National Mortgage Agency or of any United States Bank which have a maturity date not greater than 397 days from the date of purchase.
- New Jersey Cash Management Fund and Government money market mutual funds.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
(A Component Unit of the Township of Ocean)
Notes to the Basic Financial Statements
Years Ended December 31, 2019 and 2018

2. Deposits and Investments – (Continued)

Concentration of Credit Risk – The Authority places no limit on the amount it may invest in any one issuer.

Credit Risk – As of December 31, 2019 and 2018, the Authority’s various investments in United States Treasury Bills and Bond Anticipation Notes were not rated by a nationally recognized bond rating agency.

Custodial Credit Risk – For investments, custodial credit risk is the risk that in the event of the failure of the counter-party, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured and are not registered in the name of the Authority. The Authority manages custodial credit risk by limiting its investments to the debt of other governmental units within the State of New Jersey.

Interest Rate Risk: The Authority does not have a policy to limit interest rate risk.

The following presents the components of investments held at fair value at December 31, 2019:

Description of Investment Revenue Fund	Interest Rates	Balance as of December 31, 2019
Bond Anticipation Notes:		
Borough of Ocean Gate	2.35%	\$ 293,406
Borough of Ocean Gate	2.35%	63,339
Township of Plumsted	2.15%	563,474
Township of Plumsted	2.15%	55,647
Total Bond Anticipation Notes		<u>975,866</u>
United States Treasury Bills	0.00%	<u>1,349,197</u>
Total Investments		<u>\$ 2,325,063</u>

The following presents the components of investments held at December 31, 2018:

Description of Investment Revenue Fund	Interest Rates	Balance as of December 31, 2018
Bond Anticipation Notes:		
Borough of Ocean Gate	2.13%	\$ 312,455
Borough of Ocean Gate	2.13%	68,404
Township of Plumsted	2.78%	454,257
Borough of South Bound Brook	2.13%	596,600
Total Investments		<u>\$ 1,431,716</u>

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
(A Component Unit of the Township of Ocean)
Notes to the Basic Financial Statements
Years Ended December 31, 2019 and 2018

2. Deposits and Investments – (Continued)

GASB 72 established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement.) The three levels of the fair value hierarchy under GASB 72 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Authority's investments at fair value as of December 31, 2019.

	<i>Investments at Fair Value</i>	
	<i>as of December 31, 2019</i>	
	<i><u>Level 2</u></i>	<i><u>Total</u></i>
Held to maturity:		
Bond Anticipation Notes	\$ 975,866	\$ 975,866
United States Treasury Bills	<u>1,349,197</u>	<u>1,349,197</u>
Total	<u>\$ 2,325,063</u>	<u>\$ 2,325,063</u>

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
(A Component Unit of the Township of Ocean)
Notes to the Basic Financial Statements
Years Ended December 31, 2019 and 2018

2. Deposits and Investments – (Continued)

The following table sets forth by level, within the fair value hierarchy, the Authority's investments at fair value as of December 31, 2018.

	<i>Investments at Fair Value</i>	
	<i>as of December 31, 2018</i>	
	<u>Level 2</u>	<u>Total</u>
Held to maturity:		
Bond Anticipation Notes	\$ 1,431,716	\$ 1,431,716
Total	<u>\$ 1,431,716</u>	<u>\$ 1,431,716</u>

3. Capital Assets

The following schedule is a summarization of the changes in capital assets for the year ended December 31, 2019:

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Transfers</u>	<u>Ending</u> <u>Balance</u>
Capital assets, not depreciated:				
Construction in progress	\$ 7,776,664	\$ 7,699,138	\$ (515)	\$15,475,287
Land	487,419	-	-	487,419
Total capital assets, not depreciated	<u>8,264,083</u>	<u>7,699,138</u>	<u>(515)</u>	<u>15,962,706</u>
Capital assets, depreciated:				
Plant and Collection System	51,899,412	134,542	515	52,034,469
Collection System (Contributed)	1,811,321	-	-	1,811,321
Plant (Contributed)	1,887,353	-	-	1,887,353
Machinery and Equipment	1,628,045	89,620	-	1,717,665
Total capital assets being depreciated	<u>57,226,131</u>	<u>224,162</u>	<u>515</u>	<u>57,450,808</u>
Accumulated depreciation	<u>(22,344,405)</u>	<u>(1,399,159)</u>	<u>-</u>	<u>(23,743,564)</u>
Total depreciated assets, net	<u>34,881,726</u>	<u>(1,174,997)</u>	<u>-</u>	<u>33,707,244</u>
Net Capital Assets	<u>\$ 43,145,809</u>	<u>\$ 6,524,141</u>	<u>\$ -</u>	<u>\$49,669,950</u>

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
(A Component Unit of the Township of Ocean)
Notes to the Basic Financial Statements
Years Ended December 31, 2019 and 2018

3. Capital Assets – (Continued)

The following schedule is a summarization of the changes in capital assets for the year ended December 31, 2018:

	Beginning Balance	Increases	Transfers	Ending Balance
Capital assets, not depreciated:				
Construction in progress	\$ 6,247,078	\$ 2,367,671	\$ (838,085)	\$ 7,776,664
Land	487,419	-	-	487,419
Total capital assets, not depreciated	<u>6,734,497</u>	<u>2,367,671</u>	<u>(838,085)</u>	<u>8,264,083</u>
Capital assets, depreciated:				
Plant and Collection System	50,806,092	255,235	838,085	51,899,412
Collection System (Contributed)	1,811,321	-	-	1,811,321
Plant (Contributed)	1,887,353	-	-	1,887,353
Machinery and Equipment	1,484,501	143,544	-	1,628,045
Total capital assets being depreciated	<u>55,989,267</u>	<u>398,779</u>	<u>838,085</u>	<u>57,226,131</u>
Accumulated depreciation	<u>(21,025,068)</u>	<u>(1,319,337)</u>	<u>-</u>	<u>(22,344,405)</u>
Total depreciated assets, net	<u>34,964,199</u>	<u>(920,558)</u>	<u>-</u>	<u>34,881,726</u>
Net Capital Assets	<u>\$ 41,698,696</u>	<u>\$ 1,447,113</u>	<u>\$ -</u>	<u>\$43,145,809</u>

4. Long-Term Liabilities

During the year ended December 31, 2019, the following changes occurred in long-term liabilities:

	Beginning Balance	Increases	Decreases	Ending Balance
Bonds payable	\$ 22,782,461	\$ 685,000	\$ 2,537,764	\$ 20,929,697
Unamortized premium	1,468,372	112,230	98,971	1,481,631
Bonds payable, net	24,250,833	797,230	2,636,735	22,411,328
Net pension liability	2,890,091		186,889	2,703,202
Net OPEB liability	4,538,306		662,098	3,876,208
Compensated absences	8,928	-	3,971	4,957
	<u>\$ 31,688,158</u>	<u>\$ 797,230</u>	<u>\$ 3,489,693</u>	<u>\$ 28,995,695</u>
Current portion	<u>\$ 1,950,578</u>			<u>\$ 2,051,044</u>

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
(A Component Unit of the Township of Ocean)
Notes to the Basic Financial Statements
Years Ended December 31, 2019 and 2018

4. Long-Term Liabilities – (Continued)

During the year ended December 31, 2018, the following changes occurred in long-term liabilities:

	Beginning Balance	Increases	Decreases	Ending Balance
Bonds payable	\$ 24,691,842		\$ 1,909,381	\$ 22,782,461
Unamortized premium	1,567,216		98,844	1,468,372
Bonds payable, net	26,259,058		2,008,225	24,250,833
Net pension liability	3,843,603		953,512	2,890,091
Net OPEB liability	5,837,691		1,299,385	4,538,306
Compensated absences	8,346	\$ 1,320	738	8,928
	<u>\$ 35,948,698</u>	<u>\$ 1,320</u>	<u>\$ 4,261,860</u>	<u>\$ 31,688,158</u>
Current portion	<u>\$ 1,950,578</u>			<u>\$ 1,993,554</u>

2001 Series Bonds - New Jersey Environmental Infrastructure Trust (NJEIT)

On November 9, 2001, the Authority issued \$7,840,900 in Revenue Bonds through the New Jersey Environmental Infrastructure Trust. The “Fund” (Federal Funds) portion of the Bond Issue, \$3,935,900, was issued with no interest rate. The remaining outstanding Bonds mature semi-annually from February 1, 2020 through August 1, 2021 with semi-annual maturities ranging from \$4,782 to \$206,111. The bonds were issued with an original issue premium of \$228,038.

The “Loan” (State Funds) portion of the Bond Issue, \$3,905,000, mature annually through August 1, 2021 at remaining annual maturities ranging from \$266,409 to \$295,312 and bear an interest at rate of 4.75%.

On September 12, 2007, the NJEIT issued 2007 Refunding Bonds which provided \$127,720 in interest savings for the Authority. The refunding was conducted at no cost to the Authority. No change to the bond principal maturity schedule occurred as a result of the refunding.

2004 Series Bonds – New Jersey Environmental Infrastructure Trust (NJEIT)

On November 4, 2004, the Authority issued \$3,350,000 in Revenue Bonds through the New Jersey Environmental Infrastructure Trust. The “Fund” (Federal Funds) portion of the Bond Issue of \$1,720,000 was issued with no interest rate. The Bonds mature semi-annually through August 1, 2021 at maturities ranging from \$2,478 to \$101,609. The Bonds were issued with an original issue premium of \$127,178.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
(A Component Unit of the Township of Ocean)
Notes to the Basic Financial Statements
Years Ended December 31, 2019 and 2018

4. Long-Term Liabilities – (Continued)

The “Loan” (State Funds) portion of the Bond Issue \$1,630,000, mature annually through August 1, 2021 at remaining annual maturities ranging from \$129,905 to \$134,673 and bear an interest rate of 5.00%.

On September 12, 2007, the NJEIT issued 2007 Refunding Bonds which provided \$40,762 in interest savings for the Authority. The refunding was conducted at no cost to the Authority. No change to the bond principal maturity schedule occurred as a result of the refunding.

2006 Series Bonds – New Jersey Environmental Infrastructure Trust (NJEIT)

On November 9, 2006, the Authority issued \$982,442 in Revenue Bonds through the New Jersey Environmental Infrastructure Trust. The “Fund” (Federal Funds) portion of the Bond Issue, \$487,442 was issued with no interest rate. The Bonds mature semi-annually through August 1, 2021 at maturities ranging from \$655 to \$33,684. The Bonds were issued with an original issue premium of \$15,069.

The “Loan” (State Funds) portion of the Bond Issue, \$495,000, mature annually through August 1, 2021 at annual maturities ranging from \$43,185 to \$43,192 and bear interest rates ranging from 4.00% to 4.125%.

2007 Series Bonds – New Jersey Environmental Infrastructure Trust (NJEIT)

On November 8, 2007, the Authority issued \$6,030,500 in Revenue Bonds through the New Jersey Environmental Infrastructure Trust. The “Fund” (Federal Funds) portion of the Bond Issue, \$2,960,500 was issued with no interest rate. The Bonds mature semi-annually through August 1, 2026 at maturities ranging from \$6,430 to \$147,004. The Bonds were issued with an original issue premium of \$66,108.

The “Loan” (State Funds) portion of the Bond Issue, \$3,070,000, mature annually through August 1, 2027 at remaining annual maturities ranging from \$147,000 to \$210,000 and bear interest rates ranging from 4.00% to 5.00%.

On November 27, 2012, \$207,719 of the 2007 Series Bonds were de-obligated by the NJEIT, resulting in a reduction of the bonds payable. During 2017, an additional \$261,000 of Trust Loan bonds were de-obligated, resulting in a further reduction of bonds payable.

2010 Series Bonds – New Jersey Environmental Infrastructure Trust (NJEIT)

On March 10, 2010, the Authority issued \$5,450,662 in Revenue Bonds through the New Jersey Environmental Infrastructure Trust. A portion of the Revenue Bonds were funded by the American Recovery and Reinvestment Act (“ARRA”).

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
(A Component Unit of the Township of Ocean)
Notes to the Basic Financial Statements
Years Ended December 31, 2019 and 2018

4. Long-Term Liabilities – (Continued)

The ARRA funded portion of the Revenue Bonds totaled \$1,926,012. This amount was segregated into two portions: Trust Loan Bonds of \$475,000 which mature annually on August 1 of each year through 2029 in amounts ranging from \$25,000 to \$33,000 at interest rates ranging from 3.00% to 5.00% and Fund Loan Bonds of \$1,451,012. Principal forgiveness of \$967,342 on this portion of the Bonds resulted in net Fund Loan Bonds payable of \$483,670, which mature semi-annually through August 1, 2029 in amounts ranging from \$8,198 to \$16,395, with no interest.

During 2017, \$16,000 of the 2010 ARRA Trust Series Bonds were de-obligated by the NJEIT, resulting in a reduction of the bonds payable.

2010 Traditional Revenue Bonds

The Traditional portion of the Revenue Bonds totaled \$3,524,650. This amount was segregated into two portions: Trust Loan Bonds of \$865,000 which mature annually on August 1 of each year through 2024 in amounts ranging from \$42,000 to \$52,000 at interest rates ranging from 3.00% to 5.00%, and Fund Loan Bonds of \$2,659,650 which mature semi-annually through February 1, 2022 in amounts ranging from \$45,078 to \$90,158, with no interest.

During 2013, \$295,000 of the 2010 Traditional Trust Series Bonds were de-obligated by the NJEIT, resulting in a reduction of the bonds payable and \$1,048,036 of the Traditional Fund Series Bonds were de-obligated by the NJEIT, resulting in a reduction of the bonds payable.

During 2017, \$11,000 of the 2010 Traditional Trust Series Bonds were de-obligated by the NJEIT, resulting in a reduction of the bonds payable.

2011 Series Sewer Revenue and Refunding Bonds

On September 22, 2011, the Authority issued \$2,970,000 in Sewer Revenue Bonds. The Bonds mature annually on February 1 of each year through 2031 in remaining amounts ranging from \$135,000 to \$200,000 at interest rates ranging from 2.75% to 4.00%.

Optional Redemption

Bonds maturing on or after February 1, 2022 are redeemable at the option of the Authority in whole or in part on any date on or after February 1, 2021 at a redemption price equal to the principal amount thereof, plus accrued interest to the date of redemption.

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4. Long-Term Liabilities – (Continued)

2017 Series Sewer Revenue Bonds

On February 23, 2017 the Authority issued \$9,095,000 in Sewer Revenue Bonds through the Monmouth County Improvement Authority. The Bonds mature annually on February 15 of each year through 2037 in remaining amounts ranging from \$300,000 to \$700,000 at an interest rate of 5.00%.

The Bonds were issued with an original issue premium of \$1,542,645.

Optional Redemption

Bonds maturing on or after February 15, 2028 are redeemable at the option of the Authority in whole or in part on any date on or after February 1, 2027 at a redemption price equal to the principal amount thereof, plus accrued interest to the date of redemption.

2017 Series Bonds – New Jersey Environmental Infrastructure Trust (NJEIT)

On November 21, 2017, the Authority issued \$5,528,416 in Revenue Bonds through the New Jersey Environmental Infrastructure Trust. The “Fund” (Federal Funds) portion of the Bond Issue, \$4,158,416 was issued with no interest rate. The Bonds mature semi-annually through August 1, 2035 at maturities ranging from \$19,643 to \$140,963. On July 10, 2019, the Authority received notification that \$544,210 of these bonds were deobligated.

The “Loan” (State Funds) portion of the Bond Issue, \$1,370,000 mature annually through August 1, 2037 at remaining annual maturities ranging from \$50,000 to \$95,000 and bear interest rates ranging from 2.13% to 5.00%.

2019 Series Bonds – Monmouth County Improvement Authority (MCIA)

On December 23, 2019, the Authority issued \$685,000 in Revenue Bonds through the Monmouth County Improvement Authority. The bonds mature annually through December 1, 2039 at annual maturities ranging from \$20,000 to \$40,000. Interest rates on the bonds range from 4.00% to 5.00%.

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4. Long-Term Liabilities – (Continued)

Remaining principal and interest payments on all outstanding debt of the Authority at December 31, 2019 are presented below:

<u>Year</u>	<u>Bond Principal</u>	<u>Interest on Bonds</u>	<u>Total</u>
2020	\$ 2,051,044	\$ 701,732	\$ 2,752,776
2021	2,102,514	649,063	2,751,577
2022	1,213,347	589,866	1,803,213
2023	1,221,975	552,311	1,774,286
2024	1,262,071	513,896	1,775,967
2025-2029	5,706,396	1,948,470	7,654,866
2030-2034	4,802,224	1,016,144	5,818,368
2035-2039	<u>3,114,336</u>	<u>194,275</u>	<u>3,308,611</u>
	<u>\$ 21,473,907</u>	<u>\$ 6,165,757</u>	<u>\$ 27,639,664</u>

5. Compensated Absences

The Authority records a liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee and is accrued as employees earn the rights to the benefits. The Authority uses the “vesting method” for estimating its accrued sick and vacation leave liability.

Authority employees are granted vacation and sick leave in varying amounts under the Authority’s personnel policies and according to negotiated contracts. In the event of retirement, according to contract, an employee is reimbursed for accumulated sick leave.

The liability for vested compensated absences of the Authority amounted to \$4,957 and \$8,298 at December 31, 2019 and 2018, respectively.

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6. Pension Plans

Description of Systems:

Substantially all of the Authority's employees participate in the following contributory defined benefit public employee retirement system, which have been established by State statute; the Public Employees' Retirement System (PERS). This systems is sponsored and administered by the State of New Jersey. The Public Employees Retirement System is a cost-sharing multiple-employer plan.

Public Employees' Retirement System (PERS):

The Public Employees' Retirement System (PERS) was established in January 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members.

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 with 25 years or more of service credit before age 62, and tier 5 with 30 years or more 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.

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

Funding Policy

The contribution policy is set by New Jersey State Statutes and contributions are required by active members and contributing members. Plan member and employer contributions may be amended by State of New Jersey legislation. Under the provisions of Chapter 78, P.L. 2011, the employee contribution rate for PERS was 7.50% of employees' annual compensation. Employers are required to contribute at an actuarially determined rate for PERS. The actuarially determined contribution includes funding for noncontributory death benefits and post-retirement medical premiums.

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6. Pension Plans – (Continued)

The Authority’s actuarially determined contributions to PERS for the years ended December 31, 2019, 2018 and 2017 were \$146,823, \$155,763 and \$142,186, respectively, equal to the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Public Employee’s Retirement System (PERS)

At December 31, 2019 and 2018, the Authority reported a liability of \$2,703,202 and \$2,890,091, respectively, for its proportionate share of the net pension liability. The December 31, 2019 net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation on July 1, 2018, which was rolled forward to June 30, 2019. The Authority’s proportion of the net pension liability was based on a projection of the Authority’s long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined. At June 30, 2019, the Authority’s proportion was 0.0150023835 percent, which was an increase of 0.0003240535 from its proportion measured as of June 30, 2018.

For the years ended December 31, 2019, and 2018 the Authority recognized full accrual pension benefits of \$77,939 and \$70,102, respectively, in the financial statements.

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

<u>2019</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 269,925	\$ 938,273
Net difference between projected and actual earnings on pension plan investments		42,671
Changes in proportion	136,203	285,939
Difference between expected and actual experience	48,519	11,942
Authority contributions subsequent to the measurement date	<u>207,704</u>	
	<u>\$ 662,351</u>	<u>\$ 1,278,825</u>

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6. Pension Plans – (Continued)

<u>2018</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 476,239	\$ 924,097
Net difference between projected and actual earnings on pension plan investments		27,109
Changes in proportion	114,187	393,948
Difference between expected and actual experience	55,114	14,902
Authority contributions subsequent to the measurement date	<u>160,798</u>	
	<u>\$ 806,338</u>	<u>\$ 1,360,056</u>

\$207,704 is reported as deferred outflows of resources related to pensions at December 31, 2019 resulting from Authority contributions subsequent to the measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:		
2020	\$	(112,831)
2021		(286,278)
2022		(279,510)
2023		(137,522)
2024		(8,037)
	<u>\$</u>	<u>(824,178)</u>

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 applied to all periods in the measurement:

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

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6. Pension Plans – (Continued)

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

Inflation rate	2.25%
Salary increases	
Through 2026	1.65-4.15% based on age
Thereafter	2.65-5.15% based on age
Investment rate of return	7.00%

Mortality Rates

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.

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 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.

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6. Pension Plans – (Continued)

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 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%
	<u>100.00%</u>	

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 made based on 70% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for 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.

The discount rate used to measure the total pension liability was 5.66% as of June 30, 2018. This single blended discount rate was based on the long-term expected rate of return on pension plan

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6. Pension Plans – (Continued)

investments of 7.00%, and a municipal bond rate of 3.87% as of June 30, 2018 based on the Bond Buyer GO 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 50% of the actuarially determined contributions. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2046. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2046 and the municipal bond rate was applied to projected benefits 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 as of December 31, 2019 calculated using the discount rate as disclosed below 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 percent) or 1-percentage-point higher (7.28 percent) than the current rate:

	At 1% Decrease (5.28%)	At Current Discount Rate (6.28%)	At 1% Increase (7.28%)
Authority's proportionate share of the net pension liability	\$ 3,414,583	\$ 2,703,202	\$ 2,103,762

The following presents the Authority’s proportionate share of the net pension liability as of December 31, 2018 calculated using the discount rate as disclosed below 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 (4.66 percent) or 1-percentage-point higher (6.66 percent) than the current rate:

	At 1% Decrease (4.66%)	At Current Discount Rate (5.66%)	At 1% Increase (6.66%)
Authority's proportionate share of the net pension liability	\$ 3,633,956	\$ 2,890,091	\$ 2,266,035

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6. Pension Plans – (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial report for the State of New Jersey Public Employees Retirement System.

Additional Information

Collective balances of the Local Group at the end of the current measurement period, June 30, 2019 are as follows:

Deferred outflows of resources	\$	3,149,522,616
Deferred inflows of resources	\$	7,645,087,574
Net pension liability	\$	18,143,832,135
Authority's Proportion		0.0150023835%

Collective balances of the Local Group at the end of the current measurement period, June 30, 2018 are as follows:

Deferred outflows of resources	\$	1,988,215,695
Deferred inflows of resources	\$	4,286,994,294
Net pension liability	\$	15,369,699,278
Authority's Proportion		0.0146783300%

Collective pension expense for the Local Group for the measurement periods ended June 30, 2019 and 2018, respectively, are \$974,471,686 and \$1,624,455,951. The average of the expected remaining service lives of all employees that are provided with pension through the pension plan (all plan members) is 5.21, 5.63, 5.48, 5.57, 5.72 and 6.44 years for the 2019, 2018, 2017, 2016, 2015 and 2014 amounts, respectively.

7. Postemployment Benefits Other Than Pensions (OPEB)

Plan description and benefits provided

The Authority participates in the State Health Benefit Local Government Retired Employees Plan (Plan), a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan administered by the State of New Jersey Division of Pension and Benefits. The Plan covers employees of local government employers that have adopted a resolution to participate in the Plan. The Plan provides medical and prescription drug coverage to retirees and their covered dependents. Rules governing the operation and administration of the program are found in Chapter 88, P.L. 1974 and Chapter 48, P.L. 1999. Additional information about the Plan is available from the State of

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7. Postemployment Benefits Other Than Pensions (OPEB) – (Continued)

New Jersey, Division of Pensions and Benefits Comprehensive Annual Financial Report, which can be found at <https://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At December 31, 2019 and 2018, the Authority reported a liability of \$3,876,208 and \$4,538,306, respectively for its proportionate share of the net OPEB liability. 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 net OPEB liability as of December 31, 2018 was determined by an actuarial valuation as of June 30, 2017 which was rolled forward to June 30, 2018. The Authority's proportion of the net OPEB liability was based on a projection of the Authority's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating local governments, actuarially determined. At December 31, 2019 and 2018, the Authority's proportion was 0.0285940000 percent and 0.0289680000 percent, respectively.

For the year ended December 31, 2019, the Authority recognized an OPEB benefit of \$171,672. At December 31, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions		\$ 1,373,642
Net difference between projected and actual earnings on OPEB plan investments	\$ 3,193	
Difference between expected and actual experience		1,133,554
Changes in proportion	<u>63,977</u>	<u>192,916</u>
	<u>\$ 67,170</u>	<u>\$ 2,700,112</u>

For the year ended December 31, 2018, the Authority recognized OPEB expense of \$25,241. At December 31, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

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7. Postemployment Benefits Other Than Pensions (OPEB) – (Continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions		\$ 1,151,201
Net difference between projected and actual earnings on OPEB plan investments	\$ 2,398	
Difference between expected and actual experience		921,438
Changes in proportion	<u>74,397</u>	<u>146,672</u>
	<u>\$ 76,795</u>	<u>\$ 2,219,311</u>

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:

2020	\$	(432,133)
2021		(432,133)
2022		(432,383)
2023		(432,794)
2024		(433,159)
2025		(321,489)
2026		(143,112)
2027		<u>(5,739)</u>
	<u>\$</u>	<u>(2,632,942)</u>

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.

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7. Postemployment Benefits Other Than Pensions (OPEB) – (Continued)

Mortality Rates

Mortality rates for June 30, 2019 for Pre-retirement and Post retirement healthy retirees is based on the Pub-2010 Healthy “General” table. Disability mortality is based on the Pub-2010 Disabled “General” table.

Mortality rates for June 30, 2018 for Preretirement mortality rates were based on the RP-2014 Headcount-Weighted Healthy Employee Male/Female Mortality table for males or females, as appropriate, with adjustments for mortality improvements based on MP- 2017 scale. Postretirement mortality rates were based on the RP-2014 Headcount-Weighted Healthy Annuitant Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale. Disability mortality was based on the RP-2014 Headcount-Weighted Disabled Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale.

Health Care 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.

The following represents sensitivity of the Authority’s proportionate share of the net OPEB liability associated with the Authority to changes in the discount rate and healthcare cost trend rate.

The following presents the Authority’s proportionate share of the net OPEB liability associated with the Authority as of June 30, 2019 calculated using a discount rate that is 1-percentage-point lower (2.50%) or 1-percentage-point higher (4.50%) than the current discount rate:

	At 1% Decrease (2.50%)	At Current Discount Rate (3.50%)	At 1% Increase (4.50%)
Authority’s proportionate share of the net OPEB liability	\$ 4,481,883	\$ 3,876,208	\$ 5,009,765

The following presents the Authority’s proportionate share of the net OPEB liability associated with the Authority as of June 30, 2018 calculated using a discount rate that is 1-percentage-point lower (2.87%) or 1-percentage-point higher (4.87%) than the current discount rate:

	At 1% Decrease (2.87%)	At Current Discount Rate (3.87%)	At 1% Increase (4.87%)
Authority’s proportionate share of the net OPEB liability	\$ 5,408,889	\$ 4,538,306	\$ 3,854,410

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7. Postemployment Benefits Other Than Pensions (OPEB) – (Continued)

The following presents the Authority's proportionate share of the net OPEB liability associated with the Authority as of June 30, 2019 calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	At 1% Decrease	At Current Healthcare Cost Trend	At 1% Increase
Authority's proportionate share of the net OPEB liability	\$ 3,271,042	\$ 3,876,208	\$ 4,648,199

The following presents the Authority's proportionate share of the net OPEB liability associated with the Authority as of June 30, 2018 calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	At 1% Decrease	At Current Healthcare Cost Trend	At 1% Increase
Authority's proportionate share of the net OPEB liability	\$ 3,761,234	\$ 4,538,306	\$ 5,557,811

Actuarial assumptions and other inputs

The total OPEB liability as of June 30, 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. This actuarial valuations used the following actuarial assumptions, applied to all periods in the measurement:

Inflation rate	2.50%
Salary increases*	
Rate through 2026	2.00 to 6.00%
Rate thereafter	3.00 to 7.00%

* Salary increases are based on years of service within the plan.

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

The average service lives of all plan members is 8.05, 8.14 and 8.04 years for 2019, 2018 and 2017, respectively.

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8. Defined Contribution Retirement Program

The Defined Contribution Retirement Program (DCRP) was established on July 1, 2007 for certain public employees under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007. The program provides eligible members, with a tax-sheltered, defined contribution retirement benefit, in addition to life insurance and disability coverage. The DCRP is jointly administered by the Division of Pensions and Benefits and Prudential Financial.

9. Deferred Compensation

The Authority offers its employees the following deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan which is administered by the AXA/Equitable, permits participants to defer a portion of their salary until future years. Amounts deferred under the plans are not available to employees until termination, retirement, death or unforeseeable emergency.

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.

Property and Liability Insurance:

The Authority maintains commercial insurance coverage through the New Jersey Utility Authorities Joint Insurance Fund for property, liability and surety bonds and does not retain risk of loss. A complete schedule of insurance coverage can be found in the Management Section of the report. There have been no significant reductions in insurance coverage from the prior year and no settlements have exceeded insurance coverage over the past three years.

New Jersey Unemployment Compensation Insurance:

The Authority has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". Under this plan, the Authority is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The Authority is billed quarterly for amounts due to the State. There are sufficient funds maintained in the separate unemployment compensation account to pay current billings.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
(A Component Unit of the Township of Ocean)
Notes to the Basic Financial Statements
Years Ended December 31, 2019 and 2018

11. Contingent Liabilities

Grant Programs:

The Authority participates in federal and state grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the Authority has not complied with the rules and regulations governing grants, refunds of any money received may be required.

Management is not aware of any material items of noncompliance, which would result in the disallowance of program expenditures.

Litigation:

In the opinion of the Authority, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants or pending lawsuits; therefore, no provisions have been recorded in the accompanying basic financial statements for such contingencies.

12. Restrictions on Net Position

Certain portions of net position have been restricted. Restrictions include net position restricted for future debt service of \$568,588 and restricted for renewal and replacement of \$500,000.

REQUIRED SUPPLEMENTARY INFORMATION AND NOTE TO REQUIRED

SUPPLEMENTARY INFORMATION – PART II

Township of Ocean Sewerage Authority
Schedule of the Authority's Proportionate Share of the Net Pension Liability
Public Employee's Retirement System
Required Supplementary Information and Notes to Required Supplementary Information
Last Ten Fiscal Years

	Years Ended December 31,									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Authority's proportion of the net pension liability (asset) - Local Group	0.0150023835%	0.0146783300%	0.0165114554%	0.0160049849%	0.0155241436%	0.0159647383%	N/A	N/A	N/A	N/A
Authority's proportionate share of the net pension liability (asset)	\$ 2,703,202	\$ 2,890,091	\$ 3,843,603	\$ 4,740,217	\$ 3,484,859	\$ 2,989,036	N/A	N/A	N/A	N/A
Authority's covered-employee payroll	\$ 1,039,826	\$ 1,110,734	\$ 1,112,629	\$ 1,082,336	\$ 1,060,160	\$ 1,083,535	\$ 1,127,938	\$ 1,215,651	\$ 1,212,904	\$ 1,163,995
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	259.97%	260.20%	345.45%	437.96%	328.71%	275.86%	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability - Local Group	56.27%	53.60%	48.10%	40.14%	47.93%	48.72%	N/A	N/A	N/A	N/A

* The amounts presented for each fiscal year were determined as of the previous fiscal year-end.
N/A - Information not available

Notes to Required Supplementary Information

Benefit Changes

There were none.

Changes of Assumptions

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

The discount rate changed from 5.00% as of June 30, 2017 to 5.66% as of June 30, 2018.

Township of Ocean Sewerage Authority
Schedule of the Authority's Pension Contributions
Public Employee's Retirement System
Required Supplementary Information
Last Ten Fiscal Years

	Years Ended December 31,									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 146,823	\$ 155,763	\$ 142,186	\$ 133,466	\$ 131,611	\$ 125,304	\$ 134,058	\$ 143,918	\$ 132,323	\$ 93,036
Contributions in relation to the contractually required contribution	\$ (146,823)	\$ (155,763)	\$ (142,186)	\$ (133,466)	\$ (131,611)	\$ (125,304)	\$ (134,058)	\$ (143,918)	\$ (132,323)	\$ (93,036)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered-employee payroll	\$ 1,127,078	\$ 1,039,826	\$ 1,110,734	\$ 1,112,629	\$ 1,082,336	\$ 1,060,160	\$ 1,083,535	\$ 1,127,938	\$ 1,215,651	\$ 1,212,904
Contributions as a percentage of covered-employee payroll	13.03%	14.98%	12.80%	12.00%	12.16%	11.82%	12.37%	12.76%	10.88%	7.67%

Township of Ocean Sewerage Authority
Schedule of the Authority's Proportionate Share of the Net OPEB Liability
State Health Benefits Local Government Retired Employees Plan
Required Supplementary Information and Notes to Required Supplementary Information
Last Ten Fiscal Years

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Authority's proportion of the net OPEB liability	0.0285940000%	0.0289680000%	0.0285940000%	0.0294930000%	N/A	N/A	N/A	N/A	N/A	N/A
Authority's proportionate share of the net OPEB liability (asset)	\$ 3,876,208	\$ 4,538,306	\$ 5,837,691	\$ 6,405,132	N/A	N/A	N/A	N/A	N/A	N/A
Authority's covered employee payroll	\$ 1,127,078	\$ 1,039,826	\$ 1,110,734	\$ 1,112,629	\$ 1,082,336	\$ 1,060,160	\$ 1,083,535	\$ 1,127,938	\$ 1,215,651	\$ 1,212,904
Authority's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	343.92%	436.45%	525.57%	575.68%	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net OPEB as a percentage of the total OPEB liability - Local Group	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

N/A - Information not available

Notes to Required Supplementary Information
Benefit Changes

There were none.

Changes of Assumptions

The discount rate changed from 3.87% as of June 30, 2018 to 3.50% as of June 30, 2019.

The discount rate changed from 3.58% as of June 30, 2017 to 3.87% as of June 30, 2018.

The amounts presented for each fiscal year were determined as of the previous fiscal year-end.

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

Township of Ocean Sewerage Authority
 Schedule of the Authority's OPEB Contributions
 State Health Benefits Local Government Retired Employees Plan
 Required Supplementary Information

Last Ten Fiscal Years

	Year Ended June 30,									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered payroll	\$ 1,127,078	\$ 1,039,826	\$ 1,110,734	\$ 1,112,629	\$ 1,082,356	\$ 1,060,160	\$ 1,083,555	\$ 1,127,938	\$ 1,215,651	\$ 1,212,904
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

SUPPLEMENTARY INFORMATION

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
A COMPONENT UNIT OF THE TOWNSHIP OF OCEAN
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND CASH EQUIVALENTS AND INVESTMENTS -
UNRESTRICTED ACCOUNTS
YEAR ENDED DECEMBER 31, 2019**

Schedule 1

	<u>Revenue Account</u>	<u>Authority Reserve Account</u>	<u>Total</u>
Cash, Cash Equivalents and Investments, January 1, 2019	\$ 5,904,338	\$ 2,132,370	\$ 8,036,708
Cash Receipts:			
Transfer from Construction Account	2,747,870		2,747,870
Transfer from Revenue Account		320,000	320,000
Interest received		21,679	21,679
User charges	7,029,659		7,029,659
Connection fees	393,047		393,047
Miscellaneous fees and charges	43,387		43,387
Interest on delinquent accounts	52,059		52,059
	<u>16,170,360</u>	<u>2,474,049</u>	<u>18,644,409</u>
Total Cash, Cash Equivalents and Investments Available			
Cash Disbursed:			
Accounts payable	662,215		662,215
Transfer to Authority Reserve Account	320,000		320,000
Transfer to Revenue Account		849,729	849,729
Transfer to debt service account	2,480,089		2,480,089
Budgetary expenses and payments to contractors	6,125,048	324,391	6,449,439
Accrued expenses	7,403		7,403
	<u>9,594,755</u>	<u>1,174,120</u>	<u>10,768,875</u>
Total Cash Disbursed			
Cash, Cash Equivalents and Investments December 31, 2019	\$ <u>6,575,605</u>	\$ <u>1,299,929</u>	\$ <u>7,875,534</u>
Balance Comprised of:			
Petty Cash and Change Funds	\$ 50		\$ 50
Cash - Money Market Funds/Checking Accounts	4,250,492	\$ 1,299,929	5,550,421
Investments - United States Treasury Bills	1,349,197		1,349,197
Investments - Bond Anticipation Notes	975,866		975,866
	<u>\$ 6,575,605</u>	<u>\$ 1,299,929</u>	<u>\$ 7,875,534</u>

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
A COMPONENT UNIT OF THE TOWNSHIP OF OCEAN
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN CASH AND CASH EQUIVALENTS AND INVESTMENTS
RESTRICTED ACCOUNTS
YEAR ENDED DECEMBER 31, 2019**

	Accounts Required by				Developer's Escrow	Totals
	Revenue Bond Resolution			Construction Account		
	Debt Service Account	Debt Service Reserve Account				
Cash and Cash Equivalents:						
January 1, 2019	\$ 173,254	\$ 549,188	\$ 8,523,115		\$ 40,812	\$ 9,286,369
Cash Receipts:						
Interest received	1,690	11,082	158,406		37	171,215
Transfer from Revenue Fund:						
Budget for debt service						
Other	2,448,679		2,335,020			2,448,679
NJEIT proceeds	31,410		1,979,251			2,366,430
MCIA bond proceeds			797,244			1,979,251
Developer's escrow deposits				46,392		797,244
						46,392
	<u>2,655,033</u>		<u>13,793,036</u>		<u>87,241</u>	<u>17,095,580</u>
Total Cash and Cash Equivalents Available		560,270				
Cash Disbursed:						
Payment of bond principal	1,764,725					1,764,725
Payment of interest on bonds	685,641					685,641
Payment of NJEIT administrative fees	31,410					31,410
Payment of project costs			6,381,319			6,381,319
Reserve for developer's escrow				42,531		42,531
Transfer to Revenue Fund - Unrestricted			2,747,870			2,747,870
Total Cash Disbursed	<u>2,481,776</u>		<u>9,129,189</u>		<u>42,531</u>	<u>11,653,496</u>
Cash and Cash Equivalents, December 31, 2019	<u>\$ 173,257</u>	<u>\$ 560,270</u>	<u>\$ 4,663,847</u>		<u>\$ 44,710</u>	<u>\$ 5,442,084</u>
Balance Comprised of:						
Cash - Checking			\$ 401,301		\$ 44,710	\$ 446,011
Blackrock US Treasury Obligations Money Market Fund	152	463,016	4,262,546			4,725,714
Goldman US Treasury Obligations Money Market Fund	<u>173,105</u>	<u>97,254</u>				<u>270,359</u>
	<u>\$ 173,257</u>	<u>\$ 560,270</u>	<u>\$ 4,663,847</u>		<u>\$ 44,710</u>	<u>\$ 5,442,084</u>

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
A COMPONENT UNIT OF THE TOWNSHIP OF OCEAN
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	December 31, 2019			December 31, 2018		
	Original Budget	Final Budget	Variance Final to Actual	Final Budget	Realized	Variance Final to Actual
<u>Revenues</u>						
User Charges	\$ 7,175,688	\$ 7,175,688	\$ (45,560)	\$ 7,140,636	\$ 7,187,865	\$ 47,229
Connection Fees		393,047	393,047	625,000	733,032	108,032
Interest on Investments	75,000	75,000	223,553	25,000	256,918	231,918
Interest on Delinquent Accounts	45,000	45,000	7,059	45,000	55,403	10,403
Miscellaneous Fees and Charges	33,533	33,533	14,742	35,000	175,392	140,392
Total Revenues	\$ 7,329,221	\$ 7,329,221	\$ 592,841	\$ 7,870,636	\$ 8,408,610	\$ 537,974

	December 31, 2019			December 31, 2018		
	Original Budget	Final Budget	Variance Final to Actual	Final Budget	Paid or Charged	Variance Final to Actual
<u>Expenses</u>						
Administrative Salaries	\$ 147,238	\$ 147,238	\$ 8,661	\$ 144,436	\$ 138,433	\$ 6,003
Telephone	10,000	10,000	2,435	12,000	5,685	6,315
Office Supplies	3,000	3,000	999	3,000	3,208	(208)
Postage	3,000	3,000	834	3,000	2,667	333
Office Other Expense	15,000	15,000	852	15,000	11,989	3,011
Professional Fees:						
Engineering	50,000	74,400	105	50,000	47,852	2,148
Legal	18,000	21,000	487	18,000	18,033	(33)
Accounting	40,000	40,000	1,734	40,000	36,450	3,550
Insurance General	140,000	140,000	9,799	140,000	129,103	10,897
Travel Expense	3,000	3,000	2,239	3,500	1,819	1,681
Dues and Subscriptions	7,000	7,000	1,105	7,000	5,695	1,305
Hospitalization Insurance	600,677	480,677	40,836	575,071	507,788	67,283
Other Postemployment Benefits - GASB 75	111,770	111,770	171,672	95,974	25,241	(25,241)
Social Security Taxes	165,000	150,000	8,949	154,000	93,533	2,441
Public Employee Retirement System	798	798	81,116	1,214	83,661	70,339
Group Life Insurance	2,000	2,000	65	2,000	733	481
Advertising	2,000	2,000	1,251	2,000	1,010	990
Natural Gas	2,000	2,600	4	2,000	1,631	369
Trustee and Paying Agent	76,220	61,220	4,790	99,970	99,296	674
Equipment Maintenance Contracts	10,000	10,000	3,473	10,000	1,075	8,925

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
A COMPONENT UNIT OF THE TOWNSHIP OF OCEAN
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	December 31, 2019			December 31, 2018			
	Original Budget	Final Budget	Paid or Charged	Variance Final to Actual	Final Budget	Paid or Charged	Variance Final to Actual
<u>Administration (Continued):</u>							
Office Equipment	\$ 2,500	\$ 2,500	\$	\$ 2,500	\$ 1,500	\$ 495	\$ 1,005
Conventions and Seminars	6,000	6,000	604	5,396	6,000	55	5,945
Education and Training Courses	7,000	7,000	3,044	3,956	7,000	4,470	2,530
Safety Equipment	18,000	18,000	5,760	12,240	18,000	8,924	9,076
Reserve for Accumulated Vacation and Sick Time	5,000	27,000	16,919	10,081	5,000	582	4,418
Township of Ocean Contribution			329,729	(329,729)	317,426	317,426	
Township of Ocean Interlocal	318,339	318,339	318,339		353,214	299,978	53,236
Total Administration	1,761,542	1,661,542	1,615,692	45,850	2,084,305	1,846,832	237,473
<u>Treatment Plant:</u>							
Salaries							
Base	814,864	816,875	817,906	(1,031)	734,477	734,652	(175)
Overtime	34,605	34,605	31,428	3,177	34,935	35,473	(538)
Water	12,000	34,000	33,675	325	18,655	18,332	323
Electric	320,250	311,150	297,026	14,124	335,426	332,039	3,387
Natural Gas	10,000	10,000	7,899	2,101	12,000	7,748	4,252
Diesel	3,500	3,500		3,500	3,500	78	3,422
Process Chemicals:							
Liquid Oxygen	20,000	22,000	21,778	222	75,000	67,481	7,519
Sodium Hypochlorite	56,680	58,680	58,461	219	59,000	58,758	242
Polymer	17,600	38,100	37,841	259	30,100	30,013	87
Other	5,100	5,100	1,638	3,462	5,100		5,100
Bioxide/VX456	15,000	15,000	1,967	13,033	15,000	3,752	11,248
Maintenance Chemicals	5,000	5,000		5,000	5,000	1,911	3,089
Generator Maintenance	7,000	14,500	14,403	97			
Other Maintenance Contracts	14,000	14,000	12,767	1,233			
Repairs and Supplies:							
Uniforms and Lockers	17,000	17,000	13,860	3,140	12,000	11,353	647
One Call Service	4,000	6,000	5,770	230	5,000	4,652	348
Pumps	30,000	30,000	26,840	3,160	30,000	27,054	2,946
General	60,000	60,000	58,983	1,017	50,000	43,515	6,485
Repairs - Contractors	35,000	35,000	31,417	3,583	35,000	32,345	2,655
Truck Expenses:							
Gasoline	7,000	7,000	4,843	2,157	7,000	5,659	1,341
Repairs	6,000	6,000	4,620	1,380	6,000	1,833	4,167
Other	6,000	6,000	3,412	2,588	6,000	5,922	78

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
A COMPONENT UNIT OF THE TOWNSHIP OF OCEAN
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	December 31, 2019			December 31, 2018			
	Original Budget	Final Budget	Paid or Charged	Variance Final to Actual	Final Budget	Paid or Charged	Variance Final to Actual
<u>Treatment Plant(Continued):</u>							
Sludge Disposal	\$ 530,000	\$ 580,500	\$ 580,034	\$ 466	\$ 495,000	\$ 531,345	\$ (36,345)
Grit Disposal	25,000	25,000	18,155	6,845	25,000	20,365	4,635
Lab:							
Supplies	7,000	7,000	4,247	2,753	3,000	2,459	541
Equipment	5,000	5,000	4,968	32	4,000	1,992	2,008
Testing	14,000	16,600	16,478	122	19,000	19,184	(184)
Permit Fees	45,000	45,000	45,322	(322)	50,000	45,818	4,182
Maintenance Contracts Equipment	40,000	40,000	39,279	721	76,102	63,148	12,954
Total Treatment Plant	2,166,599	2,268,610	2,195,017	73,593	2,151,295	2,106,881	44,414
<u>Collection System:</u>							
Salaries							
Base	265,675	267,164	268,286	(1,122)	248,143	247,714	429
Overtime	23,070	23,070	20,671	2,399	30,790	29,287	1,503
Repairs and Supplies:							
Pumps	60,000	54,900	11,516	43,384	60,000	61,331	(1,331)
Controls	10,000	10,000	520	9,480	10,000	4,216	5,784
Jet Truck	20,000	20,000	6,609	13,391	20,000	13,129	6,871
General	10,000	10,000	8,054	1,946	5,500	2,212	3,288
Repairs - Contractors	80,000	80,000	60,266	19,734	80,000	62,408	17,592
Repairs - Generators	10,000	10,550	10,428	122	3,898	755	3,143
Maintenance Chemicals:							
Bioxide	75,000	75,000	37,714	37,286	75,000	56,595	18,405
Other	16,900	16,900	3,000	13,900	16,900	568	16,332
Electric	44,987	44,987	43,505	1,482	47,895	47,945	(50)
Water	2,500	3,000	2,947	53	2,845	2,236	609
Truck Expenses:							
Natural Gas	3,000	3,000	663	2,337	3,000	757	2,243
Gasoline	12,000	12,000	5,214	6,786	12,000	5,391	6,609
Diesel	6,750	6,750	2,822	3,928	6,750	3,158	3,592
Repairs	2,000	2,550	2,505	45	2,000	1,769	231
Other	1,000	1,000	372	628	1,000	381	619
TV Truck Other Expenses	5,000	5,000	4,888	112	5,000	3,964	1,036
Manhole Maintenance	25,000	25,000	8,382	16,618	35,000	7,623	27,377
Total Collection System	672,882	670,871	498,362	172,509	665,721	551,439	114,282

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
A COMPONENT UNIT OF THE TOWNSHIP OF OCEAN
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
YEARS ENDED DECEMBER 31, 2019 AND 2018**

	December 31, 2019			December 31, 2018			
	Original Budget	Final Budget	Paid or Charged	Variance Final to Actual	Final Budget	Paid or Charged	Variance Final to Actual
Total Operations	\$ 4,601,023	\$ 4,601,023	\$ 4,309,071	\$ 291,952	\$ 4,901,321	\$ 4,505,152	\$ 396,169
Debt Service:							
Bond Principal	1,993,555	1,993,555	1,993,555		1,919,655	1,809,931	109,724
Interest Expense	644,643	644,643	611,817	32,826	699,660	725,090	(25,430)
Total Debt Service	2,638,198	2,638,198	2,605,372	32,826	2,619,315	2,535,021	84,294
Capital Outlay:							
Buildings and Grounds Improvements					40,000	40,000	
SCADA System Improvements					20,000	20,000	
Collection System Improvements					75,000	75,000	
Pump Station Improvements							
Acquisition of Vehicles	50,000	50,000	50,000		60,000	60,000	
Maintenance and Assets Management	40,000	40,000	40,000		30,000	30,000	
Generators					75,000	75,000	
Lateral Replacement and Repair					50,000	50,000	
Total Capital Outlay	90,000	90,000	90,000		350,000	350,000	
Total Expenses	\$ 7,329,221	\$ 7,329,221	\$ 7,004,443	\$ 324,778	\$ 7,870,636	\$ 7,390,173	\$ 480,463

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
A COMPONENT UNIT OF THE TOWNSHIP OF OCEAN
SCHEDULE OF LONG-TERM REVENUE BONDS PAYABLE
YEAR ENDED DECEMBER 31, 2019

Purpose	Date of Issue	Maturities		Interest Rate	Balance December 31, 2018	Issued	De-Obligated	Paid	Balance December 31, 2019
		Date	Amount						
\$3,905,000 (Series 2001 NJEIT) Trust Loan - To provide funds for the 2001 Treatment Plant and Collection System Capital Project.	11/9/2001	8/1/2020	\$ 280,794	4.75%					
		8/1/2021	295,312	4.75%					
2001 Trust Loan Series Sub-Total					\$ 842,515		\$	\$ 266,409	\$ 576,106
\$3,935,900 (Series 2001 NJEIT) Fund Loan - To provide funds for the 2001 Treatment Plant and Collection System Capital Project.	11/9/2001	2/1/2020	9,332	0%					
		8/1/2020	200,919	0%					
		2/1/2021	4,782	0%					
		8/1/2021	206,110	0%					
2001 Fund Loan Series Sub-Total					630,744		209,602	421,142	
\$1,630,000 (Series 2004A NJEIT) Trust Loan	11/4/2004	8/1/2020	129,905	5.00%					
		8/1/2021	134,673	5.00%					
2004 Trust Loan Series Sub-Total					389,672		125,094	264,578	
\$1,720,000 (Series 2004B NJEIT) Fund Loan	11/4/2004	2/1/2020	4,868	0%					
		8/1/2020	100,458	0%					
		2/1/2021	2,478	0%					
		8/1/2021	101,608	0%					
2004 Fund Loan Series Sub-Total					315,800		106,388	209,412	
\$495,000 (Series 2006 NJEIT) Trust Loan	11/9/2006	8/1/2020	43,185	4.00%					
		8/1/2021	43,192	4.125%					
2006 Trust Loan Series Sub-Total					129,563		43,186	86,377	
\$487,442 (Series 2006 NJEIT) Fund Loan	11/9/2006	2/1/2020	1,290	0%					
		8/1/2020	33,049	0%					
		2/1/2021	655	0%					
		8/1/2021	32,415	0%					
2006 Fund Loan Series Sub-Total					103,018		35,609	67,409	
\$3,070,000 (Series 2007 NJEIT) Trust Loan	11/8/2007	8/1/2020	147,000	4.00%					
		8/1/2021	157,000	5.00%					
		8/1/2022	162,000	5.00%					
		8/1/2023	170,000	4.25%					
		8/1/2024	180,000	4.50%					
		8/1/2025	190,000	4.50%					
		8/1/2026	200,000	4.50%					
		8/1/2027	210,000	4.25%					
2007 Trust Loan Series Sub-Total					1,557,000		141,000	1,416,000	
\$2,960,500 (Series 2007 NJEIT) Fund Loan	11/8/2007	2/1/2020	23,132	0%					
		8/1/2020	131,837	0%					
		2/1/2021	20,958	0%					
		8/1/2021	136,058	0%					
		2/1/2022	18,080	0%					
		8/1/2022	136,377	0%					
		2/1/2023	15,123	0%					
		8/1/2023	139,814	0%					
		2/1/2024	12,473	0%					
		8/1/2024	143,559	0%					
		2/1/2025	9,524	0%					
		8/1/2025	147,004	0%					
		2/1/2026	6,430	0%					
8/1/2026	102,243	0%							
2007 Fund Loan Series Sub-Total					1,198,605		155,992	1,042,613	

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
A COMPONENT UNIT OF THE TOWNSHIP OF OCEAN
SCHEDULE OF LONG-TERM REVENUE BONDS PAYABLE
YEAR ENDED DECEMBER 31, 2019

Purpose	Date of Issue	Maturities		Interest Rate	Balance December 31, 2018	Issued	De-Obligated	Paid	Balance December 31, 2019
		Date	Amount						
\$475,000 (Series 2010A NJEIT) ARRA Trust	3/10/2010	8/1/2020	\$ 24,000	5.00%					
		8/1/2021	24,000	3.00%					
		8/1/2022	24,000	4.00%					
		8/1/2023	29,000	4.00%					
		8/1/2024	28,000	4.00%					
		8/1/2025	28,000	4.00%					
		8/1/2026	28,000	3.50%					
		8/1/2027	29,000	4.00%					
		8/1/2028	33,000	4.00%					
		8/1/2029	33,000	4.00%					
2010A ARRA Trust Series Sub-Total					\$ 304,000			\$ 24,000	\$ 280,000
\$483,670 (Series 2010 NJEIT) ARRA Fund	3/10/2010	2/1/2020	8,198	0%					
		8/1/2020	16,395	0%					
		2/1/2021	8,199	0%					
		8/1/2021	16,395	0%					
		2/1/2022	8,198	0%					
		8/1/2022	16,395	0%					
		2/1/2023	8,199	0%					
		8/1/2023	16,395	0%					
		2/1/2024	8,199	0%					
		8/1/2024	16,395	0%					
		2/1/2025	8,199	0%					
		8/1/2025	16,395	0%					
		2/1/2026	8,199	0%					
		8/1/2026	16,395	0%					
		2/1/2027	8,199	0%					
8/1/2027	16,395	0%							
2/1/2028	8,199	0%							
8/1/2028	16,395	0%							
2/1/2029	8,199	0%							
8/1/2029	16,395	0%							
2010 ARRA Fund Series Sub-Total					270,531			24,593	245,938
\$865,000 (Series 2010A NJEIT) Traditional Trust	3/10/2010	8/1/2020	45,000	5.00%					
		8/1/2021	42,000	3.00%					
		8/1/2022	48,000	4.00%					
		8/1/2023	47,000	4.00%					
		8/1/2024	52,000	4.00%					
2010A ARRA Traditional Trust Series Sub-Total					279,000			45,000	234,000
\$2,659,650 (Series 2010 NJEIT) Traditional Fund	3/10/2010	2/1/2020	45,078	0%					
		8/1/2020	90,158	0%					
		2/1/2021	45,078	0%					
		8/1/2021	90,158	0%					
		2/1/2022	33,856	0%					
2010A ARRA Traditional Fund Series Sub-Total					439,560			135,236	304,324

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
A COMPONENT UNIT OF THE TOWNSHIP OF OCEAN
SCHEDULE OF LONG-TERM REVENUE BONDS PAYABLE
YEAR ENDED DECEMBER 31, 2019

Purpose	Date of Issue	Maturities		Interest Rate	Balance December 31, 2018	Issued	De-Obligated	Paid	Balance December 31, 2019
		Date	Amount						
\$2,970,000 (Series 2011 Capital Projects) Proceeds utilized to finance the 2011 Capital Projects.	9/22/2011	2/1/2020	\$ 135,000	2.75%					
		2/1/2021	140,000	2.75%					
		2/1/2022	145,000	3.00%					
		2/1/2023	150,000	3.00%					
		2/1/2024	155,000	3.50%					
		2/1/2025	160,000	3.50%					
		2/1/2026	165,000	3.50%					
		2/1/2027	170,000	4.00%					
		2/1/2028	180,000	4.00%					
		2/1/2029	185,000	4.00%					
		2/1/2030	195,000	4.00%					
		2/1/2031	200,000	4.00%					
2011 Capital Projects Bonds Series Sub-Total					\$ 2,115,000			\$ 135,000	\$ 1,980,000
\$9,095,000 2017 MCIA Bonds Proceeds utilized to finance the 2017 Capital Projects.	2/23/2017	2/15/2020	300,000	5.00%					
		2/15/2021	315,000	5.00%					
		2/15/2022	330,000	5.00%					
		2/15/2023	350,000	5.00%					
		2/15/2024	365,000	5.00%					
		2/15/2025	385,000	5.00%					
		2/15/2026	405,000	5.00%					
		2/15/2027	425,000	5.00%					
		2/15/2028	445,000	5.00%					
		2/15/2029	470,000	5.00%					
		2/15/2030	495,000	5.00%					
		2/15/2031	520,000	5.00%					
		2/15/2032	545,000	5.00%					
		2/15/2033	575,000	5.00%					
		2/15/2034	605,000	5.00%					
		2/15/2035	635,000	5.00%					
2/15/2036	670,000	5.00%							
2/15/2037	700,000	5.00%							
2017 MCIA Bonds Series Sub-Total					8,820,000			285,000	8,535,000
2017 MCIA Bonds Series Sub-Total					8,820,000			285,000	8,535,000
\$1,370,000 (Series 2017 NJEIT) Traditional Trust Proceeds utilized to finance the 2017 Capital Projects.	11/21/2017	8/1/2020	50,000	5.00%					
		8/1/2021	55,000	5.00%					
		8/1/2022	55,000	5.00%					
		8/1/2023	60,000	5.00%					
		8/1/2024	60,000	5.00%					
		8/1/2025	65,000	5.00%					
		8/1/2026	70,000	5.00%					
		8/1/2027	70,000	2.13%					
		8/1/2028	75,000	2.38%					
		8/1/2029	75,000	2.50%					
		8/1/2030	80,000	2.63%					
		8/1/2031	80,000	2.75%					
		8/1/2032	80,000	2.75%					
		8/1/2033	85,000	2.88%					
		8/1/2034	85,000	2.88%					
		8/1/2035	90,000	3.00%					
		8/1/2036	90,000	3.00%					
		8/1/2037	95,000	3.00%					
2017 Traditional Trust Series Sub-Total					1,370,000			50,000	1,320,000

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
A COMPONENT UNIT OF THE TOWNSHIP OF OCEAN
SCHEDULE OF LONG-TERM REVENUE BONDS PAYABLE
YEAR ENDED DECEMBER 31, 2019

Purpose	Date of Issue	Maturities		Interest Rate	Balance December 31, 2018	Issued	De-Obligated	Paid	Balance December 31, 2019
		Date	Amount						
\$4,158,416 (Series 2017 NJEIT)	11/21/2017								
Traditional Fund		2/1/2020	\$ 70,482	0%					
Proceeds utilized to finance the 2017 Capital Projects.		8/1/2020	140,963	0%					
		2/1/2021	70,482	0%					
		8/1/2021	140,963	0%					
		2/1/2022	70,482	0%					
		8/1/2022	140,963	0%					
		2/1/2023	70,482	0%					
		8/1/2023	140,963	0%					
		2/1/2024	70,482	0%					
		8/1/2024	140,963	0%					
		2/1/2025	70,482	0%					
		8/1/2025	140,963	0%					
		2/1/2026	70,482	0%					
		8/1/2026	140,963	0%					
		2/1/2027	70,482	0%					
		8/1/2027	140,963	0%					
		2/1/2028	70,482	0%					
		8/1/2028	140,963	0%					
		2/1/2029	70,482	0%					
		8/1/2029	140,963	0%					
		2/1/2030	70,482	0%					
		8/1/2030	140,963	0%					
		2/1/2031	70,482	0%					
		8/1/2031	140,963	0%					
		2/1/2032	70,482	0%					
		8/1/2032	140,963	0%					
		2/1/2033	70,482	0%					
		8/1/2033	140,963	0%					
		2/1/2034	70,482	0%					
		8/1/2034	140,963	0%					
		2/1/2035	70,482	0%					
		8/1/2035	19,643	0%					
2017 Traditional Fund Series Sub-Total					\$ 4,017,453		\$ 544,210	\$ 211,445	\$ 3,261,798
\$685,000 (Series 2019 MCIA)	12/23/2019								
Proceeds utilized to finance the 2019 capital projects.		12/1/2020	20,000	4.00%					
		12/1/2021	20,000	5.00%					
		12/1/2022	25,000	5.00%					
		12/1/2023	25,000	5.00%					
		12/1/2024	30,000	5.00%					
		12/1/2025	30,000	5.00%					
		12/1/2026	30,000	5.00%					
		12/1/2027	35,000	5.00%					
		12/1/2028	35,000	5.00%					
		12/1/2029	35,000	5.00%					
		12/1/2030	40,000	5.00%					
		12/1/2031	40,000	5.00%					
		12/1/2032	40,000	5.00%					
		12/1/2033	40,000	4.00%					
		12/1/2034	40,000	4.00%					
		12/1/2035	40,000	4.00%					
		12/1/2036	40,000	4.00%					
		12/1/2037	40,000	4.00%					
		12/1/2038	40,000	4.00%					
		12/1/2039	40,000	4.00%					
					\$ 685,000				685,000
					685,000				685,000
Grand Total					\$ 22,782,461	\$ 685,000	\$ 544,210	\$ 1,993,554	\$ 20,929,697
Detail:									
Current portion									\$ 2,051,044
Long-term portion									18,878,653
									\$ 20,929,697



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*

Independent Auditors' Report

Honorable Chairman and Members
of the Board
Township of Ocean Sewerage Authority
Township of Ocean, New Jersey
County of Monmouth

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the Township of Ocean Sewerage Authority, in the County of Monmouth, New Jersey ("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 24, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 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 Authority'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. 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, 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 the audit requirements as prescribed 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 Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Wiss & Company

WISS & COMPANY, LLP

June 24, 2020
Florham Park, New Jersey

OTHER INFORMATION

ROSTER OF OFFICIALS AND SURETY BOND/INSURANCE COVERAGE

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY

ROSTER OF OFFICIALS AND SURETY BOND

YEAR ENDED DECEMBER 31, 2019

<u>Name</u>	<u>Title</u>	<u>Surety Bond</u>
Dennis Galvin	Chairman	A
Richard Bernhardt	Vice Chairman	A
Ralph E. Stubbs	Secretary/Treasurer	A
John Villapiano	Commissioner	A
Charles Theodora	Assistant Secretary/Treasurer	A
William E. Schmeling	Executive Director	A
John Bonello, Esq.	Attorney	
CME Associates	Engineer	
BNY/Mellon	Trustee	

Surety Coverages:

- A. Municipal Excess Liability Joint Insurance Fund: Public Officials Liability/Employment Practices. \$2,000,000 in the aggregate on claims made basis per member local unit for each fund year subject to a deductible and coinsurance.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY

INSURANCE COVERAGE

YEAR ENDED DECEMBER 31, 2019

A blanket policy issued by the New Jersey Utility Authorities Joint Insurance Fund for a one-year period expiring on January 1, 2020, payable semi-annually was in force during the period under audit. The following coverages were provided:

		<u>Expiration Date</u>
Special Multi Peril Policy:		
Property:		
Buildings and Contents	\$ 150,000,000	1/1/2020
Contractors Equipment	5,000,000	
Employee Blanket Dishonesty	1,000,000	
Valuable Papers	10,000,000	
Accounts Receivable	10,000,000	
Depositor's Forgery	1,000,000	
Theft, Disappearance and Destruction:		
Inside	1,000,000	
Outside	1,000,000	
Miscellaneous Tools and Equipment	5,000,000	
Boiler and Machinery	150,000,000	
	<u>Property Damage</u>	<u>Bodily Injury</u>
Liability:		
General Liability, Property and Bodily Damage (Combined Single Limit)	\$ 10,000,000	1/1/2020
Auto Fleet:		
Liability (Combined Single Limit)	\$ 10,000,000	1/1/2020
Uninsured Motorists	16,000/30,000/5,000	
Public Officials Liability	2,000,000	1/1/2020
Ocean Outfall	5,000,000	1/1/2020
Flood	20,000,000	1/1/2020
Workmen's Compensation	Statutory	1/1/2020

All of the insurance policies in force were examined. No attempt was made to determine the adequacy of coverage as part of this report. Adequacy of coverage is the responsibility of the Authority. Insurance coverages continued uninterrupted through the date of this report.

OTHER INFORMATION

GENERAL COMMENTS AND RECOMMENDATIONS

GENERAL COMMENTS DECEMBER 31, 2019

Cash Balances

The cash balances were verified with the statements rendered by the trustee and other depositories and also confirmed by direct communication.

Contracts and Agreements Requiring Advertisement for Bids

The Commissioners and Executive Director of the Township of Ocean Sewerage Authority have the responsibility of determining whether any contract or agreement might result in violation of the statute and, when necessary, the Authority's Counsel's opinion should be sought before a commitment is made.

Under N.J.S.A. 40A:11-9(b) the Authority appointed the Executive Director as their Qualified Purchasing Agent. Accordingly, the bid threshold was 2019 was \$40,000.

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 result of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear cut violations existed.

Based on the results of our examination, we did not note any individual payments, contracts, or agreements made for the performance of any work or the furnishing or hiring of any materials or supplies, in excess of the statutory thresholds where there had been no advertising for bids in accordance with the provision of N.J.S.A. 40A: 11-2.

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

Delinquent Sewer Charges

A detail of all unpaid sewer charges including customer municipality billings outstanding and amounts due from users is in agreement with an abstract taken from these records as at December 31, 2019 covering all unpaid charges on that date.

A test verification of delinquent charges outstanding at December 31, 2019 and accounts with no balances was made and the results indicated that the accounts of the Authority were in order, based on the replies returned on the verification notices mailed.

Collection of Interest on Delinquent Sewer Charges

The statutes provide the method for authorizing interest and maximum rates to be charged for nonpayment of sewer charges on or before the date when they would become delinquent. The Authority approved a resolution establishing an interest rate of 1½% per month for delinquent members' charges. The resolution was complied with.

Interest Requirements

The Authority paid all required interest on its revenue bonds during the period under audit.

Revenues

The Authority's revenues from customer billings, customer town billings, connection fees and other authorized revenues were adequate in providing sufficient revenues to cover operating, maintenance and debt service costs for the fiscal year, in accordance with the requirements of the Bond Resolution.

Receipts from search fees and other charges were checked to the records maintained and verified as proper in conjunction with the fees established by the Authority.

The Authority's rules and regulations established various fees for application filings, legal and engineering inspections and performance bond requirements. The receipts for these fees were checked to the records maintained.

Expenses

In accordance with the Bond Resolution, Section 610, the Authority adopted annual operating budgets for the fiscal years ending December 31, 2019 and 2018.

The vouchers were examined on a test basis, no exceptions were noted except as follows:

Finding 2019-001:

Condition: The Authority was not always able to provide documentation that the purchase order was in agreement with the related invoice and that the purchase order was signed prior to services being provided (confirming order).

Criteria: An encumbrance system is required by New Jersey regulation.

Cause: Confirming orders occurred due to items being ordered without obtaining prior approval. Proper documentation was not maintained due to the processing of payments for items where an insufficient invoice or no invoice was provided.

Recommendation: The Authority should retain documentation that invoices agree to purchase orders and that purchase orders were properly approved.

Authority Response: The Authority will ensure proper documentation is retained in the future.

An examination was made of the employees' compensation and payroll deductions for the year ended December 31, 2019 and for those employees examined, no exceptions were noted.

Exit Conference

An exit audit conference with the Authority was held.

Acknowledgment

We wish to express our appreciation for the cooperation received from the Authority officials and employees and the courtesies extended during the course of the audit.

Follow-up on Prior Year's Recommendations

In accordance with *Government Auditing Standards*, our procedures included a review of all prior year's recommendations including findings. A corrective action plan was successfully adopted for all 2018 recommendations.

Filing Audit Report, N.J.S. 40A:5A-15

A copy of this report has been filed with the Division of Local Government Services.

RECOMMENDATION

2019-001 The Authority should retain documentation that invoices agree to purchase orders and that purchase orders were properly approved.

The item identified above was not of such magnitude that it would affect our ability to express an opinion on the financial statements taken as a whole.



Report on Compliance For the Major Federal Program and Report on Internal Control
Over Compliance Required by the Uniform Guidance

Independent Auditors' Report

Honorable Chairman and
Members of the Board
Township of Ocean Sewerage Authority
Township of Ocean, New Jersey
County of Monmouth

Report on Compliance for the Major Federal Program

We have audited the Township of Ocean Sewerage Authority's, in the County of Monmouth, New Jersey (the "Authority") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended December 31, 2019. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal award applicable to its federal program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements as prescribed by the Department of Community Affairs, State of New Jersey; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on the Major Federal Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2019.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

David A. Kaplan
Certified Public Accountant

A handwritten signature in black ink that reads "Wiss & Company". The signature is written in a cursive, flowing style.

WISS & COMPANY, LLP

June 24, 2020
Florham Park, New Jersey

Township of Ocean Sewerage Authority
 Schedule of Findings and Questioned Costs

Year ended December 31, 2019

Part I - Summary of Auditors' Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____	Yes	<u> X </u>	No
Significant deficiency(ies) identified?	_____	Yes	<u> X </u>	None Reported
Noncompliance material to financial statements noted?	_____	Yes	<u> X </u>	No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	_____	Yes	<u> X </u>	No
Significant deficiency(ies) identified?	_____	Yes	<u> X </u>	None Reported

Type of auditors' report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	_____	Yes	<u> X </u>	No
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Identification of major federal programs:

CFDA Number(s)	FAIN Number	Name of Federal Program or Cluster
66.458	34000117	Capitalization Grants for Drinking Water State Revolving Funds

Dollar threshold used to distinguish between Type A and Type B programs:	_____	\$750,000		
Auditee qualified as low-risk auditee?	_____	Yes	<u> X </u>	No

Township of Ocean Sewerage Authority
Schedule of Findings and Questioned Costs

Year ended December 31, 2019

Part II - Schedule of Financial Statement Findings

No financial statement findings noted that are required to be reported under *Government Auditing Standards*.

Township of Ocean Sewerage Authority

Schedule of Findings and Questioned Costs (continued)

Year ended December 31, 2019

**Part III - Schedule of Federal Award and State Financial Assistance
Findings and Questioned Costs**

No compliance or internal control findings noted that are required to be reported in accordance with 2 CFR 200 Section 516(a).

Township of Ocean Sewerage Authority
Summary Schedule of Prior Year Audit Findings
Year ended December 31, 2019

SUMMARY OF PRIOR YEAR FINDINGS

Not applicable.

Township of Ocean Sewerage Authority

Notes to Schedule of Expenditures of Federal Awards

Year ended December 31, 2019

1. GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal award programs of the Township of Ocean Sewerage Authority. The Authority is defined in Note 1 to the Authority's basic financial statements. All federal awards received directly from federal agencies, as well as federal financial awards passed through other government agencies, are included on the schedules of expenditures of federal awards.

2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the basis of accounting as described in Note 1 to the Authority's basic financial statements.

3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Amounts reported in the accompanying schedule agree with amounts reported in the Authority's basic financial statements.

Expenditures incurred for Capitalization Grants for Drinking Water State Revolving Funds are based upon the New Jersey Environmental Infrastructure Trust's ("NJEIT") share of expenditures incurred for these projects. When expenditures are incurred, a requisition is submitted to the NJEIT for reimbursement for their allocable share of eligible costs.

4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports.

5. INDIRECT COSTS

The Authority did not use the 10% de minimis indirect cost rate as allowed by the Uniform Guidance.

Township of Ocean Sewerage Authority
Schedule of Expenditures of Federal Awards

Year Ended December 31, 2019

Federal Funding Department	Federal CFDA Number	Federal Award Identification Number	State Account Number	Total Award	Grant Period		Expenditures for the year ended December 31, 2019
					From	To	
United States Environmental Protection Agency Pass-Through the State of New Jersey: Capitalization Grants for Clean Water State Revolving Funds: 2017 NJEIT Bond Issue 6/28/2019 NJEIT Interim Financing	66.458 66.458	3400117 3400117	042-4860-711-009/010 042-4860-711-009/010	\$ 4,146,312 2,625,000	1/1/2019 1/1/2019	12/31/2019 12/31/2019	\$ 28,590 1,201,451
Sub-total - Pass-Through Awards							<u>1,230,041</u>
Total Federal Financial Awards							<u>\$ 1,230,041</u>

See accompanying notes to the schedule of expenditures of federal awards.