

EWING-LAWRENCE SEWERAGE AUTHORITY

**FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION**

December 31, 2021

EWING-LAWRENCE SEWERAGE AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To the Honorable Chairperson and Board Members of
Ewing-Lawrence Sewerage Authority

Report on the Audits of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Ewing-Lawrence Sewerage Authority (the "Authority"), as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2021 and 2020, and the 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audits of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibilities for the Audits of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Authority's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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 audits 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that comprise the Authority's basic financial statements. The schedule of revenues, expenses and changes in net position and schedule of operating revenues and costs funded by operating revenues compared to budget, as listed in table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information, except for the part marked "unaudited", has been subjected to the auditing procedures applied in the audits 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 GAAS. In our opinion, except for the part marked "unaudited", the schedule of revenues, expenses and changes in net position and schedule of operating revenues and costs funded by operating revenues compared to budget, 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 September 8, 2023, 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, grant agreements and other matters. The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Mercadion, P.C.

Certified Public Accountants

September 8, 2023

EWING-LAWRENCE SEWERAGE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As financial management of the Ewing-Lawrence Sewerage Authority (the "Authority"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Authority for the years ended December 31, 2021 and 2020. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole. A comparative analysis of the financial statements data has been presented for 2021 and 2020.

FINANCIAL HIGHLIGHTS

Income from operations for the Authority was \$2,528,908 and \$2,370,932 for the years ended December 31, 2021 and 2020, respectively. The Authority's net position was \$30,952,363 and \$28,780,179 at the close of 2021 and 2020, respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which are comprised of the basic financial statements and supplementary information, including a schedule of revenues, expenses and changes in net position.

Basic financial statements. The basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to that employed by private-sector businesses.

The statements of net position present information on all of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether the financial position of the Authority is improving or deteriorating. Net position increases when revenues exceed expenses. Increases to assets and deferred outflows of resources without corresponding increases to liabilities and deferred inflows of resources also result in increased net position, which indicates an improved financial position.

The statements of revenues, expenses and changes in net position present information showing how net position changed during the fiscal year. All changes in net position are reported as soon as the underlying events occur, regardless of timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will not result in cash flows until future fiscal periods.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the statements of net position and revenues, expenses and changes in net position.

Supplementary information. In addition to the basic financial statements, this report also presents certain required supplementary information related to pensions and OPEB and other information concerning operating revenues, expenses and net position, as well as comparisons to budget and information required by the Governmental Accounting Standards Board.

EWING-LAWRENCE SEWERAGE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

FINANCIAL ANALYSIS OF THE AUTHORITY

Cash balances were \$22,583,915 and \$23,926,982 at December 31, 2021 and 2020, respectively, and comprise the largest portion of the Authority's current assets and consist of unrestricted and restricted portions.

The Authority had \$26,654,663 and \$28,934,213 in NJIB loans as of December 31, 2021 and 2020, respectively, relating to the acquisition, construction and improvement of sewer systems in Ewing and Lawrence Townships.

The following tables contain condensed financial information derived from the December 31, 2021, 2020, and 2019 financial statements of the Authority:

Condensed Statements of Net Position

	December 31,			\$ Change	% Change
	2021	2020	2019	2021-2020	2021-2020
Current assets	\$ 22,608,523	\$ 23,949,633	\$ 24,216,140	\$ (1,341,110)	-6%
Capital assets	64,440,229	66,291,841	65,453,098	(1,851,612)	-3%
Total assets	<u>\$ 87,048,752</u>	<u>\$ 90,241,474</u>	<u>\$ 89,669,238</u>	<u>\$ (3,192,722)</u>	-4%
Deferred outflows of resources	\$ 4,173,101	\$ 4,393,074	\$ 1,933,117	\$ (219,973)	-5%
Current liabilities, net of loans payable	\$ 3,039,744	\$ 4,410,592	\$ 3,128,030	\$ (1,370,848)	-31%
Loans payable	26,654,663	28,934,213	31,244,910	(2,279,550)	-8%
Total OPEB obligation	14,074,274	13,512,633	9,734,652	561,641	4%
Net pension liability	5,964,591	8,177,577	9,654,811	(2,212,986)	-27%
Unearned principal loan forgiveness	-	-	316,254	-	0%
Total liabilities	<u>\$ 49,733,272</u>	<u>\$ 55,035,014</u>	<u>\$ 54,078,657</u>	<u>\$ (5,301,743)</u>	-10%
Deferred inflows of resources	\$ 10,536,218	\$ 10,819,354	\$ 11,212,800	\$ (283,136)	-3%
Net position:					
Net investment in capital assets	\$ 37,785,566	\$ 37,357,628	\$ 34,208,188	\$ 427,938	1%
Restricted	2,639,673	2,639,403	2,626,727	270	0%
Unrestricted	(9,472,876)	(11,216,852)	(10,524,017)	1,743,976	-16%
Total net position	<u>\$ 30,952,363</u>	<u>\$ 28,780,179</u>	<u>\$ 26,310,898</u>	<u>\$ 2,172,184</u>	8%

EWING-LAWRENCE SEWERAGE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Years Ended December 31,			\$ Change 2021-2020	% Change 2021-2020
	2021	2020	2019		
Operating revenues	\$ 15,181,226	\$ 14,931,700	\$ 15,830,832	\$ 249,526	2%
Operating expenses	(10,036,356)	(9,975,379)	(9,623,805)	(60,977)	1%
Depreciation and amortization	(2,615,962)	(2,585,388)	(1,893,202)	(30,574)	1%
Income from operations	2,528,908	2,370,932	4,313,825	157,976	7%
Non-operating revenues	19,294	512,450	236,302	(493,156)	-96%
Non-operating expenses	(376,018)	(414,101)	(450,477)	38,083	-9%
Changes in net position	2,172,184	2,469,281	4,099,650	(1,927,466)	-78%
Net position, beginning of year	28,780,179	26,310,898	22,211,248	2,469,281	
Net position, end of year	<u>\$ 30,952,363</u>	<u>\$ 28,780,179</u>	<u>\$ 26,310,898</u>	<u>\$ 2,172,184</u>	8%

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide taxpayers and our creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the revenues that it receives. If you have questions about this report or need additional information, contact the Authority's financial management at 600 Whitehead Road, Lawrenceville, New Jersey, 08648 or (609) 587-4061.

EWING-LAWRENCE SEWERAGE AUTHORITY

STATEMENTS OF NET POSITION

		December 31,	
		2021	2020
ASSETS			
Current Assets			
Unrestricted			
Cash and cash equivalents	\$ 19,944,241	\$ 21,287,578	
Interest receivable	17,434	16,131	
Other receivables	7,174	6,521	
Total Unrestricted	19,968,849	21,310,230	
Restricted			
Cash and cash equivalents debt service reserve	2,639,673	2,639,403	
Total Restricted	2,639,673	2,639,403	
Total Current Assets	22,608,523	23,949,633	
Capital assets, net of accumulated depreciation	64,440,229	66,291,841	
Total Assets	\$ 87,048,752	\$ 90,241,474	
DEFERRED OUTFLOWS OF RESOURCES			
Pensions	\$ 490,671	\$ 1,064,441	
OPEB	3,682,430	3,328,633	
	\$ 4,173,101	\$ 4,393,074	
LIABILITIES			
Current Liabilities			
Accounts payable	\$ 496,806	\$ 1,960,577	
Developers' performance bonds	247,913	247,913	
Loans payable	2,334,716	2,298,113	
Accrued interest payable	147,134	163,488	
Accrued payroll	72,242	22,229	
Accrued liability for compensated absences	594,584	578,752	
Engineering deposits	996,282	980,966	
Other liabilities	484,784	456,666	
Total Current Liabilities	5,374,460	6,708,705	
Non-Current Liabilities			
Loans payable	24,319,947	26,636,100	
Net OPEB liability	14,074,274	13,512,633	
Net pension liability	5,964,591	8,177,577	
Total Non-Current Liabilities	44,358,812	48,326,310	
Total Liabilities	\$ 49,733,272	\$ 55,035,014	
DEFERRED INFLOWS OF RESOURCES			
Pensions	\$ 4,324,997	\$ 4,242,030	
OPEB	6,211,221	6,577,324	
	\$ 10,536,218	\$ 10,819,354	
NET POSITION			
Net investment in capital assets	\$ 37,785,566	\$ 37,357,628	
Restricted			
Future debt service	2,639,673	2,639,403	
Unrestricted	(9,472,876)	(11,216,852)	
Total Net Position	\$ 30,952,363	\$ 28,780,179	

See notes to financial statements.

EWING-LAWRENCE SEWERAGE AUTHORITY**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**

	Years Ended December 31,	
	2021	2020
Operating revenues		
Annual charges	\$ 14,740,824	\$ 14,450,922
Connection fees	414,018	385,138
Capacity revenue	-	32,720
Inspection fees	8,200	1,200
Developer applications	11,970	2,900
Interest	2,957	29,906
Miscellaneous	3,258	28,915
Total operating revenues	<u>15,181,226</u>	<u>14,931,700</u>
Operating expenses		
Costs of providing services	8,400,135	8,084,442
Administrative and general	1,636,221	1,890,937
Depreciation	2,615,962	2,585,388
Total operating expenses	<u>12,652,318</u>	<u>12,560,768</u>
Income from operations	<u>2,528,908</u>	<u>2,370,932</u>
Non-operating revenues (expenses)		
Interest income	19,294	116,536
Interest expense	(376,018)	(414,101)
Donated capital for system improvements	-	79,660
Principal loan forgiveness	-	316,254
Non-operating revenue (expenses), net	<u>(356,723)</u>	<u>98,349</u>
Changes in net position	2,172,184	2,469,281
Net position, beginning of year	<u>28,780,179</u>	<u>26,310,898</u>
Net position, end of year	<u>\$ 30,952,363</u>	<u>\$ 28,780,179</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2021	2020
Cash Flows from Operating Activities		
Cash received from		
Annual charges	\$ 14,740,824	\$ 14,450,922
Connection fees	414,018	385,138
Inspection fees	8,200	1,200
Interest income	2,957	29,906
Miscellaneous revenue	13,271	65,680
Cash used for		
Cost of providing services	(10,162,223)	(8,880,794)
Administrative and general	(1,590,855)	(1,664,845)
Net cash from operating activities	<u>3,426,191</u>	<u>4,387,207</u>
Cash Flows from Investing Activities		
Interest income	19,294	116,536
Purchases of capital assets, net	(2,116,632)	(2,074,131)
Net cash from investing activities	<u>(2,097,338)</u>	<u>(1,957,595)</u>
Cash Flows from Financing Activities		
Repayments of loans	(2,279,550)	(2,306,699)
Funds held by trustees	-	79,660
Payment of loan interest	(392,371)	(467,937)
Net cash from financing activities	<u>(2,671,921)</u>	<u>(2,694,976)</u>
Net change in cash and cash equivalents	(1,343,067)	(265,364)
Cash and cash equivalents, beginning of year	23,926,982	24,192,346
Cash and cash equivalents, end of year	<u>\$ 22,583,915</u>	<u>\$ 23,926,982</u>
The following is a summary of the Authority's cash and cash equivalents:		
Cash-unrestricted	\$ 19,944,241	\$ 21,287,578
Cash-restricted	2,639,673	2,639,403
Total cash and cash equivalents	<u>\$ 22,583,915</u>	<u>\$ 23,926,982</u>
Reconciliation of Income from Operations to Net Cash		
from Operating Activities		
Income from operations	\$ 2,528,908	\$ 2,370,932
Adjustments to reconcile income from operations to net cash		
from operating activities		
Depreciation	2,615,962	2,585,388
Net OPEB liability	(158,259)	(99,504)
Net pension liability	(1,556,249)	(453,152)
Changes in assets and liabilities		
Other receivables	(1,957)	1,143
Accounts payable	(111,492)	(32,724)
Other liabilities	78,131	(15,001)
Engineering fee deposits	15,316	(28,372)
Accrued compensated absences	15,832	58,496
Net cash from operating activities	<u>\$ 3,426,191</u>	<u>\$ 4,387,207</u>

See notes to financial statements.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

Ewing-Lawrence Sewerage Authority (the "Authority"), is a special purpose local governmental entity located in Lawrenceville, New Jersey, created to construct and operate a wastewater collection and treatment system to service the Townships of Ewing and Lawrence, New Jersey (the "Townships"). The Authority entered into a contract with the Townships, dated October 18, 1951, as amended on October 9, 1961, obligating each Township to guarantee its proportionate share of annual charges to operate the system, debt service costs, and an amount to be set aside for renewals, replacements and extensions to the system.

Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") applicable to governmental proprietary type funds.

In its accounting and financial reporting, the Authority follows the pronouncements of the Governmental Accounting Standards Board ("GASB") and other entities that promulgate accounting principles. GASB Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. Per the Statement, the sources of authoritative generally accepted accounting principles ("GAAP") are categorized in descending order of authority as follows: GASB Statements and Interpretations, GASB Technical Bulletins, GASB Implementation Guides, and literature of the American Institute of Certified Public Accountants ("AICPA") cleared by the GASB. Authoritative GAAP is incorporated periodically into the *Codification of Governmental Accounting and Financial Reporting Standards* (Codification), and when presented in the Codification, it retains its authoritative status. If the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP described above, a governmental entity should first consider accounting principles for similar transactions or other events within a source of authoritative GAAP described above and then may consider nonauthoritative accounting literature from other sources. These include GASB Concepts Statements; pronouncements and other literature of the Financial Accounting Standards Board, Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, and International Accounting Standards Board, and AICPA literature not cleared by the GASB; practices that are widely recognized and prevalent in state and local government; literature of other professional associations or regulatory agencies; and accounting textbooks, handbooks and articles.

Cash and Cash Equivalents

New Jersey local 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 State of 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 local governmental units.

Cash equivalents include certificates of deposit and highly liquid debt instruments with original maturities of ninety days or less.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Cash Equivalents (Continued)

At December 31, 2021 and 2020, bank trust accounts consisted of repurchase agreements of a bank approved under the New Jersey Governmental Unit Deposit Protection Act ("NJGUDPA") and are collateralized by U.S. Government Agency securities on deposit at the Federal Reserve Bank of New York.

All other deposits at December 31, 2021 and 2020, were covered by the Federal Deposit Insurance Corporation (the "FDIC") and by the GUDPA.

Capital Assets

Capital assets include land and land improvements, buildings and building improvements, and machinery and equipment over \$10,000 which are capitalized and recorded at cost. System construction costs are charged to construction in progress until such time as given segments of the system are completed and placed in operation. Depreciation and amortization is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Land improvements	50 years
Building and building improvements	7-50 years
Machinery and equipment	3-75 years

Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

Pension and Other Post-Employment Benefits ("OPEB")

The Authority recognized a liability for the net pension liability as required by GASB Statement No. 68 for the Authority's participation in the State cost sharing multiple employer defined benefit pension plan. Additionally, the Authority has recognized a net OPEB liability as required by GASB Statement No. 75 for the Authority's participation in the State cost sharing multiple employer defined post-retirement benefit plan and a total OPEB liability for the supplemental defined post-retirement benefit dental plan. See notes F and G for additional information on the plans.

Compensated Absences

Full-time union and non-union employees are entitled to earn and accumulate sick and vacation leave days each year. Unused time may be carried forward from year-to-year. In the event of separation from employment, the payment of accumulated sick time will be made for the accumulated value of unused sick time up to the cap of the lesser of 50% of unused sick time or \$15,000. Payments of accumulated vacation time will be made for the accumulated values of unused vacation time up to the cap of 200 hours at the employees' hourly rate at the time of separation. The Authority accrues a sick and vacation liability in accordance with this policy.

Deferred Outflows and Inflows of Resources

The statement of net position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a reduction of net position that applies to a future period(s) and will be recognized as an outflow of resources (expense) at that time.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows and Inflows of Resources (Continued)

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will be recognized as an inflow of resources (revenue) at that time.

The Authority is required to report the following as deferred outflows and inflows of resources:

Deferred outflows and inflows related to pensions and OPEB - The difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension and OPEB plan investments, changes in the Authority's proportion of expenses and liabilities to the pension and OPEB as a whole, differences between the Authority's pension and OPEB contributions and its proportionate share of contributions, and the Authority's pension and OPEB contributions subsequent to the pension and OPEB valuation measurement dates.

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 loan agreements), 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 "net investment in capital assets" or "restricted."

Revenues

The primary source of revenues is from annual charges. Annual charges are recognized as revenue upon billing the budgeted agreed-upon amounts to the Townships of Ewing and Lawrence. The Townships pay the Authority their share of the operating costs and debt service. No fees are collected from the residents by the Authority.

Connection fees are recognized as revenue upon issuance of the connection fee permit.

Contributions for System Improvements and Developer Contributions

Developer contributions for system improvements and other developer contributions are recorded as operating revenues in the periods when earned under the terms of developer agreements. Developer-financed construction is recorded in the period in which applicable costs are incurred and is recorded at fair market value at the time of the contribution.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes

As a governmental entity, the Authority's income is exempt from taxes in accordance with Internal Revenue Code Section 115.

B. CASH AND CASH EQUIVALENTS

Deposits were with contracted depository banks in interest-bearing accounts that were insured under the NJGUDPA. All such deposits are held in the Authority's name.

NJGUDPA permits the deposit of public funds in the State of New Jersey Cash Management Fund or in institutions located in New Jersey that are insured by the FDIC or by any other agencies of the United States that insure deposits. NJGUDPA requires public depositories to maintain collateral for deposits of public funds that exceed insurance limits as follows:

Each depository participating in the GUDPA system must pledge collateral equal to at least 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of the lesser of 75% of its capital funds or \$200 million. The minimum 5% pledge applies to institutions that are categorized as "well capitalized" by federal banking standards. The percentage of the required pledge will increase for institutions that are less than "well capitalized."

No collateral is required for amounts covered by FDIC or National Credit Union Share Insurance Fund ("NCUSIF") insurance. The collateral which may be pledged to support these deposits includes obligations of state and federal governments, insured securities and other collateral approved by the Department of Banking and Insurance. When the capital position of the depository deteriorates or the depository takes an unusually large amount of public deposits, the Department of Banking and Insurance requires additional collateral to be pledged.

If a governmental depository fails and the FDIC or NCUSIF insurance does not insure or pay out the full amount of public deposits, the collateral pledged to protect these funds would first be liquidated and paid out. If this amount is insufficient, other institutions holding public funds would be assessed pro rata up to 4% of their uninsured public funds. Although these protections do not constitute a 100% guarantee of the safety of all funds, no governmental unit under GUDPA has ever lost protected deposits.

As of December 31, 2021 and 2020, the Authority's bank balances were exposed to risk as follows:

	2021	2020
Insured and Collateralized	\$ 877,706	\$ 877,706
Uninsured and Collateralized	2,997,546	2,488,509
Uninsured and Uncollateralized	18,702,859	20,739,430
Total	<u>\$ 22,578,110</u>	<u>\$ 24,105,644</u>

EWING-LAWRENCE SEWERAGE AUTHORITY**NOTES TO FINANCIAL STATEMENTS****B. CASH AND CASH EQUIVALENTS (CONTINUED)****Custodial Credit Risk**

Custodial credit risk is the risk that, in the event of failure of the counter party, the Authority will not be able to recover the value of its cash and cash equivalents that are in the possession of an outside party. Deposits were made with contracted depository banks in interest-bearing accounts that were insured under the GUDPA. All such deposits are held in the Authority's name. Deposits in excess of amounts insured by the FDIC are covered by a collateral pool maintained by the banks under GUDPA requirements.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Because the Authority maintains only cash and cash equivalents, it is not subject to interest rate risk if interest rates fluctuate.

C. CAPITAL ASSETS

Capital assets consist of the following:

	December 31,	
	2021	2020
Land	\$ 461,112	\$ 461,112
Land improvements	6,059,128	6,059,128
Buildings and building improvements	41,202,233	42,146,684
Machinery and equipment	73,142,372	69,618,692
Construction in progress	224,859	2,039,737
Subtotal	121,089,704	120,325,354
Less accumulated depreciation	56,649,475	54,033,513
Total	<u>\$ 64,440,229</u>	<u>\$ 66,291,841</u>

Capital asset activities were as follows:

	December 31, 2020	Additions	Retirements/ Transfers	December 31, 2021
Non-Depreciable Assets				
Land	\$ 461,112	\$ -	\$ -	\$ 461,112
Construction in progress	2,039,737	801,246	2,616,124	224,859
Depreciable Assets				
Land improvements	6,059,128	-	-	6,059,128
Buildings and building improvements	42,146,684	405,549	1,350,000	41,202,233
Machinery and equipment	69,618,692	3,523,680	-	73,142,372
Total at historical cost	120,325,354	4,730,475	3,966,124	121,089,704
Less accumulated depreciation	54,033,513	2,615,962	-	56,649,475
Total capital assets	<u>\$ 66,291,841</u>	<u>\$ 2,114,513</u>	<u>\$ 3,966,124</u>	<u>\$ 64,440,229</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

C. CAPITAL ASSETS (CONTINUED)

	December 31, 2019	Additions	Retirements/ Transfers	December 31, 2020
Non-Depreciable Assets				
Land	\$ 461,112	\$ -	\$ -	\$ 461,112
Construction in progress	329,187	2,074,131	363,581	2,039,737
Depreciable Assets				
Land improvements	6,059,128	-	-	6,059,128
Buildings and building improvements	40,796,684	1,350,000	-	42,146,684
Machinery and equipment	69,255,112	363,581	-	69,618,692
Total at historical cost	116,901,223	3,787,712	363,581	120,325,354
Less accumulated depreciation	51,448,125	2,585,388	-	54,033,513
Total capital assets	<u>\$ 65,453,098</u>	<u>\$ 1,202,324</u>	<u>\$ 363,581</u>	<u>\$ 66,291,841</u>

Depreciation expense was as follows:

	Year Ended December 31,	
	2021	2020
Land improvements	\$ 190,866	\$ 190,866
Buildings and building improvements	855,271	848,357
Machinery and equipment	1,569,825	1,546,165
Total depreciation expense	<u>\$ 2,615,962</u>	<u>\$ 2,585,388</u>

D. LOANS PAYABLE

As of December 31, 2021 and 2020, the Authority maintained a loan balance of \$26,654,663 and \$28,934,213, respectively, through the New Jersey Infrastructure Bank ("NJIB") financing program. Under the NJIB financing program, the Authority received \$947,467 in principal loan forgiveness in the series 2015 loan and \$2,276,703 in the series 2010 loan which represents a reduction in the principal loan amount that must be repaid by the Authority. The loan forgiveness is recorded as unearned principal loan forgiveness on the statements of net position and forgiveness is recognized as revenue based on a percentage of funds spent under the loan program. For the years ended December 31, 2021 and 2020, the Authority recognized \$0 and \$316,254, respectively, in principal loan forgiveness.

The following is a summary of NJIB loans outstanding (revenue bonds) at December 31:

Loans Payable	Interest Rate	Maturity Date	2021	2020
2004 NJEIT Trust and Fund Loan	3.00%-5.00%	2024	\$ 133,181	\$ 188,932
2010 NJEIT Trust and Fund Loan	3.40%-5.00%	2030	2,109,453	2,454,935
2012 NJEIT Trust and Fund Loan	3.40%-5.00%	2031	696,598	763,209
2014 NJEIT Trust and Fund Loan	3.00%-5.00%	2033	17,338,503	18,676,310
2015 NJEIT Trust and Fund Loan	4.00%-5.00%	2034	2,986,829	3,196,970
2017 NJEIT Trust and Fund Loan	3.00%-5.00%	2033	3,390,099	3,653,855
Total loans payable			<u>\$ 26,654,663</u>	<u>\$ 28,934,213</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

D. LOANS PAYABLE (CONTINUED)

As of December 31, 2021 and 2020, \$17,797,991 and \$19,351,819, respectively, of the loan balance above represents the fund portion of the loan, which bears 0% interest.

Total maturities, including interest for the years ending December 31, are as follows:

	Principal	Interest	Total
2022	\$ 2,334,716	\$ 353,122	\$ 2,687,837
2023	2,349,716	311,872	2,661,587
2024	2,338,125	270,472	2,608,597
2025	2,368,125	230,222	2,598,347
2026	2,297,161	196,272	2,493,432
2027-2031	10,543,451	554,419	11,097,869
2032-2034	4,423,371	77,814	4,501,184
Total	<u>\$ 26,654,663</u>	<u>\$ 1,994,190</u>	<u>\$ 28,648,854</u>

E. LONG-TERM LIABILITIES

Long-term liability activity for the years ended December 31, 2021 and 2020, was as follows:

	December 31, 2020	Additions	(Reductions)	December 31, 2021	Amounts Due Within One Year
NJEIT loans payable	\$ 26,636,100	\$ -	\$(2,316,153)	\$ 24,319,947	\$ 2,334,716
Net OPEB liability	13,512,633	561,641	-	14,074,274	-
Net pension liability	8,177,577	-	(2,212,986)	5,964,591	-
Total	<u>\$ 48,326,311</u>	<u>\$ 561,641</u>	<u>\$(4,529,139)</u>	<u>\$ 44,358,812</u>	<u>\$ 2,334,716</u>

	December 31, 2019	Additions	(Reductions)	December 31, 2020	Amounts Due Within One Year
NJEIT loans payable	\$ 28,940,505	\$ -	\$(2,304,405)	\$ 26,636,100	\$ 2,298,113
Net OPEB liability	9,734,652	3,777,981	-	13,512,633	-
Net pension liability	9,654,811	-	(1,477,234)	8,177,577	-
Unearned principal loan forgiveness	316,254	-	(316,254)	-	-
Total	<u>\$ 48,646,223</u>	<u>\$ 3,777,981</u>	<u>\$(4,097,893)</u>	<u>\$ 48,326,311</u>	<u>\$ 2,298,113</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

F. PENSION PLAN

Plan Description and Benefits

The Authority contributes to a cost-sharing multiple-employer defined benefit pension plan, Public Employees' Retirement System ("PERS") of New Jersey, administered and/or regulated by the New Jersey Division of Pensions and Benefits (the "Division"). The state-administered funds were established by an Act of the State Legislature that assigns the Authority to establish and amend benefit provisions to the plan's board of trustees. The Division issues a publicly available financial report that includes financial statements and required supplementary information. For additional information about PERS, please refer to the Division of Pensions and Benefits' Annual Comprehensive Financial Report ("ACFR") which can be found at: <https://www.state.nj.us/treasury/pensions/annual-reports.shtml>.

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service. The following represents the membership tiers for PERS:

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

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

The Defined Contribution Retirement Program ("DCRP") is a multiple-employer defined contribution pension fund established on July 1, 2007, under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007 (N.J.S.A. 43:15C-1 et. seq.). The DCRP is a tax-qualified defined contribution money purchase pension plan under IRC 401(a) et seq. and is a governmental plan within the meaning of IRC 414(d). The DCRP provides retirement benefits for eligible employees and their beneficiaries. Individuals covered under DCRP are employees enrolled in PERS on or after July 1, 2007, who earn a salary in excess of established "maximum compensation" limits; employees enrolled in PERS after May 21, 2010, who earn a salary in excess of established "maximum compensation" limits; employees otherwise eligible to enroll in PERS on or after November 2, 2008, who do not earn the \$8,400 minimum annual salary for tier 3 enrollment but who earn a salary of at least \$5,000 annually; and employees otherwise eligible to enroll in PERS after May 21, 2010, who do not work the 32 minimum hours per week required for tiers 4 or 5 enrollment, but who earn a salary of at least \$5,000 annually. The maximum wage limit for 2021 is

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

F. PENSION PLAN (CONTINUED)

Plan Description and Benefits (Continued)

\$142,800 and is subject to annual adjustment. Members who earn in excess of the annual maximum wage will be enrolled in the DCRP in addition to the PERS.

For DCRP, eligible members are provided with a defined contribution retirement plan intended to qualify for favorable federal income tax treatment under IRC Section 401(a), a noncontributory group life insurance plan, and a noncontributory group disability benefit plan. A participant's interest in that portion of his or her defined contribution retirement plan account attributable to employee contributions shall immediately become and shall at all times remain fully vested and non-forfeitable. A participant's interest in that portion of his or her defined contribution retirement plan account attributable to employer contributions shall be vested and non-forfeitable on the date the participant commences the second year of employment or upon his or her attainment of age 65, while employed by an employer, whichever occurs first.

Contributions

The contribution policy for PERS is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. The local employers' contribution amounts are based on an actuarially determined rate, which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in state fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012, and will be adjusted by the rate of return on the actuarial value of assets.

Covered employees are required by PERS to contribute 7.5% of their annual compensation. The Authority is required by State statute to contribute the remaining amounts necessary to pay benefits when due. Although the Division administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarially determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each individual employer of the State and local groups of the plan.

To facilitate the separate (sub) actuarial valuations, the Division maintains separate accounts to identify additions, deductions and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer and non-employer allocations are applied to amounts presented in the schedule of pension amounts by employer and non-employer. The allocation percentages for each group as of plan year ended June 30, 2021, are based on the ratio of each employer's contributions to total employer contributions of the group for the fiscal year ended June 30, 2021.

The Authority is billed annually for its normal contribution plus any accrued liability. The total contribution made by the Authority for the years ended December 31, 2021 and 2020, was \$568,314 and \$542,409, respectively. The Authority's covered payroll for the years ended December 31, 2021 and 2020, was \$3,759,048 and \$3,689,580, respectively. Covered payroll refers to pensionable compensation, rather than total compensation, paid by the Authority to active employees in PERS.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

F. PENSION PLAN (CONTINUED)

Contributions (Continued)

The contribution policy for DCRP is set by N.J.S.A. 43:15C-3 and requires contributions by active members and contributing employers. In accordance with Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, plan members are required to contribute 5.5% of their annual covered salary. In addition to the employee contributions, the County contributes 3% of the employees' base salary, for each pay period, to Prudential Financial not later than the fifth business day after the date on which the employee is paid for that pay period. For the years ended December 31, 2021 and 2020, there were no DCRP contributions.

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

At December 31, 2021 and 2020, the Authority reported a liability of \$5,964,591 and \$8,177,577 for its proportionate share of the net pension liability. The net pension liability was measured as of plan years ended June 30, 2021 and 2020, respectively. The total pension liability used to calculate the net pension liability for plan years ended June 30, 2021 and 2020, was determined by an actuarial valuation as of July 1, 2020 and July 1, 2019, which were rolled forward to June 30, 2021 and 2020, respectively. 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 members of the plan, actuarial determined. At December 31, 2021 and 2020, the Authority's proportionate share was 0.0503489737% and 0.0501464618%, respectively, which was an increase of .00020% and decrease of .00343%, respectively.

The components of the collective net pension liability of the Authority as of plan years ended June 30, 2021 and 2020, were as follows:

	2021	2020
Total pension liability	\$ 20,320,628	\$ 19,774,150
Plan fiduciary net position	14,356,038	11,596,574
Net pension liability	<u>\$ 5,964,591</u>	<u>\$ 8,177,577</u>

For the years ended December 31, 2021 and 2020, the Authority recognized pension expense of \$(946,070) and \$(453,152), respectively. At December 31, 2021 and 2020, the Authority reported deferred outflows of resources as follows:

	December 31,			
	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 94,069	\$ 42,699	\$ 148,900	\$ 28,919
Changes in assumptions	31,064	2,123,433	265,290	3,424,029
Net difference between projected and actual investment earnings on pension plan investments	-	1,571,230	279,516	-
Changes in proportion	81,318	587,635	107,049	789,082
Authority contributions subsequent to measurement date	284,220	-	263,686	-
	<u>\$ 490,671</u>	<u>\$ 4,324,997</u>	<u>\$ 1,064,441</u>	<u>\$ 4,242,030</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

F. PENSION PLAN (CONTINUED)

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

The Authority's contributions after the measurement date of \$284,220 and \$263,686, respectively, are reflected above as deferred outflows of resources related to pensions.

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

Years Ending December 31,	Amortization
2022	\$ (1,407,384)
2023	(1,004,869)
2024	(685,149)
2025	(515,028)
2026	200
	<u>\$ (3,612,230)</u>

The previous amounts do not include employer-specific deferred outflows of resources and deferred inflows of resources related to changes in proportion and Authority contributions subsequent to the measurement date. These amounts should be amortized and recognized by the Authority over the average of the expected remaining service lives of all PERS plan members of 5.13, 5.16, 5.21, 5.63, 5.48, and 5.57 years for 2021, 2020, 2019, 2018, 2017, and 2016, respectively.

Actuarial Assumptions

The total pension liability in the plan year ended and measurement date of June 30, 2021, was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021. The total pension liability in the plan year ended and measurement date of June 30, 2020, was determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020. These actuarial valuations used the following actuarial assumptions:

	<u>2021 and 2020</u>
Inflation	
Price	2.75%
Wage	3.25%
Salary increases	
Through 2026 (based on years of service)	2.00%-6.00%
Thereafter (based on years of service)	3.00%-7.00%
Investment rate of return	7.00%

Pre-retirement mortality rates for PERS 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-2021. The actuarial assumptions used in the July 1, 2020, valuation were based on the results of an actuarial experience study for the period July 1, 2014 to June 30, 2018.

EWING-LAWRENCE SEWERAGE AUTHORITY**NOTES TO FINANCIAL STATEMENTS**

F. PENSION PLAN (CONTINUED)**Actuarial Assumptions (Continued)**

The actuarial assumptions used in the July 1, 2020 and June 30, 2019, valuations were based on the results of an actuarial experience study for the period July 1, 2014 to June 30, 2018. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at plan years ended June 30, 2021 and 2020), 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 target asset allocation as of plan years ended June 30, 2021 and 2020, are summarized in the following tables:

	2021	
	Target Allocation	Long-term Expected Rate of Return
U.S. equity	27.00%	8.09%
Non-U.S. developed markets equity	13.50%	8.71%
Emerging markets equity	5.50%	10.96%
Private equity	13.00%	11.30%
Real assets	3.00%	7.40%
Real estate	8.00%	9.15%
High yield	2.00%	3.75%
Private credit	8.00%	7.60%
Investment grade credit	8.00%	1.68%
Cash equivalents	4.00%	0.50%
U.S. treasuries	5.00%	0.95%
Risk mitigation strategies	3.00%	3.35%
	<u>100.00%</u>	

EWING-LAWRENCE SEWERAGE AUTHORITY**NOTES TO FINANCIAL STATEMENTS**

F. PENSION PLAN (CONTINUED)**Actuarial Assumptions (Continued)**

	2020	
	Target Allocation	Long-term Expected Rate of Return
U.S. equity	27.00%	7.71%
Non-U.S. developed markets equity	13.50%	8.57%
Emerging markets 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. treasuries	5.00%	1.94%
Risk mitigation strategies	3.00%	3.40%
	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.00% as of plan years ended June 30, 2021 and 2020, 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 non-employer contributing entity will be based on 100% 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.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

F. PENSION PLAN (CONTINUED)

Discount Rate (Continued)

Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate

The following presents the collective net pension liability of the Authority as of plan years ended June 30, 2021 and 2020, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

Plan Year Ended June 30, 2021		
At 1% Decrease (6.00%)	At Current Discount Rate (7.00%)	At 1% Increase (8.00%)
<u>\$ 8,209,150</u>	<u>\$ 5,964,591</u>	<u>\$ 4,177,306</u>
Plan Year Ended June 30, 2020		
At 1% Decrease (6.00%)	At Current Discount Rate (7.00%)	At 1% Increase (8.00%)
<u>\$ 10,375,152</u>	<u>\$ 8,177,577</u>	<u>\$ 6,431,741</u>

G. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

General Information about the OPEB Plan and Dental Plan

The Authority participates in multiple post-employment benefit plans. One is a cost sharing multiple-employer defined post-retirement benefit plan (the "OPEB Plan"), which is administered by the State of New Jersey. It covers employees of local government employers that have adopted a resolution to participate in the OPEB Plan. The OPEB Plan meets the definition of an equivalent arrangement as defined in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions* (GASB Statement No. 75); therefore, assets are accumulated to pay associated benefits. The OPEB Plan provides continued health care benefits to employees retiring after twenty-five years of service. Benefits, contributions, funding and the manner of administration are determined by the State of New Jersey Legislature. The Division of Pensions and Benefits charges the Authority for its contributions. The total number of plan participants eligible for benefits was 75 and 71 at December 31, 2021 and 2020, respectively.

The OPEB Plan provides medical and prescription drug coverage to retirees and their covered dependents of the participating employers. Under the provisions of Chapter 88, P.L. 1974 and Chapter 48, P.L. 1999, local government employers electing to provide post-retirement 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 post-retirement 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

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

G. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

General Information about the OPEB Plan and Dental Plan (Continued)

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 drug 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 post-retirement 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.

Pursuant to Chapter 78, P.L. 2011, future retirees eligible for post-retirement 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. For additional information about the Plan, please refer to the State of New Jersey (the State), Division of Pensions and Benefits' (the Division) Annual Comprehensive Financial Report (ACFR), which can be found at <https://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

The Authority also participates in a supplemental defined post-retirement benefit dental plan (the "Dental Plan"). The total number of retired participants eligible for benefits was 56 at December 31, 2021 and 2020, respectively.

The Dental Plan provides dental coverage to retirees and their covered dependents of the employees. The Dental Plan covers 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.

Contributions

The Authority's contribution to the OPEB Plan for active and retired employees net of employee contributions for the years ended December 31, 2021 and 2020, was \$918,351 and \$824,342, respectively. The Authority also contributed \$138,640 and \$146,027 for the OPEB Plan prescription benefits for the years ended December 31, 2021 and 2020, respectively. The Authority's contribution to the Dental Plan for the years ended December 31, 2021 and 2020, was \$88,273 and \$80,953, respectively.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

G. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Allocation Methodology

GASB Statement No. 75 requires participating employers in the State OPEB Plan to recognize their proportionate share of the collective net OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective OPEB expense. The special funding situation's and nonspecial funding situation's net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense are based on separately calculated total OPEB liabilities. The nonspecial funding situation's net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense are further allocated to employers based on the ratio of the plan members of an individual employer to the total members of the OPEB Plan's nonspecial funding situation during the measurement period July 1, 2020 through June 30, 2021.

The Dental Plan net OPEB liability is calculated using entry age normal actuarial cost method and the alternative measurement method in accordance with GASB methodology. An actuarial valuation of the Dental plan will be needed for the year ended December 31, 2021.

Net OPEB Liability

The components of the Authority's net OPEB Plan and total Dental Plan OPEB liability as of plan years ended June 30, 2021 and 2020, are as follows:

	June 30, 2021	June 30, 2020
Total OPEB Plan OPEB liability	\$ 12,825,826	\$ 12,340,797
Total Dental Plan OPEB liability	1,284,170	1,284,170
Total OPEB liability	14,109,996	13,624,967
OPEB Plan Fiduciary Net Position	(35,722)	(112,334)
Dental Plan Fiduciary Net Position	-	-
Total Fiduciary Net Position	(35,722)	(112,334)
Net OPEB Plan & Dental Plan OPEB Liability	<u>\$ 14,074,274</u>	<u>\$ 13,512,633</u>
OPEB Plan Fiduciary Net Position as a % of total OPEB liability	0.28%	1.98%

The amounts above for the total OPEB Plan OPEB liability and net OPEB Plan OPEB liability were changed from previously reported amounts in the prior year plan financial statements. The changes were made to correct for improper classification of certain employers under Chapter 330, P.L. 1997. The changes resulted in a decrease in the total OPEB Plan OPEB liability and net OPEB Plan OPEB liability.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

G. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Actuarial Assumptions

The OPEB Plan's net OPEB liability as of plan year ended June 30, 2021, was determined by an actuarial valuation as of June 30, 2020, which was rolled forward to June 30, 2021. The OPEB Plan's net OPEB liability as of plan year ended June 30, 2020, was determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020. The Dental Plan's total OPEB liability as of December 31, 2021, was determined by an actuarial valuation as of December 31, 2021. The Dental Plan's total OPEB liability as of December 31, 2020, was determined by an actuarial valuation as of December 31, 2021. 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:

	2021 and 2020	
	State Plan	Dental Plan
Inflation	2.50%	2.50%
Salary increases		2.50%
Through 2026*	2.00 - 6.00%	N/A
Thereafter*	3.00 - 7.00%	N/A

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

Mortality Rates

Mortality rates were based on the Pub-2010 General Classification Headcount-Weighted Mortality Table with fully generational mortality improvement projections from the central year using the MP-2021 scale. Actuarial assumptions used in the July 1, 2021 and June 30, 2020, valuations were both based on the results of the OPEB Plan PERS experience studies prepared for July 1, 2013 to June 30, 2018. One-hundred percent of active members are considered to participate in the Plan upon retirement. For the Dental Plan the Pub-2010 Public Retirement Plans Mortality Tables with mortality improvement projected for 10 years is used. The assumptions in this table does not include a margin for future improvements in longevity.

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 .52% and 7.56%, respectively, trending to 4.5% for all future years. For prescription drug benefits, the initial trend rate is 6.75% and decreases to a 4.5% long-term trend rate after seven years. For the Dental Plan the healthcare trend rate is 3.5% in year 1 and year 2 and 3.0% in all remaining future years.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

G. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Discount Rate

The discount rate for plan years ended June 30, 2021 and 2020, was 2.16% and 2.21%, 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. The Dental Plan discount rate for December 31, 2021 and 2020, was 2.62%, respectively.

Sensitivity of Total OPEB Liability to Changes in the Discount Rate

The following presents the collective total OPEB liabilities of the participating employers, calculated using the discount rate as disclosed above as well as what the collective total 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:

The OPEB Plan at June 30, 2021		
At 1% Decrease (1.16%)	At Current Discount Rate (2.16%)	At 1% Increase (3.16%)
\$ 15,051,500	\$ 12,790,105	\$ 10,997,900

The OPEB Plan at June 30, 2020		
At 1% Decrease (1.21%)	At Current Discount Rate (2.21%)	At 1% Increase (3.21%)
\$ 14,456,627	\$ 12,228,463	\$ 10,464,669

The Dental Plan at June 30, 2021		
At 1% Decrease (1.62%)	At Current Discount Rate (2.62%)	At 1% Increase (3.62%)
\$ 1,421,205	\$ 1,284,170	\$ 1,170,055

The Dental Plan at June 30, 2020		
At 1% Decrease (1.62%)	At Current Discount Rate (2.62%)	At 1% Increase (3.62%)
\$ 1,421,205	\$ 1,284,170	\$ 1,170,055

EWING-LAWRENCE SEWERAGE AUTHORITY**NOTES TO FINANCIAL STATEMENTS**

G. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**Sensitivity of Total OPEB Liability to Changes in the Healthcare Trend Rate**

The following presents the total OPEB liabilities, calculated using the healthcare trend rate as disclosed above as well as what the total 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:

The OPEB Plan at June 30, 2021		
At 1% Decrease	Healthcare Cost Trend Rate	At 1% Increase
<u>\$ 10,671,255</u>	<u>\$ 12,790,105</u>	<u>\$ 15,554,941</u>

The OPEB Plan at June 30, 2020		
At 1% Decrease	Healthcare Cost Trend Rate	At 1% Increase
<u>\$ 10,119,066</u>	<u>\$ 12,228,463</u>	<u>\$ 14,990,748</u>

The Dental Plan at December 31, 2021		
At 1% Decrease	Healthcare Cost Trend Rate	At 1% Increase
<u>\$ 1,217,283</u>	<u>\$ 1,284,170</u>	<u>\$ 1,365,940</u>

The Dental Plan at December 31, 2020		
At 1% Decrease	Healthcare Cost Trend Rate	At 1% Increase
<u>\$ 1,217,283</u>	<u>\$ 1,284,170</u>	<u>\$ 1,365,940</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

G. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Deferred Outflows of Resources and Deferred Inflows of Resources

	December 31,			
	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 286,995	\$ 2,675,879	\$ 322,088	\$ 2,277,168
Changes in assumptions	1,839,895	2,260,801	1,828,993	2,719,421
Net difference between projected and actual earnings on pension plan investments	6,115	-	7,766	-
Changes in proportion	1,549,425	1,274,541	1,169,786	1,580,735
	<u>\$ 3,682,430</u>	<u>\$ 6,211,221</u>	<u>\$ 3,328,633</u>	<u>\$ 6,577,324</u>

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

Year Ending December 31,	Amortization
2022	\$ (763,687.53)
2023	(764,692.13)
2024	(765,610.09)
2025	(546,724.46)
2026	(91,908.26)
Thereafter	128,947.46
	<u>\$ (2,803,675)</u>

Changes in Proportion

The previous amounts do not include employer-specific deferred outflows of resources and deferred inflows of resources related to the changes in proportion. These amounts should be recognized (amortized) by the Authority over the average remaining service lives of all plan members, 7.82, 7.87, 8.05, 8.14 years and 8.04 years for the 2021, 2020, 2019, 2018 and 2017 amounts, respectively. For December 31, 2021, the deferred outflows of resources changes in proportion is \$1,549,425 and the deferred inflows of resources changes in proportion is \$1,274,541. Including these values the December 31, 2021, total deferred outflows of resources and total deferred inflows of resources balances are \$3,682,430 and \$6,211,221, respectively. There were no deferred inflows of resources or deferred outflows of resources for the Dental Plan due to the Dental Plan OPEB liability being calculated using the alternative measurement method.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

H. DEFERRED COMPENSATION

The Authority has a deferred compensation plan whereby eligible participating employees may choose to contribute amounts determined by plan and Internal Revenue Code guidelines. All employer contributions are made at the sole discretion of the Authority. There were no contributions made by the Authority for the years ended December 31, 2021 and 2020.

I. CONCENTRATION OF LABOR FORCE

Approximately 66% of the labor force is covered by a collective bargaining agreement with Construction and General Labor Union Local 172. The contract expired December 31, 2017, and was renegotiated in June 2021. Retro payroll payments and taxes of \$51,719 for 2018, \$58,819 for 2019, and \$109,178 for 2020 were completed in 2021. The new contract expired at December 31, 2022.

J. CAPITAL PROGRAM

Expected capital program expenditures budgeted from 2022 through 2026 approximate \$37,795,000. Of this amount, \$30,400,000 is anticipated to be funded through debt.

K. 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. The Authority maintains commercial insurance coverage for property, liability and surety bonds. As of December 31, 2021, the Authority resolved an ongoing litigation matter related to disputed change orders and charges on various treatment plant capital improvements completed through 2019. The settlement and fees totaling \$1,350,000 related to this matter were paid in 2021 and are included in current year expenses and accruals.

L. ROUNDING

Some amounts in the financial statements may have dollar differences due to rounding.

M. PENDING GOVERNMENT ACCOUNTING STANDARDS (GASB) STATEMENTS

The GASB has issued Statement No. 87, *"Leases."* This statement is required to be adopted by calendar year end entities by December 31, 2022. The Authority has determined that Statement No. 87 is not applicable to the Authority and not required to be implemented in the financial statements.

The GASB has issued Statement No. 91, *"Conduit Debt Obligations."* This statement is required to be adopted by the Authority for the year ending December 31, 2022. The Authority has not determined the effect of Statement No. 91 on the financial statements.

The GASB has issued Statement No. 92, *"Omnibus 2020."* This statement clarifies the effective date of Statement No. 87 and addresses other topics that are required to be adopted by the Authority for the year ending December 31, 2022. The Authority has not determined the effect of Statement No. 92 on the financial statements.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

M. PENDING GOVERNMENT ACCOUNTING STANDARDS (GASB) STATEMENTS (CONTINUED)

The GASB has issued Statement No. 93, "*Replacement of Interbank Offered Rates.*" This statement is required to be adopted by the Authority for the year ending December 31, 2022. The Authority has not determined the effect of Statement No. 93 on the financial statements.

The GASB has issued Statement No. 94, "*Public-Private and Public-Public Partnerships and Availability Payment Arrangements.*" This statement is required to be adopted by the Authority for the year ending December 31, 2023. The Authority has not determined the effect of Statement No. 94 on the financial statements.

The GASB has issued Statement No. 96, "*Subscription-Based Information Technology Arrangements.*" This statement is required to be adopted by the Authority for the year ending December 31, 2023. The Authority has not determined the effect of Statement No. 96 on the financial statements.

The GASB has issued Statement No. 97, "*Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a suppression of GASB No. 32.*" This statement is required to be adopted by the Authority for the year ending December 31, 2022. The Authority has not determined the effect of Statement No. 97 on the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

EWING-LAWRENCE SEWERAGE AUTHORITY

SCHEDULE OF PROPORTIONATE SHARE OF PERS NET PENSION LIABILITY (NPL)

	PERS - Last 10 Fiscal Years									
	2021	2020	2019	2018	2017	2016	2015	2014		
Authority's proportion of the net pension liability	0.0503490%	0.0501465%	0.0535828%	0.0547676%	0.0542029%	0.0537376%	0.0525836%	0.0527462%		
Authority's proportionate share of net pension liability	\$ 5,964,591	\$ 8,177,577	\$ 9,654,811	\$ 10,783,474	\$ 12,617,569	\$ 15,915,530	\$ 11,840,469	\$ 9,845,097		
Authority's covered-employee payroll	3,759,048	3,583,842	4,171,943	4,096,888	4,138,447	4,094,825	3,903,104	3,903,104		
Authority's proportionate share of net pension liability as a % of payroll	158.67%	228.18%	231.42%	263.21%	304.89%	388.67%	303.36%	252.24%		
Total pension liability	20,320,628	19,709,847	22,232,296	23,238,767	24,311,285	26,586,506	22,668,589	20,608,723		
Plan fiduciary net position	14,356,038	11,532,270	12,577,485	12,455,294	11,693,715	10,670,976	10,864,614	10,733,188		
Plan fiduciary net position as a % of total pension liability	70.65%	58.51%	56.57%	53.60%	48.10%	40.14%	47.93%	52.08%		

SCHEDULE OF CONTRIBUTIONS

	PERS - Last 10 Fiscal Years									
	2021	2020	2019	2018	2017	2016	2015	2014		
Contractually required contribution	\$ 589,645	\$ 548,577	\$ 521,203	\$ 544,761	\$ 502,132	\$ 470,629	\$ 450,146	\$ 398,452		
Contributions in relation to the contractually required contribution	568,314	542,409	565,617	526,545	496,901	470,629	450,146	398,452		
Authority's covered-employee payroll	3,759,048	3,689,580	3,583,842	4,171,943	4,096,888	4,138,447	4,094,825	3,903,104		
Contributions as a % of covered-employee payroll	15.12%	14.70%	15.78%	12.62%	12.13%	11.37%	10.99%	10.21%		

The pension schedules are intended to show information for ten years. The State of New Jersey has issued eight years of pension information to the Authority. Additional years' information will be displayed as it becomes available.

EWING-LAWRENCE SEWERAGE AUTHORITY

SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY AND CONTRIBUTIONS STATE HEALTH BENEFIT LOCAL GOVERNMENT RETIRED EMPLOYEES PLAN AND SUPPLEMENTAL DENTAL PLAN

	Last 10 Fiscal Years					
	2021	2020	2019	2018	2017	2016
Proportion of the net OPEB liability	0.071057%	0.068138%	0.063489%	0.069523%	0.067673%	0.072678%
Proportionate share of net plan OPEB liability	\$ 12,790,105	\$ 12,228,463	\$ 8,600,265	\$ 10,891,903	\$ 13,960,293	\$ 15,893,116
Total dental plan OPEB liability	1,284,170	1,284,170	1,134,387	1,126,217	867,762	93,196
Authority's covered payroll	3,759,048	3,689,580	3,583,842	4,096,888	4,138,447	4,094,825
Authority's Proportionate Share of net OPEB liability as a % of covered payroll	340.2%	331.4%	240.0%	265.9%	337.3%	388.1%
Plan Contributions	\$ 918,351	\$ 824,342	\$ 897,142	\$ 960,772	\$ 953,509	\$ 1,048,570
Dental Plan Contributions	88,273	80,953	87,434	87,318	133,395	133,420

The OPEB schedule is intended to show information for ten years. The State of New Jersey has issued six years of OPEB information to the Authority for the Plan and the Authority has six years of applicable information for the supplemental dental plan. Additional years' information for both plans will be displayed as it becomes available.

OTHER SUPPLEMENTARY INFORMATION

EWING-LAWRENCE SEWERAGE AUTHORITY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION **Year Ended December 31, 2021** **(With Comparative Totals for Year Ended 2020)**

	2021				2020	
	Unrestricted	Future Debt Service	Current Debt Service	Investment in Property, Plant and Equipment	Total	Total
Operating revenues						
Annual Charges	\$ 14,740,824	\$ -	\$ -	\$ -	\$ 14,740,824	\$ 14,450,922
Connection fees	414,018	-	-	-	414,018	385,138
Capacity fees	-	-	-	-	-	32,720
Inspection fees	8,200	-	-	-	8,200	1,200
Developer applications	11,970	-	-	-	11,970	2,900
Interest	2,957	-	-	-	2,957	29,906
Miscellaneous	3,258	-	-	-	3,258	28,915
Total operating revenues	15,181,226	-	-	-	15,181,226	14,931,700
Operating expenses						
Costs of providing services	8,400,135	-	-	-	8,400,135	8,084,442
Administrative and general	1,636,221	-	-	-	1,636,221	1,890,937
Depreciation and amortization	-	-	-	2,615,962	2,615,962	2,585,388
Total operating expenses	10,036,356	-	-	2,615,962	12,652,318	12,560,768
Income from operations	5,144,870	-	-	(2,615,962)	2,528,908	2,370,932
Non-operating revenues (expenses)						
Interest income	-	19,294	-	-	19,294	116,536
Interest expense	-	-	(376,018)	-	(376,018)	(414,101)
Donated capital for system improvements	-	-	-	-	-	79,660
Principal loan forgiveness	-	-	-	-	-	316,254
Total non-operating revenues (expenses), net	-	19,294	(376,018)	-	(356,723)	98,349
Income (loss) before transfers	5,144,870	19,294	(376,018)	(2,615,962)	2,172,184	2,469,281
Transfers	(3,400,893)	(19,024)	376,018	3,043,900	-	-
Changes in net position	1,743,977	270	-	427,938	2,172,184	2,469,281
Net position, beginning of year	(11,216,852)	2,639,403	-	37,357,628	28,780,179	26,310,898
Net position, end of year	\$ (9,472,876)	\$ 2,639,673	\$ -	\$ 37,785,566	\$ 30,952,363	\$ 28,780,179

EWING-LAWRENCE SEWERAGE AUTHORITY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES COMPARED TO BUDGET

Year Ended December 31, 2021

	2021 Budget Unaudited	2021 Actual
Revenues		
Annual charge	\$ 14,740,824	\$ 14,740,824
Connection fees	450,000	414,018
Inspection fees	2,000	8,200
Developer applications	10,430	11,970
Interest	2,500	2,957
Miscellaneous	40,000	3,258
Total operating revenues	<u>\$ 15,245,754</u>	<u>\$ 15,181,226</u>
Expenses		
Cost of providing services		
Labor	\$ 4,006,475	\$ 3,955,461
Employee benefits	1,896,887	337,923
Materials and supplies	1,628,350	636,166
Contracted services	120,000	86,223
Repairs and maintenance	787,500	1,043,097
Sludge disposal	795,000	559,475
Utilities	1,372,000	1,149,357
Transportation	100,000	65,557
Remediation	200,000	482,894
Compliance	39,000	9,576
Permits	130,000	74,407
Total cost of providing services	<u>11,075,212</u>	<u>8,400,135</u>
Administrative and general		
Labor	655,000	654,401
Employee benefits	310,113	43,086
Materials and supplies	14,000	6,195
Contracted services	295,000	434,514
Insurance	154,500	286,759
Repairs and maintenance	86,000	28,063
Utilities	55,000	40,716
Miscellaneous	50,000	68,488
Loan fees	45,540	73,999
Total administrative and general	<u>1,665,153</u>	<u>1,636,221</u>
Interest expense	<u>392,372</u>	<u>376,018</u>
Other costs funded by operating revenues		
Principal maturity	2,339,800	2,279,550
Capital outlays	273,217	2,074,131
Total other costs funded by operating revenues	<u>2,613,017</u>	<u>4,353,681</u>
Total costs funded by operating revenues	<u>15,745,754</u>	<u>14,766,055</u>
(Utilization of Net Position)/Excess Revenues	<u>(500,000)</u>	<u>415,171</u>
Total	<u>\$ 15,245,754</u>	<u>\$ 15,181,226</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

ROSTER OF OFFICIALS (UNAUDITED) Year Ended December 31, 2021

Board Members	Position
James Kownacki	Chair
Basit "Sunny" Muzaffar	Vice Chair
Harold Vereen	Treasurer
Allen Lee	Assistant Treasurer
Charles Geter	Secretary
John T. Ryan	Assistant Secretary

Other Officials	Position
S. Robert Filler	Executive Director
W. Barry Rank	Counsel
Jacobs Environmental Consulting	Consulting Engineer

All employees of the Ewing-Lawrence Sewerage Authority are covered by a Public Employee's Blanket Bond, which is included in the Commercial Protection Policy issued by Zurich Insurance and provides "Employee Dishonesty Coverage" in the amount of \$500,000.

EWING-LAWRENCE SEWERAGE AUTHORITY

SCHEDULE OF CURRENT YEAR FINDINGS AND RECOMMENDATIONS **Year Ended December 31, 2021**

Finding 2021-001

Criteria

Management is responsible for timely and accurate financial reporting, maintaining internal controls over financial reporting, and completion of the annual audit in accordance with N.J.S.A. 40:14B-66.

Condition

Various financial reporting procedures including account reconciliations and year-end close adjustments were not completed and reviewed in a consistent and timely manner resulting in a delayed year-end close process and correcting audit adjusting journal entries.

Cause

The policies and procedures over the financial reporting process were not consistently followed.

Effect

Delays in completing the year-end close process and audit and noncompliance with N.J.S.A. 40:14B-66.

Recommendation

We recommend that the Authority review existing policies, internal controls and staffing needs in the Finance Department, to ensure that procedures are in place and operating so that all account reconciliations and year-end close adjustments are properly recorded on a timely basis and are reviewed by appropriate levels of management timely.

Management's Response to Finding

The Authority is in agreement with this finding and will complete and implement a corrective action plan.

EWING-LAWRENCE SEWERAGE AUTHORITY

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended December 31, 2021

None reported.

**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**

To the Honorable Chairperson and Board Members of
Ewing-Lawrence Sewerage Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of Ewing-Lawrence Sewerage Authority (the "Authority") as of and for the year ended December 31, 2021, and the related notes to the financial statements, which comprise the Authority's basic financial statements, and have issued our report thereon dated September 8, 2023.

Report on Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control, described in the accompanying schedule of current year findings and recommendations as finding 2021-001 that we consider to be a material weakness.

**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
(CONTINUED)**

Report on 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 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 one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of current year findings and recommendations as finding 2021-001.

Authority's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Authority's response to the findings identified in our audit and described in the accompanying schedule of current year findings and recommendations. The Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Mercadion, P.C.
Certified Public Accountants

September 8, 2023