

Financial Report

of

**The Township of Hillsborough
Municipal Utilities Authority**

For the Years Ended November 30, 2020 and 2019

Prepared By

The Township of Hillsborough Municipal Utilities Authority

Finance Department

**THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY**

I N D E X

	<u>PAGE NUMBER</u>
FINANCIAL SECTION	
Independent Auditor's Report	1-3
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Basic Financial Statements Performed in Accordance with Government Auditing Standards	4-5
Management Discussion and Analysis (Unaudited)	6-10
FINANCIAL STATEMENTS	
<u>EXHIBITS</u>	
"A" Statements of Net Position - November 30, 2020 and 2019	11-12
"B" Statements of Revenue, Expenses and Changes in Net Position - November 30, 2020 and 2019	13
"C" Statements of Cash Flows for the Years Ended November 30, 2020 and 2019	14
Notes to Financial Statements - November 30, 2020 and 2019	15-41
SUPPLEMENTARY INFORMATION	
<u>SCHEDULES</u>	
"1" - Schedule of Revenue, Expenses and Changes in Net Position-November 30, 2020	42
"2" - Schedule of Cash Receipts and Disbursements for the Year Ended November 30, 2020	43
"3" - Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to Budget for the Year Ended November 30, 2020	44-45
"4" - Schedule of Sewer Charges Receivable - November 30, 2020	46
"5" - Schedule of Sewer Connection Charges Receivable - November 30, 2020	46

	<u>PAGE NUMBER</u>
"R-1" - Schedule of the Authority's Proportionate Share of the Net Pension Liability, Public Employees Retirement System, Last Ten Years	47
"R-2" - Schedule of the Authority's Contributions, Public Employees Retirement System, Last Ten Years	48
"R-3" - Schedules Related to Accounting and Reporting for Pension (GASB 68), Note to RSI III, for the Year Ended November 30, 2020	49
"S-1" - Schedule of the Authority's Proportionate Share of the Net OPEB Liability, State Health Benefits Local Government Retired Employees Plan, Last Ten Years	50
"S-2" - Schedule of the Authority's Contributions, State Health Benefits Local Government Retired Employees Plan, Last Ten Years	51
"S-3" - Schedules Related to Accounting and Reporting for OPEB (GASB 75), Note to RSI III, for the Year Ended November 30, 2020	52
General Comments and Recommendations	53

FINANCIAL SECTION



SUPLEE, CLOONEY & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

308 East Broad Street, Westfield, New Jersey 07090-2122

Telephone 908-789-9300

Fax 908-789-8535

E-mail info@senco.com

INDEPENDENT AUDITOR'S REPORT

The Township of Hillsborough
Municipal Utilities Authority
220 Triangle Road - Suite 234
Hillsborough, New Jersey 08844

Report on the Financial Statements

We have audited the accompanying financial statements of the Township of Hillsborough Municipal Utilities Authority, as of and for the years ended November 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

SUPLEE, CLOONEY & COMPANY

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Township of Hillsborough Municipal Utilities Authority, as of November 30, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules related to accounting and reporting for pensions in Schedules R-1 through R-3 and the Schedules related to accounting and reporting for postretirement benefits other than pensions (OPEB) in Schedule S-1 through S-3 are presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

SUPLEE, CLOONEY & COMPANY

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Hillsborough Municipal Utilities Authority's basic financial statements. The supplemental data schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental data schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the financial statements and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2022 on our consideration of the Township of Hillsborough Municipal Utilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hillsborough Municipal Utilities Authority's internal control over financial reporting and compliance.

March 21, 2022

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



SUPLEE, CLOONEY & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

308 East Broad Street, Westfield, New Jersey 07090-2122

Telephone 908-789-9300

Fax 908-789-8535

E-mail info@scnco.com

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF BASIC FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Township of Hillsborough
Municipal Utilities Authority
220 Triangle Road - Suite 234
Hillsborough, New Jersey 08844

We have audited, in accordance with the auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Township of Hillsborough Municipal Utilities Authority as of and for the year ended November 30, 2020, and the related notes to the financial statements, which collectively comprise the Township of Hillsborough Municipal Utilities Authority's financial statements, and have issued our report thereon dated March 21, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Township of Hillsborough Municipal Utilities Authority's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Township of Hillsborough Municipal Utilities Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Township of Hillsborough Municipal Utilities Authority's internal control.

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

SUPLEE, CLOONEY & COMPANY

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 Township of Hillsborough Municipal Utilities 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

March 21, 2022

A handwritten signature in black ink that reads "Suplee, Clooney & Company". The signature is written in a cursive, flowing style with a long, sweeping tail on the final word.

MANAGEMENT DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

Unaudited

In this section of the annual report, management of The Township of Hillsborough Municipal Utilities Authority (the "Authority") presents a narrative discussion and analysis of the Authority's financial activities for the years ended November 30, 2020 and 2019. This section of the report should be read in conjunction with the Authority's audited financial statements and supplementary information for the years ended November 30, 2020 and 2019. The Authority's audited financial statements are presented in conformity with U.S. generally accepted accounting principles.

Financial Highlights

Total assets and Deferred Outflow of Resources at year-end totaled \$19.6 million largely comprised of investments and fixed assets. This represents an increase of \$955 thousand over the prior year primarily due OPEB Related Deferred Outflow of Resources. Total Liabilities and Deferred Inflow of Resources total \$10.2 million comprised of Net Pension Liability of \$1.9 million and a Net OPEB Liability of \$4.7 million. This is a net increase of \$1.4 thousand from the prior year largely due to the increase in Net OPEB Liability. Working capital balances are adequate to meet the operational needs of the Authority.

Operating Revenues totaled \$7.0 million, an increase of 9.6% from the prior year. Operating Expenses totaled \$7.4 million an increase of 11.3% from the prior year. Revenues are generated largely from sewer service charges and connection charges. The largest operating expense are the costs related to sewerage treatment.

Cash and Investments total \$8.0 million a decrease of \$1.1 million or 11.6% over the prior year's total of \$9.1 million.

Bonds Payable of \$-0- thousand decreased \$212 thousand due to scheduled principal payments during the year.

Overview of Annual Financial Report

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplementary information. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's budget, and other management tools were used for this analysis.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include a Statement of Net Position; a Statement of Revenues, Expenses and Changes to Net Position; a Statement of Cash Flows; and notes to the financial statements.

The Statement of Net Position presents the Assets, Liabilities, Deferred Inflows and Outflows of Resources and Total Net Position of the Authority on a historical cost basis. Over time, increases and decreases in the components of the Authority's Total Net Position are indicators of whether the financial position of the Authority is improving or deteriorating.

While the Statement of Net Position provides information about the nature and amount of resources and obligations at year-end, the Statement of Revenues, Expenses and Changes to Net Position presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The Statement of Cash Flows presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The Government Accounting Standards Board (GASB) Statement 68 requires state and local governmental entities to disclose their unfunded pension liabilities. The Authority participates in the pension plan sponsored by the State of New Jersey, which has a publicized, large unfunded liability. Although the Authority is not responsible for making pension payments to employees when they retire, GASB 68 dictates that the pro-rata share represented by Authority employees participating in PERS (Public Employee Retirement System) be reported in the audited financial statements to promote better financial clarity. Understandably, the net pension liability of \$1,933,230, shown within non-current liabilities, is a significant amount at November 30, 2020. Notes to the Financial Statements No. 2, 10 and 11 explain pension plan accounting in greater detail.

The Government Accounting Standards Board (GASB) Statement 75 requires state and local governmental entities to disclose their unfunded OPEB (postretirement benefits other than pension) liabilities. The Authority participates in the state health benefits plan sponsored by the State of New Jersey, which has a publicized, large unfunded liability. Although the Authority is not responsible for making postretirement benefit payments to employees when they retire, GASB 75 dictates that the pro-rata share represented by Authority employees participating in SHBP (State Health Benefits Plan) be reported in the audited financial statements to promote better financial clarity. Understandably, the net OPEB liability of \$4,650,326, shown within non-current liabilities, is a significant amount at November 30, 2020. Notes to the Financial Statements No. 2 and 12 explain OPEB plan accounting in greater detail.

The Notes to the Financial Statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

Summary of Organization and Business

The Township of Hillsborough Municipal Utilities Authority is a public body politic and corporate, organized and existing under the County and Municipal Utility Authorities Law, constituting Chapter 183 of the P.L. of 1957 of the State of New Jersey approved August 22, 1957 and the acts amendatory thereof or supplemental thereto and was created by virtue of an ordinance of the Township Committee of the Township of Hillsborough in the County of Somerset, adopted on April 13, 1966.

The Authority was created for the purpose of providing sanitary sewer service to the Township of Hillsborough, New Jersey. The Authority currently maintains 166 miles of gravity sewer, 15 sewage pumping stations, and 14.6 miles of force main. The Authority has a service agreement with the Somerset-Raritan Valley Sewerage Authority for sanitary waste treatment.

Revenue is provided primarily from annual service charges collected from customers using the system and initial connection fees.

Financial Analysis

The following comparative condensed financial statements and other selected information serve as key financial data and indicators for management, monitoring and planning.

Condensed Financial Statements

Condensed Statement of Net Position

	<u>2020</u>	<u>2019</u>	<u>Net Change</u>	<u>%</u>	<u>2018</u>
<u>Assets</u>					
Current Assets	\$ 8,376,188	\$ 9,496,712	\$ (1,120,524)	-11.8%	\$ 10,281,433
Fixed Assets	9,065,884	8,678,656	387,228	4.5%	8,335,751
Deferred Outflows	2,147,944	459,572	1,688,372	367.4%	630,086
Total Assets and Deferred Outflow of Resources	<u>\$ 19,590,016</u>	<u>\$ 18,634,940</u>	<u>\$ 955,076</u>	<u>5.1%</u>	<u>\$ 19,247,270</u>
<u>Liabilities</u>					
Current Liabilities	\$ 390,478	\$ 384,442	\$ 6,036	1.6%	\$ 250,948
Bonds Payable		211,961	(211,961)	-100.0%	410,661
Net Pension Liability	1,933,230	2,019,200	(85,970)	-4.3%	2,172,725
Net OPEB Liability	4,650,326	2,907,122	1,743,204	60.0%	3,479,399
Total Liabilities	<u>6,974,034</u>	<u>5,522,725</u>	<u>1,451,309</u>	<u>26.3%</u>	<u>6,313,733</u>
Deferred Inflows of Resources	<u>3,188,371</u>	<u>3,286,378</u>	<u>(98,007)</u>	<u>-3.0%</u>	<u>3,013,262</u>
<u>Net Position</u>					
Net Investment in Capital Assets	9,067,259	8,468,023	599,236	7.1%	7,939,190
Restricted	1,680,875	1,832,061	(151,186)	-8.3%	2,178,442
Unrestricted	<u>(1,320,523)</u>	<u>(474,247)</u>	<u>(846,276)</u>	<u>178.4%</u>	<u>(197,357)</u>
Total Net Position	<u>9,427,611</u>	<u>9,825,837</u>	<u>(398,226)</u>	<u>-4.1%</u>	<u>9,920,275</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 19,590,016</u>	<u>\$ 18,634,940</u>	<u>\$ 955,076</u>	<u>5.1%</u>	<u>\$ 19,247,270</u>

Condensed Statement of Revenue, Expenses, and Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>Net Change</u>	<u>%</u>	<u>2018</u>
Operating Revenues	\$ 6,964,850	\$ 6,355,833	\$ 609,017	9.6%	\$ 6,179,617
Operating Expenses	<u>7,351,740</u>	<u>6,607,005</u>	<u>744,735</u>	<u>11.3%</u>	<u>6,196,707</u>
Operating Income	(386,890)	(251,172)	(135,718)	54.0%	(17,090)
Non Operating Revenues (Expenses)	<u>(11,336)</u>	<u>156,734</u>	<u>(168,070)</u>	<u>-107.2%</u>	<u>70,647</u>
Change in Net Position	(398,226)	(94,438)	(303,788)	321.7%	53,557
Net Position, Beginning of Year	<u>9,825,837</u>	<u>9,920,275</u>	<u>(94,438)</u>	<u>-1.0%</u>	<u>9,866,718</u>
Net Position, End of Year	<u>\$ 9,427,611</u>	<u>\$ 9,825,837</u>	<u>\$ (398,226)</u>	<u>-4.1%</u>	<u>\$ 9,920,275</u>

Bonds Payable

The Authority issued bonds for the purpose of paying construction costs relating to the Authority's collection system. A summary of the Bonds Payable activity for the year is as follows:

Bonds Payable at November 30, 2019	\$211,961
Principal Payments on Bonds	<u>211,961</u>
Bonds Payable at November 30, 2020	<u>\$ - 0 -</u>

Contacting the Authority's Management

Any questions about the Authority's report or if additional information is needed, please contact the Executive Director of The Township of Hillsborough Municipal Utilities Authority, 220 Triangle Road, Suite 234, Hillsborough, New Jersey 08844.

FINANCIAL STATEMENTS

MUNICIPAL UTILITIES AUTHORITY
THE TOWNSHIP OF HILLSBOROUGH

STATEMENTS OF NET POSITION
NOVEMBER 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Restricted Assets:		
Revenue Account (Fund 01):		
Cash	\$ 364,774	\$ 417,525
Investments	1,836,154	1,633,451
Accounts Receivable:		
Sewer Charges	331,769	392,938
Connection Charges	5,601	8,480
	<u>337,370</u>	<u>401,418</u>
General Account:		
Cash	10,325	6,804
Investments	5,336,325	6,326,433
Construction Account:		
Cash	1,375	337
Investments		991
Bond Service Account:		
Investments		221,292
Bond Reserve Account:		
Investments		216,491
Renewal and Replacement Account:		
Investments		100,000
Reserve for Debt Service		
Investments	323,914	
Inspection Trust Account:		
Cash	<u>165,951</u>	<u>171,970</u>
	<u>8,376,188</u>	<u>9,496,712</u>
<u>TOTAL RESTRICTED ASSETS</u>		
Fixed Assets:		
Collection System	23,892,048	23,058,329
Facilities	2,296,192	2,296,192
Equipment	1,708,913	1,699,989
	<u>27,897,153</u>	<u>27,054,510</u>
Less: Accumulated Depreciation	<u>18,831,269</u>	<u>18,375,854</u>
	<u>9,065,884</u>	<u>8,678,656</u>
<u>NET FIXED ASSETS</u>		
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Pension Related	393,474	380,486
OPEB Related	1,754,470	79,086
	<u>2,147,944</u>	<u>459,572</u>
<u>TOTAL DEFERRED OUTFLOWS OF RESOURCES</u>		
	<u>2,147,944</u>	<u>459,572</u>
<u>TOTAL ASSETS AND DEFERRED</u>		
<u>OUTFLOW OF RESOURCES</u>		
	<u>\$ 19,590,016</u>	<u>\$ 18,634,940</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

MUNICIPAL UTILITIES AUTHORITY
THE TOWNSHIP OF HILLSBOROUGH

STATEMENTS OF NET POSITION
NOVEMBER 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>LIABILITIES AND NET POSITION</u>		
Current Liabilities Payable From Restricted Assets:		
Accounts Payable	\$ 120,845	\$ 112,132
Payroll Deductions Payable		3,878
Overpayments-Service Charges	30,246	32,977
Miscellaneous Deposits	167,118	175,804
Accrued Vacation and Sick Pay	72,269	58,874
Accrued Interest Payable		777
Revenue Bonds Payable-Current Portion		211,961
<u>TOTAL CURRENT LIABILITIES</u>	<u>390,478</u>	<u>596,403</u>
Noncurrent Liabilities:		
Net Pension Liability	1,933,230	2,019,200
Net OPEB Liability	4,650,326	2,907,122
Total Noncurrent Liabilities	<u>6,583,556</u>	<u>4,926,322</u>
<u>TOTAL LIABILITIES</u>	<u>6,974,034</u>	<u>5,522,725</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Pension Related	908,555	942,893
OPEB Related	<u>2,279,816</u>	<u>2,343,485</u>
<u>TOTAL DEFERRED INFLOWS OF RESOURCES</u>	<u>3,188,371</u>	<u>3,286,378</u>
Net Position :		
Net Investment in Capital Assets	9,067,259	8,468,023
Restricted		
Operating Cost	1,680,875	1,504,701
Debt Service		227,360
Renewal and Replacement		100,000
Unrestricted:		
Reserve for Debt Service	323,914	
System Replacement	1,495,000	1,495,000
Capital Improvements	5,400,000	5,400,000
Rate Stabilization	1,344,700	1,326,639
Operating	<u>(9,884,137)</u>	<u>(8,695,886)</u>
<u>TOTAL NET POSITION</u>	<u>9,427,611</u>	<u>9,825,837</u>
<u>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</u>	<u>\$ 19,590,016</u>	<u>\$ 18,634,940</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

MUNICIPAL UTILITIES AUTHORITY
THE TOWNSHIP OF HILLSBOROUGH

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
NOVEMBER 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Operating Revenue:		
Sewer Service Charges	\$ 6,007,022	\$ 5,919,246
Connection Charges	846,779	360,757
Inspection Fees	37,375	17,815
Plan Review Fees	2,062	2,590
Other	1,650	
Interest on Delinquent Accounts	69,962	55,425
<u>Total Operating Revenues</u>	<u>6,964,850</u>	<u>6,355,833</u>
Operating Expenses:		
Operating Costs	2,520,551	2,278,574
Sewerage Treatment	4,363,421	3,869,376
Depreciation Expense	467,768	459,055
<u>Total Operating Expenses</u>	<u>7,351,740</u>	<u>6,607,005</u>
<u>Operating Income</u>	(386,890)	(251,172)
Non-Operating Revenue (Expense):		
Interest Income	56,831	107,982
Interest Expense	(4,663)	(13,698)
Municipal Contribution	(175,000)	(175,000)
Pension Related	85,970	112,389
OPEB Related	38,921	136,987
Other	(13,395)	(11,926)
	<u>(11,336)</u>	<u>156,734</u>
<u>Change in Net Position</u>	(398,226)	(94,438)
Net Position, Beginning of Year	<u>9,825,837</u>	<u>9,920,275</u>
Net Position, End of Year	<u>\$ 9,427,611</u>	<u>\$ 9,825,837</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>Cash Flows from Operating Activities:</u>		
Receipts from Sewer Service Charges	\$ 6,035,715	\$ 5,796,357
Receipts from Connection Charges	849,658	378,596
Miscellaneous Receipts	158,175	192,247
Payments to Suppliers	(5,867,449)	(5,155,011)
Payments to Employees	(1,023,606)	(1,023,606)
<u>Net Cash Provided by Operating Activities</u>	<u>152,493</u>	<u>188,583</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Acquisition of Capital Assets	(947,983)	(801,960)
Municipal Contribution	(175,000)	(175,000)
Principal Payments on Long-Term Debt	(211,961)	(198,700)
Interest Paid on Bonds	(4,663)	(13,698)
<u>Net Cash Used by Capital and Related Financing Activities</u>	<u>(1,339,607)</u>	<u>(1,189,358)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest Received	56,831	107,982
Sale/(Purchase) of Investments	1,089,467	903,199
Other Receipts/(Expenses)	(13,395)	36,647
<u>Net Cash Provided(Used) by Investing Activities</u>	<u>1,132,903</u>	<u>1,047,828</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(54,211)	47,053
Cash and Cash Equivalents, Beginning of Year	<u>596,636</u>	<u>549,583</u>
Cash and Cash Equivalents, End of Year	<u>\$ 542,425</u>	<u>\$ 596,636</u>
Reconciliation of Operating Income to Net Cash Provided		
by Operating Activities:		
Net Income (Loss) From Operations	\$ (386,890)	\$ (251,172)
Add Expenses Not Using Working Capital:		
Depreciation	467,768	459,055
Add (Deduct) Changes in Non-Cash Working Capital:		
Accounts Receivable	64,048	(71,425)
Accounts Payable	7,936	(61,647)
Payroll Deductions Payable	(2,347)	(9,609)
Overpayments-Service Charges	(2,731)	(648)
Miscellaneous Deposits	(8,686)	111,433
Accrued Vacation and Sick Pay	13,395	12,596
<u>Net Cash Provided by Operating Activities</u>	<u>\$ 152,493</u>	<u>\$ 188,583</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(1) GENERAL

The Township of Hillsborough Municipal Utilities Authority is a public body politic and corporate, organized and existing under the County and Municipal Utility Authorities Law, constituting Chapter 183 of the P.L. of 1957 of the State of New Jersey approved August 22, 1957 and the acts amendatory thereof or supplemental thereto and was created by virtue of an ordinance of the Township Committee of the Township of Hillsborough in the County of Somerset, adopted on April 13, 1966.

The Authority was created for the purpose of providing sanitary sewer service to the Township of Hillsborough, New Jersey. The Authority currently maintains 169 miles of gravity sewer, 15 sewage pumping stations, and 14.6 miles of force main. The Authority has a service agreement with the Somerset-Raritan Valley Sewerage Authority for sanitary waste treatment.

Revenue is provided primarily from annual service charges collected from customers using the system and initial connection fees.

The service contract with the Township dated September 1, 1966 requires that service charges be sufficient to provide in each fiscal year all operating, maintenance, debt service and reserve requirements necessary to operate the system.

The service agreement further provides that the Authority will charge the Township and the Township will pay to the Authority annual charges sufficient to cover in each fiscal year any short-fall in meeting the expenses of the System (including operation and maintenance, debt service, deficits resulting from failure to receive sums due to the Authority from others, and such reserves or sinking funds as may be required or deemed desirable) out of the funds and revenues of the Authority (including service charges bond proceeds, insurance proceeds, investments proceeds, contributions and reserves on hand).

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity

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

Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis and in accordance with generally accepted accounting principles applicable to enterprise funds of state and local governments. An Enterprise Fund is used to account for operations: (i) that are financed primarily through user charges, or (ii) where the governing body has decided that determination of net income is appropriate.

The accounting and financial reporting applied by the Authority is determined by its measurement focus. The financial statements are reported using the economic measurement focus and the accrual basis of accounting. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included in the Statements of Net Position. Net Position (totals assets and deferred outflows net of total liabilities and deferred inflows) are segregated into invested in capital assets, restricted and unrestricted components.

Accounting and Financial Reporting for Pensions

The Authority has fully implemented GASB 68. This Statement amends GASB Statement No. 27. It improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirement of Statement No. 27, *Accounting for Pension by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting and Financial Reporting for Pensions (Continued)

The Authority has also implemented GASB Statement 71, Pension Transition for Contributions made Subsequent to the Measurement Date-an amendment to GASB No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. Furthermore, the Authority has implemented GASB Statement 82, Pension Issues which addresses the presentation of payroll-related measures in required supplementary information. Statement No. 82 amends GASB Statement 68 to require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

Statement 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement 68 requires that the government recognize its contribution as a deferred outflow of resources.

In addition, Statement 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events.

Under GAAP, Authorities are required to recognize the pension liability in Statements of Revenues, Expenses, Changes in Net Assets (balance sheets) and Notes to the Financial Statements in accordance with GASB 68. The liability required to be displayed by GASB 68 is displayed as a separate line item in the Unrestricted Net Liabilities area of the balance sheet.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)

The Governmental Accounting Standards Board (GASB) has issued Statement no. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This statement establishes standards for measuring and recognizing liabilities, deferred outflows and inflows of resources, and expenses for postemployment benefits other than pensions. It also requires the State of New Jersey to calculate and allocate to each participating member, for note disclosure purposes only, the net OPEB liability of New Jersey Health Benefits Local Government Retiree Plan (the Plan). The statement does not alter the amount of funds that must be budgeted for net OPEB payment under existing state law.

Under GAAP, authorities are required to recognize the net OPEB liability in Statements of Revenues, Expenses, Changes in Net Position (balance sheets) and Notes to the Financial Statements in accordance with GASB 75. The liability required to be displayed by GASB 75 is displayed as a separate line item in the Unrestricted Net Position area of the balance sheet.

Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Currently, the Authority has two items that qualifies for reporting in this category, deferred amounts related to pensions and other post-employment benefits.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash Equivalents

Cash equivalents are stated at cost, which approximates market. The Authority considers investments with maturities of three months or less to be cash equivalents.

Investments

Investments in marketable securities and debt securities are valued at their fair values based on quoted market prices or prices which are provided by investment managers in the statement of financial position. Realized and unrealized gains and losses are included in the statement of activities.

Accounts Receivable

The Authority considers all other accounts receivable to be fully collectible. If amounts become uncollectible, they will be charged to operations when that determination is made.

Inventory

Inventory of spare parts and supplies is recorded as an expense when purchased and accordingly, is not included in the statements of net assets.

Fixed Assets

Fixed assets are stated at cost which includes direct construction costs and other expenditures related to construction. Depreciation is determined on a straight-line basis, for all plant and equipment. Depreciation is provided for over the following estimated useful lives:

Collection System	20-40 years
Facilities	30 years
Machinery and Equipment	10-20 years
Computer Equipment	3-5 years
Furniture and Fixtures	10 years
Vehicles	5 years

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed Assets (Continued)

Details of fixed assets as of November 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Collection System	\$23,892,048	\$23,058,329
Facilities	2,296,192	2,296,192
Equipment	<u>1,708,913</u>	<u>1,699,989</u>
	27,897,153	27,054,510
Less: Accumulated Depreciation	<u>18,831,269</u>	<u>18,375,854</u>
Net Fixed Assets	<u>\$9,065,884</u>	<u>\$8,678,656</u>

Management has elected not to include depreciation expense in the service charge rate structure.

Vacation and Sick Leave

Authority employees are granted vacation in varying amounts and earn certain sick leave time. In the event of termination, an employee is reimbursed for accumulated vacation days. All employees are eligible for the reimbursement of accumulated sick leave which is capped. Accumulated unpaid vacation and sick leave amounted to \$72,269 and \$58,874 at November 30, 2020 and 2019, respectively.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

No provision for income taxes has been made as the Authority is exempt from Federal and State income taxes.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

Equity is classified as net position and displayed in three components:

1. Net Investment in Capital Assets - consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted - when constraints placed on net position are either a) externally imposed by creditors (such as the bond resolution), grantors, or laws or regulations of other governments or b) imposed by law.
3. Unrestricted - any other net position that does not meet the definition of "restricted" or "invested in capital assets."

Restricted Assets

In accordance with the General Bond Resolution adopted April 26, 1983, and as amended and supplemented, including supplemental resolutions for the purpose of bond issuance, the Authority has established various cash and investment accounts with the Trustee. In addition, the resolutions provide restrictions on the use of these accounts.

1. Revenue Account

The Revenue Account is established by the Bond resolution to receive all revenues due to the Authority. Periodic withdrawals are made from the Revenue Account to each of the related accounts to provide the financial resources necessary for the other accounts to carry out their required activities. The Revenue Account is under the direct control of the Trustee for the Bondholders.

2. General Account

The General Account is established to:

- A. Provide a source of cash that could be used to increase the amount in the Bond Reserve Account so that it equals the Bond Service Account requirement.
- B. Make up deficiencies in the Bond Reserve Account and Sinking Fund Account.
- C. To permit the Authority to transfer cash to the Revenue Account or withdraw cash for any other lawful purpose.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets (Continued)

3. Construction Account

The Construction Account has been established to receive and disburse cash for a construction project, or projects, undertaken by the Authority. The Trustee will credit the Construction Account with cash received from the Federal Government, State Grants, proceeds from sale of bonds, insurance proceeds and cash made available by the Authority. Cash may be withdrawn by a requisition certified by the consulting engineer's certificate as to the need, receipt or performance of the items indicated in the requisition. Upon completion of the construction project, any excesses shall be transferred to:

- A. Bond Reserve Account to the extent as shall not cause the amount in the Bond Reserve Account to exceed the Bond Reserve Requirements.
- B. Renewal and Replacement Account, to the extent if any, needed to increase the amount in the Renewal and Replacement Accounts so that is equals the System Reserve Requirement.
- C. The General Account to the extent of any remaining balance of monies.

4. Bond Service Account

The Bond Service Account is established to pay the principal and interest to the bondholders as such obligations become due. The Bond Resolution requires that the Trustee withdraw from the Revenue Account and deposit into the Bond Service Account the principal and interest requirements for the current year.

5. Bond Reserve Account

The Bond Reserve Account is established to provide additional security to the Bondholders. This account is required to have a balance of the sum equal to the maximum annual Debt Service. In the event that the amount of the Bond Reserve Account balance exceeds the required annual Debt Service and, if the amount in the Invested Sinking Fund Account equals or exceeds the aggregate amount of all Sinking Fund installments, the Trustee shall withdraw from the Bond Reserve Account the amount of any excess and at the option of the Authority, apply the excess to the redemption of bonds or transfer such excess to the Construction Account.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets (Continued)

6. Revolving Account for Operating Expenses

The Trustee shall pay from the Revenue Account to the Authority, upon its requisitions thereof, at one time or from time to time, a sum or sums aggregating not more than \$125,000, exclusive of and in addition to reimbursements as hereinafter in this section authorized, such sums and such reimbursements to be used by the Authority as a revolving account for the payment, in accordance with the applicable Annual Budget of Operating Expenses. Such revolving account shall be reimbursed by the Trustee from time to time for such operating expense so paid, by payments from the Revenue Account upon requisitions of the Authority accompanied by its certificate specifying the payee and the amount and the particular purpose of each payment from such revolving account for which such reimbursement is requested and certifying that each such payment was necessary for the operation, maintenance or repair of the system and was for an item of operating expenses which was provided for within the Annual Budget then applicable. In making such reimbursements, the Trustee may rely upon such requisitions and accompanying certificates.

7. Renewal and Replacement Account

This account shall be used for:

- a. Payments to the Bond Reserve Account if the amount in the account is less than the requirements.
- b. Major repairs, renewals, replacements or maintenance items of a type not recurring annually or at shorter intervals.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets (Continued)

7. Renewal and Replacement Account (Continued)

In addition to the above, the Authority has also established the following Dedicated Accounts:

1. Inspection Trust Account deposits received from customers to assure payment of fees relative to connection inspections.
2. System Replacement Account:
This account is reserved for improvements and replacements of the system.
3. Capital Improvement:
This account is reserved for capital improvement.
4. Rate Stabilization:
This account is established as a reserve to fund future rate changes.

(3) BUDGETARY PROCEDURES

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

The annual budget for each fiscal year of the Authority is introduced by resolution passed by not less than a majority of the governing body. Copies are submitted to the Director of the Division of Local Government Services Director prior to the beginning of the Authority's fiscal year for approval prior to its adoption.

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

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

Public hearings are conducted to obtain citizen comments on the proposed budget.

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

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

The budget may be increased after adoption when an item of revenue has been made available after the adoption date.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(4) CASH AND CASH EQUIVALENTS

As of November 30 cash and cash equivalents of the Authority consisted of the following:

	<u>2020</u>	<u>2019</u>
Checking and Money Market Accounts	<u>\$542,425</u>	<u>\$596,636</u>

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation (FDIC), the Savings Association Insurance Fund (SAIF), or by any other agencies of the United States that insures deposits or the State of New Jersey Cash Management Fund. New Jersey statutes permit the deposit of public funds only in banks which meet the requirements of the Governmental Unit Deposit Protection Act or the State of New Jersey Cash Management Fund. This Act, commonly referred to as "GUDPA", requires that banks which accept public funds to be a public depository. The statutes require public depositories to maintain collateral for deposits of public funds that exceed insurance limits.

The Authority does not have a policy for either credit risk or custodial credit risk. However, it is the Authority's policy only to invest with banks that are approved by the board.

The Authority does not have a policy to limit interest rate risk. Investments consist of U.S. government agency obligations.

(5) INVESTMENTS

The Authority's investments include restricted and unrestricted investments which are held by a bank or bank trust department in the Authority's name. Restricted and Unrestricted investments are summarized as follows:

<u>Restricted Investments</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
November 30, 2020:		
Federated Money Market Treasury Obligations	<u>\$7,496,392</u>	<u>\$7,496,392</u>
November 30, 2019:		
Federated Money Market Treasury Obligations	<u>\$8,498,658</u>	<u>\$8,498,658</u>

Cost of Investments approximates Fair Value due to the short-term nature of the investments.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(6) CHANGES IN FIXED ASSETS

The following is a summary of the changes in fixed assets for the period ending November 30, 2020:

	Balance November <u>30, 2019</u>	<u>Additions</u>	<u>Disposals</u>	Balance November <u>30, 2020</u>
Collection System	\$23,058,329	\$833,719		\$23,892,048
Facilities	2,296,192			2,296,192
Equipment	<u>1,699,989</u>	<u>22,649</u>	\$(13,725)	<u>1,708,913</u>
	27,054,510	856,368	(13,725)	27,897,153
Less: Accumulated Depreciation	<u>18,375,854</u>	<u>467,773</u>	<u>(12,358)</u>	<u>18,831,269</u>
	<u>\$ 8,678,656</u>	<u>\$388,595</u>	<u>\$ (1,367)</u>	<u>\$ 9,065,884</u>

(7) ACCRUED VACATION AND SICK LEAVE

Certain employees are permitted to accrue unused vacation and sick leave. The Authority estimates its liability for such accrued time at November 30 to be as follows:

	<u>2020</u>	<u>2019</u>
Vacation Pay	\$28,474	\$17,902
Sick Pay	<u>43,795</u>	<u>40,972</u>
	<u>\$72,269</u>	<u>\$58,874</u>

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(8) BONDS PAYABLE

The indebtedness of the Authority and its operations are pursuant to the general bond resolution adopted April 26, 1983, as amended and supplemented, including supplemental resolutions.

For the purpose of reducing interest expense, the Authority on October 4, 2006 advance refunded \$2,115,000 Revenue Refunding Bonds – Series 1995 by issuing \$2,147,176 Revenue Refunding Bonds – Series 2006. The proceeds of the new issue were used to pay issuance costs and to purchase U.S. Treasury, State and Local Government Securities. These securities were placed in an irrevocable escrow fund managed by a trustee.

The principal and interest earned on these securities will be sufficient to pay, when due, principal and interest on the Revenue Refund Bonds – Series 1995.

Since the Revenue Refunding Bonds – Series 1995 are fully secured by the escrowed securities; they are not regarded as direct obligations of the Authority.

As of November 30, 2020 \$-0- of the Revenue Refunding Bonds – Series 2006 was outstanding.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(9) NET POSITION

The components of net position as of November 30 are as follows:

	<u>2020</u>	<u>2019</u>
Net Position:		
Net Investment in Capital Assets	\$9,067,259	\$8,468,023
Restricted:		
Operating Cost	1,680,875	1,504,701
Debt Service		227,360
Renewal and Replacement		<u>100,000</u>
Total Restricted	<u>1,680,875</u>	<u>1,832,061</u>
Unrestricted:		
Reserve for Debt Service	323,914	
System Replacement	1,495,000	1,495,000
Capital Improvements	5,400,000	5,400,000
Rate Stabilization	1,344,700	1,326,639
Net Pension Liability	(2,448,311)	(2,581,607)
Net OPEB Liability	(5,175,672)	(5,171,521)
Unrestricted	<u>(2,260,154)</u>	<u>(942,758)</u>
Total Unrestricted	<u>(1,320,523)</u>	<u>(474,247)</u>
	<u>\$9,427,611</u>	<u>\$9,825,837</u>

(10) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION PLAN

Substantially all eligible employees participate in the Public Employees' Retirement System (PERS), or the Defined Contribution Retirement System (DCRP), which have been established by state statute and are administered by the New Jersey Division of Pensions and Benefits. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirement System. This report may be obtained by writing to the Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey, 08625 or are available online at www.nj.gov/treasury/pensions/annrprts.shtml.

Public Employees' Retirement System (PERS) - The Public Employees' Retirement System (PERS) was established as of January 1, 1955, under the provisions of N.J.S.A. 43:15A, to provide retirement, death, disability and medical benefits to certain qualified members. The PERS is a cost-sharing multiple employer plan. Membership is mandatory for substantially, all full-time employees of the State of New Jersey or any county, municipality, school district or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state pension fund or local jurisdiction's pension fund.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(10) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION PLAN (CONTINUED)

Defined Contribution Retirement Program (DCRP) - The Defined Contribution Retirement Program (DCRP) was established July 1, 2007, under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, and was expanded under the provisions of Chapter 89, P.L. 2009. The DCRP provides eligible employees and their beneficiaries with a tax-sheltered, defined contribution retirement benefit, along with life insurance coverage and disability coverage.

Vesting and Benefit Provisions

The vesting and benefit provisions for PERS are set by N.J.S.A. 43:15A and 43:36. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service. Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving ten years of service credit; in which case, benefits would begin the first day of the month after the member attains normal retirement age.

Newly elected or appointed officials that have an existing DCRP account, or are a member of another State-administered retirement system are immediately invested in the DCRP. For newly elected or appointed officials that do not qualify for immediate vesting in the DCRP. Employee and employer contributions are held during the initial year of membership. Upon commencing the second year of DCRP membership, the member is fully invested. However, if a member is not eligible to continue in the DCRP for a second year of membership, the member may apply for a refund of the employee contributions from the DCRP, while the employer contributions will revert back to the employer. Employees are required to contribute 7.5% of their base salary and employers contribute 3.0%.

Funding Policy

The contribution policy is set by New Jersey State Statutes and contributions are required by active members and contributing employers. Plan members and employer contributions may be amended by State of New Jersey legislation. During 2019, PERS provides for employee contributions of 7.5% of employees' annual compensation. Employers are required to contribute at an actuarially determined rate. The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums.

Certain portions of the cost are contributed by the employees. The Authority's share of pension costs, which is based upon the annual billings received from the State, amounted to \$129,687 for 2020 and \$109,762 for 2019.

Information as to the comparison of the actuarially computed value of vested benefit with the system's assets is not available from the State Retirement System and, therefore, is not presented.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(10) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

At June 30, 2020, the State reported a net pension liability of \$1,933,230 for the Authority's proportionate share of the total net pension liability. The total pension liability for the June 30, 2020 measurement date was determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020. 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 employers, actuarially determined. At June 30, 2020, the Authority's proportion 0.0118549341 percent, which was an increase of 0.0006486638 percent from its proportion measured as of June 30, 2019.

For the year ended June 30, 2020, the State recognized an actuarially determined pension expense of \$6,730 for the Authority's proportionate share of the total pension expense. The pension expense recognized in the Authority's financial statement based on the April 1, 2020 billing was \$109,004.

At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 35,201	\$ 6,837
Changes of assumptions	62,716	809,462
Net difference between projected and actual earnings on pension plan investments	66,079	
Changes in proportion and differences between Authority contributions and proportionate share of contributions	164,635	92,256
Authority contributions subsequent to the measurement date	<u>64,843</u>	<u> </u>
	<u>\$393,474</u>	<u>\$908,555</u>

The \$64,843 reported as deferred outflows of resources related to pension resulting from Authority's contributions subsequent to the measurement date (i.e. for the year ending June 30, 2020, the plan measurement date is June 30, 2019) will be recognized as a reduction of the pension liability in the year ended June 30, 2021.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(10) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Other local amounts reported by the State as the Authority's proportionate share of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the State's actuarially calculated pension expense as follows:

Year Ended	Amount
<u>June 30</u>	
2021	\$(228,109)
2022	(206,688)
2023	(111,913)
2024	(36,634)
2025	<u>3,421</u>
	<u><u>\$(579,924)</u></u>

Actuarial Assumptions

The total pension liability for the June 30, 2020 measurement date was determined by an actuarial valuation as of July 1, 2019, which rolled forward to June 30, 2020. These actuarial valuations used the following assumptions:

	<u>June 30, 2020</u>
Inflation	
Price	2.75%
Wage	3.25%
Salary Increases	
Through 2026	2.00-6.00%
Thereafter	3.00-7.00%
Based on	
Years of Service	
Investment Rate of Return	7.00%

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(10) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION PLAN (CONTINUED)

Actuarial Assumptions (Continued)

Pre-retirement mortality rates were based on the Pub-2010 General Below-Median Income Employee mortality table with an 82.2% adjustment for males and 101.4% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Post-retirement mortality rates were based on the Pub-2010 General Below-Median Income Healthy Retiree mortality table with a 91.4% adjustment for males and 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2010 Non-Safety Disabled Retiree mortality table with a 127.7% adjustment for males and 117.2% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2020.

The actuarial assumptions used in the July 1, 2019 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 both June 30, 2020 and June 30, 2019) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2020 are summarized in the following table:

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(10) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

<u>Assets Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	27.00%	7.71%
Non-U.S. Developed Market Equity	13.50%	8.57%
Emerging Market Equity	5.50%	10.23%
Private Equity	13.00%	11.42%
Real Assets	3.00%	9.73%
Real Estate	8.00%	9.56%
High Yield	2.00%	5.95%
Private Credit	8.00%	7.59%
Investment Grade Credit	8.00%	2.67%
Cash Equivalents	4.00%	0.50%
U.S. Treasury's	5.00%	1.94%
Risk Mitigation Strategies	3.00%	3.40%

Discount Rate

The discount rate used to measure the total pension liability was 7.00% and 6.28% as of June 30, 2020 and June 30, 2019, respectively. 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 and the nonemployer contributing entity will be based on 78% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for the local employers. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all projected benefit payments to determine the total pension liability.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(10) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION PLAN (CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Sensitivity of the Authority's proportionate share of net pension liability to changes in the discount rate

The following presents the Authority's proportionate share of the net pension liability of the participating employers as of June 30, 2020 respectively, calculated using the discount rate as disclosed above as well as what the Authority's proportionate share of the net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	June 30, 2020		
	1% Decrease 6.00%	At Current Rate 7.00%	1% Increase 8.00%
Authority's proportionate share of the net pension liability	\$2,433,614	\$1,933,230	\$1,508,640

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 (PERS). The report may be obtained at State of New Jersey Division of Pensions and Benefits P.O. Box 295 Trenton, New Jersey 08625-0295 <http://www.state.nj.us/treasury/pensions>.

(11) ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – GASB 75

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This statement establishes standards for measuring and recognizing liabilities, deferred outflows and inflows of resources, and expenses for postemployment benefits other than pensions. Net OPEB liability obligations are non-pension benefits that the Authority has contractually or otherwise agreed to provide employees once they have retired and, in most instances, will be for retirement health, prescription and dental insurance coverage.

Under current New Jersey budget and financial reporting requirements, the Authority is not required to fund any amounts in excess of their current costs on a pay-as-you-go basis or to accrue funds, create a trust or issue debt to finance their other post-employment benefit liability. Additionally, the Authority is not required to recognize any long-term obligations resulting from the net OPEB liability on their financial statements.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(11) ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS
OTHER THAN PENSIONS (OPEB) – GASB 75 (CONTINUED)

Plan Description and Benefits Provided

The State Health Benefit Local Government Retired Employees Plan (the Plan) is a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan with a special funding situation. It covers employees of local government employers that have adopted a resolution to participate in the Plan. The Plan meets the definition of an equivalent arrangement as defined in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions*; therefore, assets are accumulated to pay associated benefits.

The Plan provides medical and prescription drug coverage to retirees and their covered dependents of the employers. Under the provisions of Chapter 88, P.L. 1974 and Chapter 48, P.L. 1999, local government employers electing to provide postretirement medical coverage to their employees must file a resolution with the Division. Under Chapter 88, local employers elect to provide benefit coverage based on the eligibility rules and regulations promulgated by the State Health Benefits Commission. Chapter 48 allows local employers to establish their own age and service eligibility for employer paid health benefits coverage for retired employees.

Under Chapter 48, the employer may assume the cost of postretirement medical coverage for employees and their dependents who: 1) retired on a disability pension; or 2) retired with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 3) retired and reached the age of 65 with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 4) retired and reached age 62 with at least 15 years of service with the employer. Further, the law provides that the employer paid obligations for retiree coverage may be determined by means of a collective negotiations' agreement.

In accordance with Chapter 330, P.L. 1997, which is codified in N.J.S.A 52: 14-17.32i, the State provides medical and prescription coverage to local police officers and firefighters, who retire with 25 years of service or on a disability from an employer who does not provide postretirement medical coverage. Local employers were required to file a resolution with the Division in order for their employees to qualify for State-paid retiree health benefits coverage under Chapter 330.

The State also provides funding for retiree health benefits to survivors of local police officers and firefighters who die in the line of duty under Chapter 271, P.L.1989.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(11) ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS
OTHER THAN PENSIONS (OPEB) – GASB 75 (CONTINUED)

Plan Description and Benefits Provided (Continued)

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

Contributions

The Authority's contributions to SHBP for the years ended November 30, 2020, 2019 and 2018 were \$84,840, \$83,756, and \$119,118 respectively, which equaled the required contributions for each year.

Total Net OPEB Liability

At June 30, 2020, the Plan reported a liability of \$4,650,326 for the Authority's proportionate share of the collective net OPEB liability. The total net OPEB liability measured as of June 30, 2020 was determined by an actuarial valuation as of June 30, 2019, which was rolled forward to June 30, 2020.

The Authority's proportion of the net OPEB liability was based on the ratio of the plan members of an individual employer to the total members of the Plan's nonspecial funding situation during the measurement period July 1, 2019 through June 30, 2020.

At June 30, 2020, the Authority's proportion was 0.0259120 percent, which was an decrease of 0.0044510 percent from its proportion measured as of June 30, 2019.

For the year ended June 30, 2020, the State reported net OPEB expense of \$87,458. This net OPEB benefit was based on the OPEB plans June 30, 2020 measurement date.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(11) ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS
OTHER THAN PENSIONS (OPEB) – GASB 75 (CONTINUED)

At June 30, 2020, the State reported deferred outflows of resources and deferred inflows of resources related to net OPEB from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Difference between expected and actual experience	\$122,486	\$ 865,978
Change in assumptions	695,542	1,034,161
Net difference between projected and actual earnings on net OPEB plan investments	2,953	
Change in proportion	907,424	379,677
Authority contributions subsequent to the measurement date	<u>26,065</u>	<u> </u>
	<u>\$1,754,470</u>	<u>\$2,279,816</u>

The \$26,065 reported as deferred outflows of resources related to OPEB resulting from Authority contributions subsequent to the measurement date (i.e. for the year ending June 30, 2020, the plan measurement date is June 30, 2019) will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in net OPEB (benefit)/expense as follows:

<u>Year Ended June 30,</u>	<u>Amount</u>
2021	(\$144,429)
2022	(\$144,656)
2023	(\$145,022)
2024	(\$145,357)
2025	(\$65,537)
Total Thereafter	<u>93,588</u>
	<u>(\$551,411)</u>

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(11) ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS
 OTHER THAN PENSIONS (OPEB) – GASB 75 (CONTINUED)

Actuarial Assumptions and Other Inputs

The actuarial assumptions vary for each plan member depending on the pension plan the member is enrolled in. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Inflation rate	2.50 Percent	2.50 Percent
Salary Increases:		
Public Employees Retirement System (PERS):		
Initial fiscal Year Applied		
Rate through 2026	2.00-6.00 Percent	2.00-6.00 Percent
Rate thereafter	3.00-7.00 Percent	3.00-7.00 Percent
Police and Firemen's Retirement System (PFRS):		
Rate for all future years	3.25-15.25 Percent	3.25-15.25 Percent
Mortality:		
PERS	Pub-2010 General classification headcount weighted mortality with fully generational mortality improvement projections from the central year using scale MP-2020	
PFRS	Pub-2010 Safety classification headcount weighted mortality with fully generational mortality improvement projections from the central year using scale MP-2020	

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

Actuarial assumptions used in the July 1, 2019 valuation were based on the results of the PFRS and PERS experience studies prepared for July 1, 2013 to June 30, 2018 and July 1, 2014 to June 30, 2018, respectively.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(11) ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS
OTHER THAN PENSIONS (OPEB) – GASB 75 (CONTINUED)

Health Care Trend Assumptions

For pre-Medicare medical benefits, the trend is initially 5.6% and decreases to a 4.5% long-term trend rate after seven years. For post-65 medical benefits, the actual fully insured Medicare Advantage trend rates for fiscal year 2021 through 2022 are reflected. The rates used for 2023 and 2024 are 21.83% and 18.53%, respectively, trending to 4.5% for all future years. For prescription drug benefits, the initial trend rate is 7.0% and decreases to a 4.5% long-term trend rate after seven years.

Discount Rate

The discount rate for June 30, 2020 and 2019 was 2.21% and 3.50%, 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.

Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the collective net OPEB liability associated with the Authority as of June 30, 2020, calculated using the discount rate as disclosed above as well as what the collective net OPEB liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	June 30, 2020		
	1.00% <u>Decrease</u> 1.21%	At Discount Rate 2.21%	1.00% Increase 3.21%
Authority's proportionate share of the Net OPEB Liability	<u>\$5,497,668</u>	<u>\$4,650,326</u>	<u>\$3,979,578</u>

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(11) ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS
 OTHER THAN PENSIONS (OPEB) – GASB 75 (CONTINUED)

Sensitivity of the Authority's Proportionate Share of the Net OPEB Liability to Changes in
 the Healthcare Trends

The following presents the net OPEB liability associated with the Authority as of June 30, 2020, calculated using the healthcare trend rate as disclosed above as well as what the net OPEB liability would be if it was calculated using a healthcare trend rate that is 1- percentage point lower or 1-percentage point higher than the current rate:

	1.00% <u>Decrease</u>	June 30, 2020 Healthcare Cost <u>Trend Rate</u>	1.00% <u>Increase</u>
Authority's proportionate share of the Net OPEB Liability	<u>\$3,848,149</u>	<u>\$4,650,326</u>	<u>\$5,700,787</u>

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Financial Report for the State of New Jersey State Health Benefits Local Government Retired Employees Plan. The report may be obtained at State of New Jersey Division of Pensions and Benefits P.O. Box 295 Trenton, New Jersey 08625-0295 <http://www.state.nj.us/treasury/pensions>.

(12) INSURANCE

The Authority is a member of the New Jersey Utility Authorities Joint Insurance Fund (JIF).

The Fund was created on September 15, 1991, in accordance with P.L. 1983, C. 372, entitled "An act concerning joint insurance funds for local units of government, and supplementing Chapter 10 of "Title 40A of the New Jersey statues." The Fund is both an insured and self-administered group of utility authorities established for the purpose of providing low cost insurance coverage and safety programs for the member utility authorities in order to keep insurance premiums, claims and administrative costs at a minimum.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOVEMBER 30, 2020 AND 2019

(12) INSURANCE (CONTINUED)

The following coverage's are offered by the Fund to its members:

- a. Worker's Compensation and Employer's Liability
- b. Liability Other Than Motor Vehicles
- c. Property Damage Other Than Motor Vehicles
- d. Motor Vehicle
- e. Environmental Liability
- f. Public Officials
- g. Employment Practices Liability

The Joint Insurance Fund is also a member of The Municipal Excess Liability Joint Insurance Fund which provides excess coverage.

A participating utility authority must remain in the Fund for the full term of membership unless earlier terminated by a majority vote of the Fund Commissioners or a two-thirds vote of the Executive Committee for non-payment of assessments or continued non-compliance after written notice to comply with the by-laws or other obligations. Termination may occur only after proper notice has been given, in accordance with the Fund's by-laws.

(13) SUBSEQUENT EVENTS

The Township of Hillsborough Municipal Utilities Authority has evaluated subsequent events occurring after the financial statement date through March 21, 2022, which is the date the financial statements were available to be issued.

(14) LITIGATION, CLAIMS AND CONTINGENT LIABILITIES

The Authority is subject to extensive federal and state environmental regulations. The Authority's management is not aware of any violations that may have a material effect on the financial statements.

In the ordinary conduct of its business, the Authority may be a party to litigation. At November 30, 2020, in the opinion of management based upon consultation with legal counsel, there were no matters pending or threatened which would have a material adverse effect on the financial position of the Authority.

SUPPLEMENTARY INFORMATION

THE TOWNSHIP OF HILLSBOROUGH MUNICIPAL UTILITIES AUTHORITY
 SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
 NOVEMBER 30, 2020

	UNRESTRICTED	SYSTEM REPLACEMENT	OPERATING COST	DEBT SERVICE	RENEWAL AND REPLACEMENT	CAPITAL IMPROVEMENTS	RATE STABILIZATION	RESERVE FOR DEBT SERVICE ACCOUNT	TOTAL
Operating Revenues:									
Sewer Service Charges	\$ 5,683,568							\$ 323,454	\$ 6,007,022
Connection Charges	846,779								846,779
Inspection Fees	37,375								37,375
Plan Review Fees	2,062								2,062
Other	1,650								1,650
Interest on Delinquent Accounts	69,962								69,962
<u>Total Operating Revenues</u>	<u>6,641,396</u>							<u>323,454</u>	<u>6,964,850</u>
Operating Expenses:									
Operating Costs	2,520,551								2,520,551
Sewerage Treatment	4,363,421								4,363,421
Depreciation Expense	467,768								467,768
<u>Total Operating Expenses</u>	<u>7,351,740</u>								<u>7,351,740</u>
Operating Income	(710,344)							323,454	(386,890)
Non-Operating Revenue (Expense):									
Interest Income	54,076			\$ 1,831	\$ 464			460	56,831
Interest Expense	(4,663)								(4,663)
Municipal Contribution	(175,000)								(175,000)
Pension Related	85,970								85,970
OPEB Related	38,921								38,921
Other	(13,395)								(13,395)
	(14,091)			1,831	464			460	(11,336)
Net Income (Loss) Before Transfers	(724,435)			1,831	464			323,914	(398,226)
Transfers:									
Interfunds	135,420		\$ 176,174	(229,191)	(100,464)		\$ 18,061		
Increase (Decrease) in Net Position	(589,015)		176,174	(227,360)	(100,000)		18,061	323,914	(398,226)
Net Position, Beginning of Year	(227,863)	1,495,000	1,504,701	227,360	100,000	5,400,000	1,326,639		9,825,837
Net Position, End of Year	\$ (816,878)	\$ 1,495,000	\$ 1,680,875	\$ -	\$ -	\$ 5,400,000	\$ 1,344,700	\$ 323,914	\$ 9,427,611

THE TOWNSHIP OF HILLSBOROUGH MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED NOVEMBER 30, 2020

	<u>TOTAL</u>	<u>REVENUE ACCOUNT</u>	<u>GENERAL ACCOUNT</u>	<u>CONSTRUCTION ACCOUNT</u>	<u>BOND SERVICE ACCOUNT</u>	<u>BOND RESERVE ACCOUNT</u>	<u>RENEWAL AND REPLACEMENT ACCOUNT</u>	<u>RESERVE FOR DEBT SERVICE ACCOUNT</u>	<u>INSPECTION TRUST ACCOUNT</u>
Balance, December 1, 2019	\$ 9,095,294	\$ 2,050,976	\$ 6,333,237	\$ 1,328	\$ 221,292	\$ 216,491	\$ 100,000		\$ 171,970
Increased by:									
Sewer Service Charges	6,035,715	6,035,715							
Sewer Connection Charges	849,658	849,658							
Interest on Investments	56,831	9,148	44,782	47	830	1,001	464	460	99
Interest on Delinquent Accounts	69,962	69,962							
Service Charges Overpaid	30,247	30,247							
Plan Review Fees	1,650	1,650							
Inspection Fees	37,375	37,375							
Developers Deposits	85,501	1,182							84,319
Miscellaneous	3,402	3,402							
Interfunds	655,757	8,850		323,453				323,454	
	<u>7,826,098</u>	<u>7,047,189</u>	<u>44,782</u>	<u>323,500</u>	<u>830</u>	<u>1,001</u>	<u>464</u>	<u>323,914</u>	<u>84,418</u>
Total	16,921,392	9,098,165	6,378,019	324,828	222,122	217,492	100,464	323,914	256,388
Decreased by:									
Accounts Payable	30,034	30,034							
Operating Expenses	6,867,203	6,867,203							
Interest on Bonds	4,663				4,663				
Sewerage System Costs	947,983		847,519				100,464		
Bonds Redeemed	211,961				211,961				
Inspection Costs	90,437								90,437
Contribution to Township	175,000		175,000						
Interfunds	555,293		8,850	323,453	5,498	217,492			
Total	<u>8,882,574</u>	<u>6,897,237</u>	<u>1,031,369</u>	<u>323,453</u>	<u>222,122</u>	<u>217,492</u>	<u>100,464</u>		<u>90,437</u>
Balance, November 30, 2020	<u>8,038,818</u>	<u>2,200,928</u>	<u>5,346,650</u>	<u>1,375</u>				<u>323,914</u>	<u>165,951</u>
Cash	542,425	364,774	10,325	1,375					165,951
Investments	7,496,393	1,836,154	5,336,325					323,914	
	<u>\$ 8,038,818</u>	<u>\$ 2,200,928</u>	<u>\$ 5,346,650</u>	<u>\$ 1,375</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 323,914</u>	<u>\$ 165,951</u>

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF OPERATING REVENUES AND COSTS
FUNDED BY OPERATING REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED NOVEMBER 30, 2020

	2020 ADOPTED BUDGET	2020 ACTUAL	2019 ACTUAL
REVENUE			
Sewer Service Charges	\$ 6,010,000	\$ 6,007,022	\$ 5,919,246
Connection Charges	275,000	846,779	360,757
Interest Income	32,000	9,148	21,386
Inspection Fees	30,000	37,375	17,815
Plan Review Fees	3,500	2,062	2,590
Miscellaneous	9,000	1,650	
Interest on Delinquent Accounts	50,000	69,962	55,425
Unrestricted Net Assets	1,033,932		
	<u>7,443,432</u>	<u>6,973,998</u>	<u>6,377,219</u>
OPERATING EXPENSES			
Administrative:			
Salaries and Wages	400,000	358,554	377,906
Office Rent and Overhead	74,000	71,286	71,979
Equipment Service and Maintenance	44,800	44,195	39,292
Postage, Printing and Stationery Supplies	38,000	33,628	37,040
Dues, Subscriptions, Tuition and Seminars	20,000	9,439	22,265
Trustee Fees and Expenses	2,500	733	2,200
Miscellaneous	5,500	5,566	3,169
System Operating Expense:			
Salaries and Wages	942,000	925,272	645,700
Utilities	185,000	157,040	155,698
Service, Repairs and Replacements	120,000	96,420	101,108
Vehicle Operation and Maintenance	40,000	32,113	41,778
Tools, Materials and Supplies	38,000	34,190	39,134
State Mandated Programs-Permits	6,500	8,257	6,884
Bioxide	50,000	37,230	32,337
Miscellaneous			
Professional Services:			
Legal	20,000	15,058	13,472
Financial	15,500	16,450	15,500
Engineering	33,000	32,359	6,000
Operations Consulting			51,739
Insurance and Bonding:			
Group Insurance Plan for Employees	368,000	366,419	360,818
Other Insurance and Bond Premiums	65,000	60,231	57,734
Statutory Expenditures:			
Social Security	95,000	97,902	74,738
Disability/Unemployment Insurance	5,000	4,845	4,207
Public Employees' Retirement System	120,000	113,164	113,997
	<u>2,687,800</u>	<u>2,520,351</u>	<u>2,274,695</u>
TOTAL	\$ 2,687,800	\$ 2,520,351	\$ 2,274,695

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF OPERATING REVENUES AND COSTS
FUNDED BY OPERATING REVENUES COMPARED TO BUDGET
FOR THE YEAR ENDED NOVEMBER 30, 2020

	2020 ADOPTED BUDGET	2020 ACTUAL	2019 ACTUAL
Sewerage Treatment - Somerset-Raritan Valley Sewerage Authority	\$ 4,364,000	\$ 4,363,421	\$ 3,869,376
<u>TOTAL OPERATING EXPENSES</u>	<u>7,051,800</u>	<u>6,883,772</u>	<u>6,144,071</u>
<u>OTHER COSTS</u>			
<u>Payment to Township of Hillsborough</u>	175,000	175,000	
Principal on Bonds	211,962	211,961	198,700
Interest Expense	4,670	4,663	13,698
	<u>391,632</u>	<u>391,624</u>	<u>212,398</u>
<u>TOTAL COSTS FUNDED BY OPERATING REVENUES</u>	<u>\$ 7,443,432</u>	<u>\$ 7,275,396</u>	<u>\$ 6,356,469</u>

SCHEDULE 4

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF SEWER CHARGES RECEIVABLE
NOVEMBER 30, 2020

Balance, December 1, 2019		\$	392,938
Increased by:			
2020 Charges			<u>6,007,022</u>
			6,399,960
Decreased by:			
Collected	\$	6,035,215	
Overpayments Applied		<u>32,976</u>	
			<u>6,068,191</u>
Balance, November 30, 2020		\$	<u><u>331,769</u></u>

SCHEDULE 5

SCHEDULE OF SEWER CONNECTION CHARGES RECEIVABLE
NOVEMBER 30, 2020

Balance, December 1, 2019		\$	8,480
Increased by:			
2020 Charges			<u>846,779</u>
			855,259
Decreased by:			
Collected			<u>849,657</u>
Balance, November 30, 2020		\$	<u><u>5,601</u></u>

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST TEN YEARS

Fiscal Year Ending June 30.	Authority's Proportion Share of the Net Pension Liability (Asset)	Authority's Proportionate Share of the Net Pension Liability (Asset)	Authority's Covered-Employee Payroll	Authority's Proportion Share of the Net Pension Liability (Asset) as a percentage of it's Covered- Employee Payroll	Plan Fiduciary Net Position as a percentage of the total Pension Liability
2014	0.0141226391%	\$ 1,644,144	\$ 1,037,476	158.48%	52.08%
2015	0.0128714559%	\$ 2,889,384	\$ 787,641	366.84%	47.93%
2016	0.0121264894%	\$ 3,591,518	\$ 885,867	405.42%	40.14%
2017	0.0108167892%	\$ 2,517,976	\$ 851,782	295.61%	48.10%
2018	0.0110349400%	\$ 2,172,725	\$ 797,535	272.43%	53.60%
2019	0.0112062703%	\$ 2,019,200	\$ 920,430	219.38%	56.27%
2020	0.0118549341%	\$ 1,933,230	\$ 1,130,666	170.98%	58.32%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST TEN YEARS

Fiscal Year Ending June 30,	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Authority's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2014	\$ 116,425	\$ 116,425	\$ -0-	\$ 1,037,476	11.22%
2015	\$ 110,660	\$ 110,660	\$ -0-	\$ 787,641	14.05%
2016	\$ 107,730	\$ 107,730	\$ -0-	\$ 885,867	12.16%
2017	\$ 100,206	\$ 100,206	\$ -0-	\$ 851,782	11.76%
2018	\$ 110,179	\$ 110,179	\$ -0-	\$ 797,535	13.81%
2019	\$ 109,762	\$ 109,762	\$ -0-	\$ 920,430	11.93%
2020	\$ 129,687	\$ 129,687	\$ -0-	\$ 1,130,666	11.47%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY
SCHEDULES RELATED TO ACCOUNTING AND REPORTING FOR PENSION (GASB 68)

NOTE TO RSI III
FOR THE YEAR ENDED NOVEMBER 30, 2020

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Change in benefit terms

None

Change in assumptions

The calculation of the discount rate used to measure the total pension liability is dependent upon the long-term expected rate of return, and the municipal bond index rate. There was a change in the municipal bond index rate from the prior measurement date (3.50%) to the current measurement date (2.21%), resulting in a change in the discount rate from 6.28% to 7.00%. This change in the discount rate is considered to be a change in actuarial assumptions under GASB No. 68.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
STATE HEALTH BENEFITS LOCAL GOVERNMENT RETIRED EMPLOYEES PLAN
LAST TEN YEARS

Fiscal Year Ending June 30,	Authority's Proportion Share of the Net OPEB Liability	Authority's Proportionate Share of the Net OPEB Liability (Asset)	Authority's Covered-Employee Payroll	Authority's Proportion Share of the Net OPEB Liability (Asset) as a percentage of it's Covered- Employee Payroll	Plan Fiduciary Net Position as a percentage of the total OPEB Liability
2017	0.0219220%	\$ 4,475,549	\$ 851,782	525.43%	1.03%
2018	0.0222090%	\$ 3,479,399	\$ 797,535	436.27%	1.97%
2019	0.0214610%	\$ 2,907,122	\$ 920,430	315.84%	1.98%
2020	0.0259120%	\$ 4,650,326	\$ 1,130,666	411.29%	0.91%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS
STATE HEALTH BENEFITS LOCAL GOVERNMENT RETIRED EMPLOYEE PLAN
LAST TEN YEARS

Fiscal Year Ending <u>June 30.</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>Authority's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2017	\$ 126,176	\$ 126,176	\$ -0-	\$ 851,782	14.81%
2018	\$ 119,118	\$ 119,118	\$ -0-	\$ 797,535	14.94%
2019	\$ 83,756	\$ 83,756	\$ -0-	\$ 920,430	9.10%
2020	\$ 84,840	\$ 84,840	\$ -0-	\$ 1,130,666	7.50%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY
SCHEDULES RELATED TO ACCOUNTING AND REPORTING FOR OPEB (GASB 75)
NOTE TO RSI III
FOR THE YEAR ENDED NOVEMBER 30, 2020.

STATE HEALTH INSURANCE PROGRAM (SHIP)

Change in benefit terms

None

Change in assumptions

The discount rate changed from 3.50% to 2.21% as of
June 30, 2020.

THE TOWNSHIP OF HILLSBOROUGH
MUNICIPAL UTILITIES AUTHORITY

NOVEMBER 30, 2020

GENERAL COMMENTS AND RECOMMENDATIONS

NONE