

**LEBANON BOROUGH SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE
BOROUGH OF LEBANON)
COUNTY OF HUNTERDON**

December 31, 2020



**LEBANON BOROUGH SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE
BOROUGH OF LEBANON)**

For the Year Ended December 31, 2020

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LEBANON BOROUGH SEWERAGE AUTHORITY
(A Component Unit of the Borough of Lebanon)
Roster of Officials
Year Ended December 31, 2020

<u>Members of the Authority</u>	<u>Title</u>
Edward Cichone	Chairperson
Richard Burton	Vice Chairperson
Benedict Valliere	Member
Gregory Crawford	Member
John Saharic	Member
<u>Administration of the Authority</u>	<u>Title</u>
Anita Weingart	Secretary/Treasurer
Joseph Novak	General Counsel
Frey Engineering	Engineer

See independent auditors' report.



Certified Public Accountants, PC

www.bkc-cpa.com

Independent Auditors' Report

Honorable Chairman and Members of
Lebanon Borough Sewerage Authority
Lebanon Borough, Hunterdon County, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Lebanon Borough Sewerage Authority (the Authority), a component unit of the Borough of Lebanon, as of and for the years ended December 31, 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.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Authority, as of December 31, 2020 and 2019, and the respective changes in financial position and its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Budgetary Comparison Information, and Roster of Officials identified in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

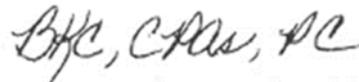
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The Schedule of Changes in Net Position - Restricted Accounts is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* and those prescribed by the Division of Local Government we have also issued our report dated March 23, 2021 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



BKC, CPAs, PC

March 23, 2021
Flemington, New Jersey

Lebanon Borough Sewerage Authority

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Lebanon, New Jersey 08833
Tel: 908-236-2704
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MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE YEAR ENDING 2020

This section of the Lebanon Borough Sewerage Authority's (LBSA) annual financial report presents our discussion and analysis of the LBSA's financial performance during the fiscal year ending December 31, 2020. Please read it in conjunction with the LBSA's condensed financial statements (Exhibit A and B), included with this section.

Financial Highlights

- The LBSA's total assets increased by about 2.2% over the course of this year's operations. The largest increase was in current assets which increased by 31.7%.
- The LBSA's total liabilities increased by 60.0% compared to the prior year. The increase is due primarily to an increase in accounts payable.
- During the year, the LBSA's operating revenues increased by 6.5%. This was attributable to an increase in sewer charges.
- Operating expenses decreased by 4.8%. The decrease was a result of a decrease in administrative and general expenses.
- Non-operating revenues exceeded non-operating expenses by \$6,530 and decreased 1.8% compared to the prior year. The decrease was a result of interest income collected.
- Total net position at the end of 2020 was 1.1% more than the prior year.

Overview of Annual Financial Report

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

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

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

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

Budget and Rates for 2021

The LBSA members took into consideration the following factors when preparing the budget for 2021:

1. The ongoing maintenance of sewer lines and manholes.
2. The annual charges from Readington-Lebanon Sewer Authority for the treatment plant.
3. The general increase in costs for services and equipment.

With the above factors taken into consideration and the amount of surplus available, it was determined that the user rate and the connection fee would increase. The connection fee for 2021 has been calculated at \$3,263.05 per unit and the sewer rate charge at \$516.00.

Financial Analysis

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

Availability of Financial Report

This report is prepared in compliance with State mandates and will be made available to residents, taxpayers and any interested person or entity upon request to the Secretary/Treasurer at the LBSA office located at 6 High Street, Lebanon NJ 08833 (Telephone 908-236-2704), during the business hours of 9am and 12pm Monday through Friday.

Basic Financial Statements

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

Condensed Statement of Net Position

Exhibit A

	December 31,		Increase (Decrease)
	2020	2019	
Current assets			
Unrestricted assets	\$ 243,565	\$ 184,981	\$ 58,584
Restricted assets	578,968	576,871	2,097
Capital assets, net	259,867	297,081	(37,214)
Total assets	<u>\$ 1,082,400</u>	<u>\$ 1,058,933</u>	<u>\$ 23,467</u>
Current liabilities			
Unrestricted	\$ 23,538	\$ 13,591	\$ 9,947
Restricted	8,337	6,327	2,010
Total liabilities	<u>\$ 31,875</u>	<u>\$ 19,918</u>	<u>\$ 11,957</u>
Net position			
Net investment in capital assets	\$ 259,867	\$ 297,081	\$ (37,214)
Restricted	570,631	570,544	87
Unrestricted	220,027	171,390	48,637
Total net position	<u>\$ 1,050,525</u>	<u>\$ 1,039,015</u>	<u>\$ 11,510</u>

Condensed Statement of Revenues, Expenses and Changes in Net Position

Exhibit B

	December 31,		Increase (Decrease)
	2020	2019	
Operating revenues	\$ 762,923	\$ 716,048	\$ 46,875
Operating expenses	757,943	796,250	(38,307)
Operating income (loss)	4,980	(80,202)	85,182
Non-operating revenues (expenses)	6,530	6,651	(121)
Increase (decrease) in net position	11,510	(73,551)	85,061
Net position - Beginning of year	1,039,015	1,112,566	(73,551)
Net position - End of year	<u>\$ 1,050,525</u>	<u>\$ 1,039,015</u>	<u>\$ 11,510</u>

LEBANON BOROUGH SEWERAGE AUTHORITY
Statements of Net Position
December 31, 2020

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	\$ 181,901	\$ 89,797
Accounts receivable	59,894	92,856
Interest receivable on certificates of deposit	1,770	2,328
Total current assets	243,565	184,981
Restricted assets		
Cash and cash equivalents	66,249	71,116
Certificates of deposit	512,719	505,755
Total restricted assets	578,968	576,871
Capital assets		
Capital assets	1,388,710	1,388,710
Less: accumulated depreciation	(1,128,843)	(1,091,629)
Net capital assets	259,867	297,081
Total assets	\$ 1,082,400	\$ 1,058,933

See accompanying notes to the financial statements.

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

	2020	2019
Liabilities		
Current liabilities		
Accounts payable	\$ 21,162	\$ 12,581
Customer overpayments	457	767
Prepaid sewer rents	1,919	243
Total current liabilities	23,538	13,591
Current liabilities (payable from restricted assets)		
Trust funds		
Reserve for developers deposits	8,337	6,327
Total current liabilities (payable from restricted assets)	8,337	6,327
Total liabilities	31,875	19,918
Net position		
Net investment in capital assets	259,867	297,081
Restricted	570,631	570,544
Unrestricted	220,027	171,390
Total net position	1,050,525	1,039,015
Total liabilities and net position	\$ 1,082,400	\$ 1,058,933

See accompanying notes to the financial statements.

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

	2020	2019
Operating revenues		
Sewer charges	\$ 696,466	\$ 657,851
Interest income on delinquent accounts	12,526	7,837
Reserve capacity charges	52,890	49,815
Miscellaneous	1,041	545
Total operating revenues	762,923	716,048
Operating expenses		
Cost of providing services	478,136	477,398
Administrative and general	242,593	282,295
Depreciation	37,214	36,557
Total operating expenses	757,943	796,250
Operating income (loss)	4,980	(80,202)
Non-operating revenues (expenses)		
Interest income	6,443	6,566
Miscellaneous	87	85
Total non-operating revenues (expenses)	6,530	6,651
Change in net position	11,510	(73,551)
Net position - beginning	1,039,015	1,112,566
Net position - ending	\$ 1,050,525	\$ 1,039,015

See accompanying notes to the financial statements.

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

	2020	2019
Cash flows from operating activities		
Cash received from customers	\$ 794,844	\$ 706,439
Other operating cash receipts	1,041	545
Cash payments to suppliers and employees	(710,782)	(761,581)
Net cash provided by (used for) operating activities	85,103	(54,597)
Cash flows from investing activities		
Purchase of certificates of deposit	(512,719)	(505,755)
Proceeds from redemption of certificates of deposit	505,755	498,876
Interest income	7,001	6,907
Net cash provided by (used for) investing activities	37	28
Cash flow from capital and related financing activities		
Proceeds from developer's deposits (net)	2,010	231
Capital acquisitions	-	(13,159)
Miscellaneous	87	85
Net cash provided by (used for) capital and related financing activities	2,097	(12,843)
Net increase (decrease) in cash and cash equivalents	87,237	(67,412)
Cash and cash equivalents, beginning	160,913	228,325
Cash and cash equivalents, ending	\$ 248,150	\$ 160,913
Reconciliation of balance sheet		
Unrestricted cash and cash equivalents	\$ 181,901	\$ 89,797
Restricted cash and cash equivalents	66,249	71,116
Total cash	\$ 248,150	\$ 160,913

See accompanying notes to the financial statements.

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

	2020	2019
Reconciliation of income (loss) from operations to net cash provided by (used for) operating activities income (loss) from operations	\$ 4,980	\$ (80,202)
Adjustments to reconcile income (loss) from operations to net cash provided by (used for) operating activities		
Depreciation	37,214	36,557
Change in assets and liabilities		
(Increase) decrease in accounts receivable	32,962	(9,064)
Increase (decrease) in accounts payable	8,581	(1,235)
Increase (decrease) in other current liabilities	-	(401)
Increase (decrease) in prepaid sewer rents	1,676	243
Increase (decrease) in customer overpayments	(310)	(495)
Net cash provided by (used for) operating activities	\$ 85,103	\$ (54,597)

See accompanying notes to the financial statements.

Notes to the Financial Statements

LEBANON BOROUGH SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 1 - Summary of significant accounting policies

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

Reporting entity

The Authority (a component unit of the Borough of Lebanon) was created in accordance with the State Municipal Utilities Authorities Law (PL 1957, Chapter 183) by ordinance of the Borough of Lebanon on August 8, 1980 to construct and operate a sanitary sewer collection system in the Borough of Lebanon, Hunterdon County, New Jersey.

The Authority consists of five officials appointed by the Borough of Lebanon and is responsible for the fiscal control of the operations of the sewer system. Since the Authority issues its own financial statements, its financial activity is not included in the financial statements of the Borough of Lebanon.

Basis of presentation - fund accounting

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

Basis of accounting

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

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

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

LEBANON BOROUGH SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 1 - Summary of significant accounting policies (continued)

Basis of accounting (continued)

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

Budget and budgetary accounting

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

Income taxes

The Authority is a component unit of the Borough of Lebanon and is not required to file tax returns. Accordingly, no provision for income taxes has been made in the financial statements.

Restricted assets

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

<u>Account</u>	<u>Use for which Restricted</u>
Reserve for State Unemployment	Required employee and employer contribution to State Unemployment Insurance Fund - Reimbursement Method
Reserve for Developer's Deposits	Funds required by the Authority to assure payment of performance
Reserve for Renewals & Replacements	Renewals and replacements funded by budget appropriations

Net position

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

- *Net investment in Capital Assets* - This component represents capital assets, less accumulated depreciation and net of outstanding balances of borrowings used for the acquisition, construction, or improvement of those assets.

LEBANON BOROUGH SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 1 - Summary of significant accounting policies (continued)

Net position (continued)

- *Restricted* - Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.
- *Unrestricted* - Net position is reported as unrestricted when it does not meet the criteria of the other two components of net position.

Capital assets

Capital assets are recorded as expenditures at the time of purchase and the related assets are capitalized at cost, which includes direct construction costs and other expenditures related to construction. Depreciation on assets acquired with grants-in-aid is recorded as a reduction of contributed capital. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Building and improvements	40 years
Sewer mains and interceptors	40 years
Office equipment	5 years
Other equipment	5 - 15 years

Note 2 - Deposits and cash equivalents and investments

Cash and cash equivalents include petty cash and change funds. As of December 31, 2020 and 2019, the Authority had no investments.

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

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

N.J.S.A. 17:9-41 e.t. seq. establishes the requirements for the security of deposits of Governmental Units. The statute requires that no Governmental Unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include savings and loan institutions, banks (both state and national banks) and saving banks the deposits of which are federally insured.

LEBANON BOROUGH SEWERAGE AUTHORITY
Notes to the Financial Statements

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

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

As of December 31, 2020 and 2019, the Authority’s bank balances were exposed to custodial credit risk as follows:

	2020	2019
Deposits Insured by the FDIC	\$ 500,369	\$ 413,093
Deposits Insured by GUDPA	262,720	255,756
Total bank balances	\$ 763,089	\$ 668,849

The Authority’s carrying (Statements of Net Position) amounts were \$760,869 and \$666,668 for December 31, 2020 and 2019, respectively.

Note 3 - Authority revenues

Sewer charges are charged on a rate as approved annually by the governing body. Bills are payable in quarterly installments and delinquent accounts may be included as part of the Borough of Lebanon's annual tax sale.

Connection fees

The Authority receives payments for connection fees when new users connect to the sewer system. The Authority does not supply the user with supplies or services to make the physical connection and is therefore considered a non-exchange transaction. The Authority recognizes the revenue in the period that the user exercises their right to connect to the system.

Note 4 - Pension plans

Defined contribution retirement program

The Defined Contribution Retirement Program (DCRP) was established under the provisions Ch. 92, PL 2007 and expanded under the provisions of Ch. 89, PL 2008 and Ch. 1, PL 2010 to provide eligible members with a tax sheltered, defined contribution retirement benefit, along with life insurance and disability coverage.

LEBANON BOROUGH SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 4 - Pension plans (continued)

Defined contribution retirement program (continued)

Employees eligible to enroll in the program include the following: First, employees enrolled in the Public Employees Retirement System (PERS) on or after July 1, 2007 who earn salary in excess of maximum compensation limits. Also, employees otherwise eligible to enroll in the PERS who do not earn the minimum salary (\$8,400 for 2020) but who earn salary of at least \$5,000 annually are eligible to participate. The program administrator, Prudential Financial, makes information regarding the program available on its New Jersey Defined Contribution Program website: www.prudential.com/njdcrp.

Contribution requirements

The contribution policy for the DCRP is set by state statutes and contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Contribution rates for DCRP provide for employee contributions of 5.50% of annual contractual compensation, as defined. Employers are required to contribute at an actuarially determined rate. The actuarially determined contribution includes funding for cost-of-living adjustments, non-contributory death benefits and post-retirement medical premiums. For the year ending December 31, 2020 and 2019, the Authority contributed \$1,180 and \$1,148, respectively.

Note 5 - Capital assets

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

<u>December 31, 2020</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Sewer distribution system	\$ 1,165,310	\$ -	\$ -	\$ 1,165,310
Nitser Avenue improvements	100,015	-	-	100,015
Manhole upgrades	84,190	-	-	84,190
Office equipment	4,429	-	-	4,429
Other equipment	34,766	-	-	34,766
Total capital assets	1,388,710	-	-	1,388,710
Accumulated depreciation	(1,091,629)	(37,214)	-	(1,128,843)
Capital assets, net	<u>\$ 297,081</u>	<u>\$ (37,214)</u>	<u>\$ -</u>	<u>\$ 259,867</u>
<u>December 31, 2019</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Sewer distribution system	\$ 1,165,310	\$ -	\$ -	\$ 1,165,310
Nitser Avenue improvements	100,015	-	-	100,015
Manhole upgrades	84,190	-	-	84,190
Office equipment	4,429	-	-	4,429
Other equipment	21,607	13,159	-	34,766
Total capital assets	1,375,551	13,159	-	1,388,710
Accumulated depreciation	(1,055,072)	(36,557)	-	(1,091,629)
Capital assets, net	<u>\$ 320,479</u>	<u>\$ (23,398)</u>	<u>\$ -</u>	<u>\$ 297,081</u>

LEBANON BOROUGH SEWERAGE AUTHORITY
Notes to the Financial Statements

Note 6 - Risk management

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

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

New Jersey Unemployment Compensation Insurance - The Authority has elected to fund its NJ Unemployment Compensation Insurance under the Benefit Reimbursement Method. Under this plan, the Authority is required to reimburse the NJ Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The Authority is billed quarterly for amounts due to the State. The following is a summary of Authority contributions, interest earnings, employee contributions, reimbursements to the State for benefits paid, and the ending balance of the Authority’s unemployment trust fund:

Fiscal Year	Authority Deposits	Interest Earnings	Employee Deposits	Amount Reimbursed	Ending Balance
2020	\$ -	\$ -	\$ 87	\$ -	\$ 7,876
2019	-	-	85	-	7,789

As of December 31, 2020 and 2019 there are no amounts due to the State of New Jersey.

Note 7 - Compensated absences

The Authority does not have a policy allowing accrued unused vacation and sick pay.

Note 8 - Recent accounting pronouncements not yet effective

There are no recent accounting pronouncements which are not yet effective as of the year-end date of this report and which are expected to impact the Authority’s financial reporting.

Note 9 - Risks and uncertainties

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

The full impact of the COVID-19 outbreak continues to evolve as of the date of this report. As such, it is uncertain as to the full magnitude that the pandemic will have on the Authority’s financial condition, liquidity, and future results of operations.

Note 10 - Subsequent events

The Authority’s management has evaluated subsequent events through March 23, 2021, which is the date the financial statements were available to be issued and no additional items were noted for disclosure.

Supplementary Schedules

LEBANON BOROUGH SEWERAGE AUTHORITY
Schedule of Changes in Net Position - Restricted Accounts
For the Year Ended December 31, 2020

	Net Position				Total
	Trust Fund Developer's Deposits	State Unemployment Insurance	Renewals & Replacements	Total Net Position	
Balance at beginning of year	\$ 6,327	\$ 7,789	\$ 562,755	\$ 570,544	\$ 576,871
Additions					
Deposits received	2,501	87	-	87	2,588
Deductions					
Developers fees	491	-	-	-	491
Balance at end of year	<u>\$ 8,337</u>	<u>\$ 7,876</u>	<u>\$ 562,755</u>	<u>\$ 570,631</u>	<u>\$ 578,968</u>

See independent auditors' report.

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

	December 31, 2020		December 31, 2019	
	Unaudited Budget	Actual	Unaudited Budget	Actual
Revenues				
Net position appropriated	\$ -	\$ -	\$ 26,803	\$ 26,803
Operating revenues				
User charges and fees	674,760	708,992	654,156	665,688
Reserve capacity fees	52,890	52,890	49,815	49,815
Miscellaneous	2,000	1,041	6,000	545
Total operating revenues	729,650	762,923	709,971	716,048
Non-operating revenues				
Interest income	5,000	6,443	5,000	6,566
Miscellaneous	-	87	-	85
Total non-operating revenues	5,000	6,530	5,000	6,651
Total revenues	\$ 734,650	\$ 769,453	\$ 741,774	\$ 749,502
Expenses				
Administrative and general				
Salaries and wages	\$ 29,200	\$ 29,129	\$ 31,346	\$ 28,346
Employee benefits	4,650	3,437	4,550	3,345
Professional fees				
Legal	49,700	46,963	52,584	44,475
Engineering	89,650	92,564	93,181	134,879
Auditor	36,950	39,025	37,613	34,613
Other	-	-	1,500	-
Insurance	8,500	6,652	11,500	6,530
Miscellaneous other expenses	15,000	9,223	17,500	14,382
Facilities costs	16,000	15,600	16,000	15,600
Office equipment and supplies	-	-	1,000	125
Total administrative and general	249,650	242,593	266,774	282,295

See independent auditors' report.

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

	December 31, 2020		December 31, 2019	
	Unaudited Budget	Actual	Unaudited Budget	Actual
Expenses (continued)				
Cost of providing services				
Joint authority costs	\$ 465,000	\$ 462,897	\$ 445,000	\$ 458,096
Maintenance and repairs	20,000	15,239	30,000	19,302
Total cost of providing services	<u>485,000</u>	<u>478,136</u>	<u>475,000</u>	<u>477,398</u>
Capital				
Acquisition of equipment	-	-	-	13,159
Total expenses	<u>\$ 734,650</u>	<u>\$ 720,729</u>	<u>\$ 741,774</u>	<u>\$ 772,852</u>

See independent auditors' report.



Certified Public Accountants, PC

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

Honorable Chairman and Members of the
Lebanon Borough Sewerage Authority
Lebanon Borough, Hunterdon County, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the Lebanon Borough Sewerage Authority's (the Authority) (a component unit of the Borough of Lebanon) basic financial statements, and have issued our report thereon dated March 23, 2021.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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



BKC, CPAs, PC

March 23, 2021
Flemington, New Jersey

LEBANON BOROUGH SEWERAGE AUTHORITY
Schedule of Findings and Responses

General Comments and Recommendations

General Comment

2020-01 The Authority should ensure that political disclosure forms are received in a timely manner for all applicable vendors.

Status of Prior Year's Audit Findings / Recommendations

There were no prior year findings or recommendations.

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

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

Respectfully submitted,



BKC, CPAs, PC