

**EWING-LAWRENCE SEWERAGE AUTHORITY**

**FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION**

December 31, 2022

# 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 Audit 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, 2022 and 2021, 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, 2022 and 2021, 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 Audit 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 Audit 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 March 13, 2024, 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 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.

*Mercadieu, P.C.*

*Certified Public Accountants*

March 13, 2024

## EWING-LAWRENCE SEWERAGE AUTHORITY

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

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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, 2022 and 2021. 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 2022 and 2021.

#### FINANCIAL HIGHLIGHTS

Income from operations for the Authority was \$3,614,037 and \$2,528,908 for the years ended December 31, 2022 and 2021, respectively. The Authority's net position was \$40,350,116 at the close of 2022 and \$32,727,315 at the close of 2021 after the \$1,774,952 prior period restatement. See Note K for additional detail on the prior period restatement.

#### 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 \$26,283,805 and \$22,583,914 at December 31, 2022 and 2021, respectively, and comprise the largest portion of the Authority's current assets which consist of unrestricted and restricted portions.

The Authority had \$24,338,118 and \$26,654,663 in NJIB loans as of December 31, 2022 and 2021, 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, 2022, 2021, and 2020 financial statements of the Authority:

#### Condensed Statements of Net Position

	December 31,			\$ Change	% Change
	2022	2021*	2020	2022-2021	2022-2021
Current assets	\$ 28,643,535	\$ 24,383,475	\$ 23,949,633	\$ 4,260,060	17%
Capital assets	64,351,531	64,440,229	66,291,841	(88,698)	0%
Total assets	<u>\$ 92,995,066</u>	<u>\$ 88,823,704</u>	<u>\$ 90,241,474</u>	<u>\$ 4,171,362</u>	5%
Deferred outflows of resources	\$ 4,999,497	\$ 4,173,101	\$ 4,393,074	\$ 826,396	20%
Current liabilities, net of loans payable	\$ 3,491,100	\$ 3,039,744	\$ 4,410,592	\$ 451,356	15%
Loans payable	24,338,118	26,654,663	28,934,213	(2,316,545)	-9%
Total OPEB obligation	12,683,361	14,074,274	13,512,633	(1,390,913)	-10%
Net pension liability	8,310,795	5,964,591	8,177,577	2,346,204	39%
Total liabilities	<u>\$ 48,823,374</u>	<u>\$ 49,733,272</u>	<u>\$ 55,035,015</u>	<u>\$ (909,898)</u>	-2%
Deferred inflows of resources	\$ 8,821,073	\$ 10,536,218	\$ 10,819,354	\$ (1,715,145)	-16%
Net position:					
Net investment in capital assets	\$ 40,013,413	\$ 37,785,566	\$ 37,357,628	\$ 2,227,847	6%
Restricted	2,672,125	2,639,673	2,639,403	32,451	1%
Unrestricted	(2,335,422)	(7,697,924)	(11,216,852)	5,362,502	-70%
Total net position	<u>\$ 40,350,116</u>	<u>\$ 32,727,315</u>	<u>\$ 28,780,179</u>	<u>\$ 7,622,800</u>	23%

\*Certain balances have been restated to conform to current year presentation. See Note K.

## 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	% Change
	2022	2021*	2020	2022-2021	2022-2021
Operating revenues	\$ 16,218,827	\$ 15,181,226	\$ 14,931,700	\$ 1,037,601	7%
Operating expenses	(9,904,532)	(10,036,356)	(9,975,379)	131,824	-1%
Depreciation and amortization	(2,700,258)	(2,615,962)	(2,585,388)	(84,296)	3%
Income from operations	3,614,037	2,528,908	2,370,932	1,085,129	43%
Non-operating revenues	156,491	19,294	512,450	137,197	711%
Non-operating expenses	(335,935)	(376,018)	(414,101)	40,084	-11%
Capital Contributions	4,188,207	-	-	4,188,207	100%
Changes in net position	7,622,801	2,172,184	2,469,281	5,450,617	251%
Net position, beginning of year	32,727,315	28,780,179	26,310,898	3,947,136	
Net position, end of year, as previously reported	-	30,952,363	-	(30,952,363)	
Net position, end of year	<u>\$ 40,350,116</u>	<u>\$ 32,727,315</u>	<u>\$ 28,780,179</u>	<u>\$ 7,622,801</u>	23%

\*Certain balances have been restated to conform to current year presentation. See Note K.

#### 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.

## **BASIC FINANCIAL STATEMENTS**

# EWING-LAWRENCE SEWERAGE AUTHORITY

## STATEMENTS OF NET POSITION

		December 31,	
		2022	2021*
<b>ASSETS</b>			
Current Assets			
Unrestricted			
Cash and cash equivalents	\$	23,611,680	\$ 19,944,241
Interest receivable		19,438	17,434
Other receivables		2,340,293	1,782,126
Total Unrestricted		25,971,410	21,743,801
Restricted			
Cash and cash equivalents debt service reserve		2,672,125	2,639,673
Total Restricted		2,672,125	2,639,673
Total Current Assets		28,643,535	24,383,475
Capital assets, net of accumulated depreciation		64,351,531	64,440,229
Total Assets	\$	92,995,066	\$ 88,823,704
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions	\$	1,537,922	\$ 490,671
OPEB		3,461,575	3,682,430
	\$	4,999,497	\$ 4,173,101
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	\$	658,535	\$ 496,806
Developers' performance bonds		-	247,913
Loans payable		2,367,373	2,334,716
Accrued interest payable		129,946	147,134
Accrued payroll		90,583	72,242
Accrued liability for compensated absences		569,290	594,584
Engineering deposits		1,554,158	996,282
Other liabilities		488,585	484,784
Total Current Liabilities		5,858,473	5,374,460
Non-Current Liabilities			
Loans payable		21,970,745	24,319,947
Net OPEB liability		12,683,361	14,074,274
Net pension liability		8,310,795	5,964,591
Total Non-Current Liabilities		42,964,901	44,358,812
Total Liabilities	\$	48,823,374	\$ 49,733,272
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions	\$	1,683,540	\$ 4,324,997
OPEB		7,137,533	6,211,221
	\$	8,821,073	\$ 10,536,218
<b>NET POSITION</b>			
Net investment in capital assets	\$	40,013,413	\$ 37,785,566
Restricted			
Future debt service		2,672,125	2,639,673
Unrestricted		(2,335,422)	(7,697,924)
Total Net Position	\$	40,350,116	\$ 32,727,315

\*Certain balances have been restated to conform to current year presentation. See Note K.

# EWING-LAWRENCE SEWERAGE AUTHORITY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended December 31,	
	2022	2021
Operating revenues		
Annual charges	\$ 15,133,631	\$ 14,740,824
Connection fees	547,012	414,018
Inspection fees	26,751	8,200
Developer applications	128,860	11,970
Interest	133,224	2,957
Miscellaneous	249,350	3,258
Total operating revenues	<u>16,218,827</u>	<u>15,181,226</u>
Operating expenses		
Costs of providing services	8,362,584	8,400,135
Administrative and general	1,541,948	1,636,221
Depreciation	2,700,258	2,615,962
Total operating expenses	<u>12,604,790</u>	<u>12,652,318</u>
Income from operations	<u>3,614,037</u>	<u>2,528,908</u>
Non-operating revenues (expenses)		
Interest income	156,491	19,294
Interest expense	(335,935)	(376,018)
Non-operating revenue (expenses), net	<u>(179,443)</u>	<u>(356,723)</u>
Capital Contributions		
Contribution for system improvements	3,419,158	-
Capacity revenue	769,049	-
Total Capital Contributions	<u>4,188,207</u>	<u>-</u>
Changes in net position	7,622,801	2,172,184
Net position, beginning of year	30,952,363	28,780,179
Net position, beginning of year, as restated	32,727,315	-
Prior period restatement	-	1,774,952
Net position, end of year	<u>\$ 40,350,116</u>	<u>\$ 32,727,315</u>



# EWING-LAWRENCE SEWERAGE AUTHORITY

## STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2022	2021
Cash Flows from Operating Activities		
Cash received from		
Annual charges	\$ 15,133,631	\$ 14,740,824
Connection fees	547,012	414,018
Inspection fees	26,751	8,200
Interest income	133,224	2,957
Miscellaneous revenue	65,952	13,271
Cash used for		
Cost of providing services	(9,551,866)	(10,162,223)
Administrative and general	(1,470,375)	(1,590,855)
Net cash from operating activities	<u>4,884,329</u>	<u>3,426,191</u>
Cash Flows used for Investing Activities		
Interest income	156,491	19,294
Purchases of capital assets, net	<u>(2,859,471)</u>	<u>(2,116,632)</u>
Net cash used for investing activities	<u>(2,702,980)</u>	<u>(2,097,338)</u>
Cash Flows used for Financing Activities		
Repayments of loans	(2,316,545)	(2,279,550)
Contributed Capital	4,188,207	-
Payment of loan interest	<u>(353,122)</u>	<u>(392,371)</u>
Net cash used for financing activities	<u>1,518,540</u>	<u>(2,671,921)</u>
Net change in cash and cash equivalents	3,699,889	(1,343,067)
Cash and cash equivalents, beginning of year	22,583,915	23,926,982
Cash and cash equivalents, end of year	<u>\$ 26,283,804</u>	<u>\$ 22,583,915</u>
The following is a summary of the Authority's cash and cash equivalents:		
Cash-unrestricted	\$ 23,611,680	\$ 19,944,241
Cash-restricted	2,672,125	2,639,673
Total cash and cash equivalents	<u>\$ 26,283,804</u>	<u>\$ 22,583,915</u>
Reconciliation of Income from Operations to Net Cash		
from Operating Activities		
Income from operations	\$ 3,614,037	\$ 2,528,908
Adjustments to reconcile income from operations to net cash		
from operating activities		
Depreciation	2,700,258	2,615,962
Net OPEB liability	(243,746)	(158,259)
Net pension liability	(1,342,504)	(1,556,249)
Changes in assets and liabilities:		
Other receivables	(560,171)	(1,957)
Accounts payable	161,730	(111,492)
Other liabilities	22,142	78,131
Engineering fee deposits	557,877	15,316
Accrued compensated absences	(25,293)	15,832
Net cash from operating activities	<u>\$ 4,884,329</u>	<u>\$ 3,426,191</u>

See notes to financial statements.

## EWING-LAWRENCE SEWERAGE AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

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#### 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 No. 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

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#### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### **Cash and Cash Equivalents (Continued)**

At December 31, 2022 and 2021, 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, 2022 and 2021, were covered by the Federal Deposit Insurance Corporation (the "FDIC") and by the NJGUDPA.

##### **Capital Assets**

Capital assets include land and land improvements, buildings and building improvements, and machinery and equipment over \$5,000 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

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#### 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.

##### **Capital Contributions**

Capital contributions for system improvements and other developer contributions are recorded as non-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

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#### 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 NJGUDPA 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 NJGUDPA has ever lost protected deposits.

As of December 31, 2022 and 2021, the Authority's bank balances were exposed to risk as follows:

	2022	2021
Insured and Collateralized	\$ 1,377,699	\$ 877,706
Uninsured and Collateralized	6,833,842	2,997,546
Uninsured and Uncollateralized	18,340,166	18,702,859
Total	<u>\$ 26,551,707</u>	<u>\$ 22,578,111</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 NJGUDPA. 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 NJGUDPA 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,	
	2022	2021
Land	\$ 461,112	\$ 461,112
Land improvements	6,070,064	6,059,128
Buildings and building improvements	41,207,512	41,202,233
Machinery and equipment	73,538,712	73,142,372
Construction in progress	2,423,864	224,859
Subtotal	123,701,264	121,089,704
Less accumulated depreciation	59,349,733	56,649,475
Total	<u>\$ 64,351,531</u>	<u>\$ 64,440,229</u>

Capital asset activities were as follows:

	December 31, 2021	Additions	Retirements/ Transfers	December 31, 2022
Non-Depreciable Assets				
Land	\$ 461,112	\$ -	\$ -	\$ 461,112
Construction in progress	224,859	2,412,251	213,246	2,423,864
Depreciable Assets				
Land improvements	6,059,128	10,936	-	6,070,064
Buildings and building improvements	41,202,233	5,279	-	41,207,512
Machinery and equipment	73,142,372	396,340	-	73,538,712
Total at historical cost	121,089,704	2,824,806	213,246	123,701,264
Less accumulated depreciation	56,649,475	2,700,258	-	59,349,733
Total capital assets	<u>\$ 64,440,229</u>	<u>\$ 124,548</u>	<u>\$ 213,246</u>	<u>\$ 64,351,531</u>



# EWING-LAWRENCE SEWERAGE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### C. CAPITAL ASSETS (CONTINUED)

	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>

Depreciation expense was as follows:

	Year Ended December 31,	
	2022	2021
Land improvements	\$ 191,133	\$ 190,866
Buildings and building improvements	851,563	855,271
Machinery and equipment	1,657,562	1,569,825
Total depreciation expense	<u>\$ 2,700,258</u>	<u>\$ 2,615,962</u>

### D. LOANS PAYABLE

As of December 31, 2022 and 2021, the Authority maintained a loan balance of \$24,338,118 and \$26,654,663, respectively, through the New Jersey Infrastructure Bank ("NJIB") financing program.

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

Loans Payable	Interest Rate	Maturity Date	2022	2021
2004 NJEIT Trust and Fund Loan	3.00%-5.00%	2024	\$ 74,248	\$ 133,181
2010 NJEIT Trust and Fund Loan	3.40%-5.00%	2030	1,749,969	2,109,453
2012 NJEIT Trust and Fund Loan	3.40%-5.00%	2031	630,176	696,598
2014 NJEIT Trust and Fund Loan	3.00%-5.00%	2033	15,980,696	17,338,503
2015 NJEIT Trust and Fund Loan	4.00%-5.00%	2034	2,776,689	2,986,829
2017 NJEIT Trust and Fund Loan	3.00%-5.00%	2033	3,126,341	3,390,099
Total loans payable			<u>\$ 24,338,118</u>	<u>\$ 26,654,663</u>



# EWING-LAWRENCE SEWERAGE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### D. LOANS PAYABLE (CONTINUED)

As of December 31, 2022 and 2021, \$16,243,190 and \$17,797,991, 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
2023	\$ 2,367,373	\$ 311,442	\$ 2,678,814
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	2,311,642	162,122	2,473,763
2028-2032	10,264,028	439,854	10,703,882
2033-2034	2,391,665	30,257	2,421,922
Total	<u>\$ 24,338,118</u>	<u>\$ 1,640,639</u>	<u>\$ 25,978,757</u>

### E. LONG-TERM LIABILITIES

Long-term liability activity for the years ended December 31, 2022 and 2021, was as follows:

	December 31, 2021	Additions	(Reductions)	December 31, 2022	Amounts Due Within One Year
NJEIT loans payable	\$ 24,319,947	\$ -	\$ (2,349,202)	\$ 21,970,745	\$ 2,367,373
Net OPEB liability	14,074,274	-	(1,390,913)	12,683,361	-
Net pension liability	5,964,591	2,346,204	-	8,310,795	-
Total	<u>\$ 44,358,812</u>	<u>\$ 2,346,204</u>	<u>\$ (3,740,115)</u>	<u>\$ 42,964,901</u>	<u>\$ 2,367,373</u>

  

	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>

## EWING-LAWRENCE SEWERAGE AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

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#### 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:

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

## EWING-LAWRENCE SEWERAGE AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

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#### F. PENSION PLAN (CONTINUED)

##### **Plan Description and Benefits (Continued)**

enrollment, but who earn a salary of at least \$5,000 annually. The maximum wage limit for 2022 is \$147,000 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.

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 Authority 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, 2022 and 2021, there were no DCRP contributions.

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.

## EWING-LAWRENCE SEWERAGE AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

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#### F. PENSION PLAN (CONTINUED)

##### **Contributions (Continued)**

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, 2022, are based on the ratio of each employer's contributions to total employer contributions of the group for the fiscal year ended June 30, 2022.

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, 2022 and 2021, was \$589,645 and \$568,314, respectively. The Authority's covered payroll for the years ended December 31, 2022 and 2021, was \$3,987,536 and \$3,759,048, respectively. Covered payroll refers to pensionable compensation, rather than total compensation, paid by the Authority to active employees in PERS.

A special funding situation exists for the local employers of the PFRS. The state, as a non-employer, is required to pay the additional costs incurred by local employers under Chapter 366, P.L. 2001; and Chapter 133, P.L. 2001. The June 30, 2022, state special funding situation net pension liability amount of \$127.8 million is the accumulated difference between the annual actuarially determined state obligation under the special funding situation and the actual state contribution through the valuation date. The state special funding situation pension expense of \$50.2 million for plan year ended June 30, 2022, is the actuarially determined contribution amount that the state owes for the plan year ended June 30, 2022. The pension expense is deemed to be a state administrative expense due to the special funding situation.

The State contribution for the Authority for "PERS" was \$17,486 for the plan year ended June 30, 2022. The unaudited portion of the non-employer contributing entities' total proportionate share of the collective net pension liability that is associated with the Authority is \$0 for PERS for the plan year ended June 30, 2022. There was no special funding situation for the Authority in any prior year.

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

At December 31, 2022 and 2021, the Authority reported a liability of \$8,310,795 and \$5,964,591 for its proportionate share of the net pension liability. The net pension liability was measured as of plan years ended June 30, 2022 and 2021, respectively. The total pension liability used to calculate the net pension liability for plan years ended June 30, 2022 and 2021, was determined by an actuarial valuation as of July 1, 2021 and July 1, 2020, which were rolled forward to June 30, 2022 and 2021, 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, 2022 and 2021, the Authority's proportionate share was 0.0550698298% and 0.0503489737%, respectively, which was an increase of .00472% and increase of .00020%, respectively.

# 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 components of the collective net pension liability of the Authority as of plan years ended June 30, 2022 and 2021, were as follows:

	2022	2021
Total pension liability	\$ 22,594,749	\$ 20,320,628
Plan fiduciary net position	14,283,953	14,356,038
Net pension liability	<u>\$ 8,310,795</u>	<u>\$ 5,964,591</u>

For the years ended December 31, 2022 and 2021, the Authority recognized pension expense (recovery) of \$(752,859) and \$(946,070), respectively. At December 31, 2022 and 2021, the Authority reported deferred outflows of resources as follows:

	December 31,			
	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 59,984	\$ 52,897	\$ 94,069	\$ 42,699
Changes in assumptions	25,749	1,244,455	31,064	2,123,433
Net difference between projected and actual investment earnings on pension plan investments	343,976	-	-	1,571,230
Changes in proportion	760,984	386,188	81,318	587,635
Authority contributions subsequent to measurement date	347,229	-	284,220	-
	<u>\$ 1,537,922</u>	<u>\$ 1,683,540</u>	<u>\$ 490,671</u>	<u>\$ 4,324,997</u>

The Authority's contributions after the measurement date of \$347,229 and \$284,220, 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
2023	\$ (712,892)
2024	(363,194)
2025	(177,123)
2026	386,415
2027	(849)
	<u>\$ (867,643)</u>



## EWING-LAWRENCE SEWERAGE AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

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#### F. PENSION PLAN (CONTINUED)

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

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 5.04, 5.13, 5.16, 5.21, 5.63 and 5.48 years for 2022, 2021, 2020, 2019, 2018, and 2017, respectively.

##### **Actuarial Assumptions**

The total pension liability in the plan year ended and measurement date of June 30, 2022, was determined by an actuarial valuation as of July 1, 2021, which was rolled forward to June 30, 2022. 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. These actuarial valuations used the following actuarial assumptions:

	<u>2022</u>	<u>2021</u>
Inflation:		
Price	2.75%	2.75%
Wage	3.25%	3.25%
Salary increases:		
Through 2026 (based on years of service)		2.00%-6.00%
Thereafter (based on years of service)	2.75%-6.55%	3.00%-7.00%
Investment rate of return	7.00%	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, 2021, valuation were based on the results of an actuarial experience study for the period July 1, 2018 to June 30, 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. 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.

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

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

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at plan years ended June 30, 2022 and 2021), 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, 2022 and 2021, are summarized in the following tables:

	2022	
	Target Allocation	Long-term Expected Rate of Return
U.S. equity	27.00%	8.12%
Non-U.S. developed markets equity	13.50%	8.38%
Emerging markets equity	5.50%	10.33%
Private equity	13.00%	11.80%
Real assets	3.00%	7.60%
Real estate	8.00%	11.19%
High yield	4.00%	4.95%
Private credit	8.00%	8.10%
Investment grade credit	7.00%	3.38%
Cash equivalents	4.00%	1.75%
U.S. treasuries	4.00%	1.75%
Risk mitigation strategies	3.00%	4.91%
	<u>100.00%</u>	



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

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

	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>	

**Discount Rate**

The discount rate used to measure the total pension liability was 7.00% as of plan years ended June 30, 2022 and 2021, 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**

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**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, 2022 and 2021, 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, 2022		
At 1% Decrease (6.00%)	At Current Discount Rate (7.00%)	At 1% Increase (8.00%)
<u>\$ 10,767,360</u>	<u>\$ 8,310,795</u>	<u>\$ 6,350,443</u>
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>

**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 at December 31, 2022 and 2021, 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

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#### 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 participants eligible for benefits was 56 at December 31, 2022 and 2021, 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, 2022 and 2021, was \$983,930 and \$918,351, respectively. The Authority also contributed \$130,639 and \$138,640 for the OPEB Plan prescription benefits for the years ended December 31, 2022 and 2021, respectively. The Authority's contribution to the Dental Plan for the years ended December 31, 2022 and 2021, was \$81,449 and \$88,273, 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, 2022.

##### 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, 2022 and 2021, are as follows:

	June 30, 2022	June 30, 2021
Total OPEB Plan OPEB liability	\$ 11,357,780	\$ 12,825,826
Total Dental Plan OPEB liability	1,284,170	1,284,170
Total OPEB liability	12,641,950	14,109,996
OPEB Plan Fiduciary Net Position	41,411	(35,722)
Dental Plan Fiduciary Net Position	-	-
Total Fiduciary Net Position	41,411	(35,722)
Net OPEB Plan & Dental Plan OPEB Liability	\$ 12,683,361	\$ 14,074,274
OPEB Plan Fiduciary Net Position as a % of total OPEB liability	-0.34%	0.25%

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

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

##### Actuarial Assumptions

The OPEB Plan's net OPEB liability as of plan year ended June 30, 2022, was determined by an actuarial valuation as of June 30, 2021, which was rolled forward to June 30, 2022. The OPEB Plan's net OPEB liability as of plan year ended June 30, 2021, was determined by an actuarial valuation as of July 1, 2020, which was rolled forward to June 30, 2021. The Dental Plan's total OPEB liability as of December 31, 2022 and December 31, 2021, 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:

	2022 and 2021	
	State Plan	Dental Plan
Salary increases*		
Rate for all future years	2.75 - 6.55%	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, 2022 and June 30, 2021, 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 do not include a margin for future improvements in longevity.

##### Health Care Trend Assumptions

For pre-Medicare medical benefits, the trend is initially 6.25% 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 2023 through 2024 are reflected. For PPO the trend is initially 6.36% in fiscal year 2025, increasing to 14.35% in fiscal year 2026 and decreases to 4.5% after 8 years. For HMO the trend is initially 6.53% in fiscal year 2025, increasing to 15.47% in fiscal year 2026 and decreases to 4.5% after 8 years. For prescription drug benefits, the initial trend rate is 8.00% 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**

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

The discount rate for plan years ended June 30, 2022 and 2021, 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, 2022 and 2021, 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, 2022		
At 1% Decrease (2.54%)	At Current Discount Rate (3.54%)	At 1% Increase (4.54%)
\$ 13,213,958	\$ 11,399,192	\$ 9,939,043

The OPEB Plan at June 30, 2021		
At 1% Decrease (1.21%)	At Current Discount Rate (2.21%)	At 1% Increase (3.21%)
\$ 15,051,500	\$ 12,790,105	\$ 10,997,900

The Dental Plan at June 30, 2022		
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, 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

# 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, 2022		
At 1% Decrease	Healthcare Cost Trend Rate	At 1% Increase
\$ 9,670,278	\$ 11,399,192	\$ 13,613,444

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

The Dental Plan at December 31, 2022		
At 1% Decrease	Healthcare Cost Trend Rate	At 1% Increase
\$ 1,217,283	\$ 1,284,170	\$ 1,365,940

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



# 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,			
	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 588,666	\$ 2,112,926	\$ 286,995	\$ 2,675,879
Changes in assumptions	1,521,269	3,890,324	1,839,895	2,260,801
Net difference between projected and actual earnings on pension plan investments	3,001	-	6,115	-
Changes in proportion	1,348,639	1,134,283	1,549,425	1,274,541
	<u>\$ 3,461,575</u>	<u>\$ 7,137,533</u>	<u>\$ 3,682,430</u>	<u>\$ 6,211,221</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
2023	\$ (1,032,927)
2024	(1,033,839)
2025	(816,407)
2026	(364,613)
2027	(81,745)
Thereafter	(560,783)
	<u>\$ (3,890,314)</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, 7.82, 7.87, 8.05, 8.14 and 8.04 years for the 2022, 2021, 2020, 2019, 2018 and 2017 amounts, respectively. For December 31, 2022, the deferred outflows of resources changes in proportion is \$1,348,639 and the deferred inflows of resources changes in proportion is \$1,134,283. Including these values the December 31, 2022, total deferred outflows of resources and total deferred inflows of resources balances are \$3,461,575 and \$7,137,533, 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**

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#### **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, 2022 and 2021.

#### **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, but is still in effect.

#### **J. CAPITAL PROGRAM**

Expected capital program expenditures budgeted from 2023 through 2027 approximate \$28,835,000. The entirety of this amount is anticipated to be funded through loans authorized through the New Jersey Infrastructure Bank and related federal and state clean water/drinking water grants. Additional funding from grants provided by the Federal Emergency Management Agency and U.S. Department of Housing and Urban Development Community Development Block Grant programs are also anticipated.

#### **K. PRIOR YEAR RESTATEMENT**

The Authority has determined that certain transactions were recorded incorrectly in the prior year ended December 31, 2021. As a result of a review of the Authority's system improvement contribution receivables related to the Hopewell Parc project, the Authority determined that accounts receivable and related revenues had been understated. Based on the applicable revenue recognition policies, a deposit of \$1,774,952 received in early 2022 was recognizable as revenue and a related receivable in 2021. To correct for this error the Authority restated its financial statements for the year ended December 31, 2021. The effect of the restatement was to increase the Authority's accounts receivable, net position and change in net position for 2021 by \$1,774,952. This resulted in the beginning net position of \$30,952,363, as originally reported, being increased to \$32,727,315.

#### **L. 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.

#### **M. ROUNDING**

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

## EWING-LAWRENCE SEWERAGE AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

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#### **N. RECENT AND PENDING GOVERNMENT ACCOUNTING STANDARDS BOARD (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 ended December 31, 2022. The Authority has determined that Statement No. 91 is not applicable to the Authority and not required to be implemented in 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 ended December 31, 2022. The Authority has determined that Statement No. 92 is not applicable to the Authority and not required to be implemented in the financial statements.

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 ended December 31, 2022. The Authority has determined that Statement No. 93 is not applicable to the Authority and not required to be implemented in 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 ended 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 ended 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 ended December 31, 2022. The Authority has not determined the effect of Statement No. 97 on the financial statements.

The GASB has issued Statement No. 100, "*Accounting Changes and Error Corrections - an amendment of GASB Statement No. 62*." This statement is required to be adopted by the Authority for the year ending December 31, 2024. The Authority has not determined the effect of Statement No. 100 on the financial statements.

The GASB has issued Statement No. 101, "*Compensated Absences*." This statement is required to be adopted by the Authority for the year ending December 31, 2024. The Authority has not determined the effect of Statement No. 101 on the financial statements.

## EWING-LAWRENCE SEWERAGE AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

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#### O. SUBSEQUENT EVENTS

Management has evaluated subsequent events occurring after the statements of net position date through March 13, 2024, which is the date the financial statements were available to be issued. The following events were determined by management to require disclosure.

The Authority was awarded a hazard mitigation grant from the Federal Emergency Management Agency for project number 4614-0008, Flood Mitigation of Fackler Road and Lower Ferry Pump Station. The project will fund the construction of two sanitary pump stations above the five-hundred-year storm elevation and replace the two existing pump stations currently in place that flood frequently and disrupt wastewater services. The grant and project consist of two phases. Phase one funding in the amount of \$1,166,064 and \$61,100, reflecting ninety-five percent of the total project cost of \$1,222,000 and one hundred percent of the Authority management costs, respectively, will fund surveying, studies, engineering design, and construction planning work. The remaining \$55,936 will be from Authority match funding. Phase two funding in the amount of \$9,418,211 and \$493,500, reflecting ninety-five percent of the total project cost of \$9,870,000 and one hundred percent of the Authority subrecipient management costs, respectively, will fund demolition and construction work.

The Authority wastewater treatment operation discharges treated wastewater into the Assunpink Creek in Lawrence Township, New Jersey pursuant to a New Jersey Pollutant Discharge Elimination System permit. On September 30, 2009, New Jersey Department of Environmental Protection ("DEP") issued the Authority a renewal permit containing a nitrate effluent limitation. This limitation was stayed until February 14, 2023, when DEP issued a final decision upholding the limitation. All Authority motions and appeals were denied and on January 4, 2024, DEP imposed a three month sewer connection ban pursuant to N.J.A.C. 7:14A-22.17. The Authority is in the process of determining treatment alternatives to achieve compliance with the effluent limitation for nitrate to remove the ban on new connections.

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**

# EWING-LAWRENCE SEWERAGE AUTHORITY

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

	PERS - Last 10 Fiscal Years									
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Authority's proportion of the net pension liability	0.0550688%	0.0503490%	0.0501465%	0.0535828%	0.0547676%	0.0542029%	0.0537376%	0.0527462%	0.0525836%	0.0507357%
State's proportion of the Authority's net pension liability	0.0552898%	0.0000000%	0.0000000%	0.0000000%	0.0000000%	0.0000000%	0.0000000%	0.0000000%	0.0000000%	0.0000000%
Authority's proportionate share of net pension liability	\$ 8,310,795	\$ 5,964,591	\$ 8,177,577	\$ 9,654,811	\$ 10,783,474	\$ 12,617,569	\$ 15,915,530	\$ 11,840,469	\$ 9,845,097	\$ 9,696,597
State's proportionate share of Authority's net pension liability	3,987,536	3,759,048	3,689,580	3,583,842	4,171,943	4,096,888	4,138,447	4,138,447	4,094,825	3,903,104
Authority's covered-employee payroll										
Authority's proportionate share of net pension liability as a % of payroll	208.42%	158.67%	221.64%	269.40%	258.48%	307.98%	384.58%	286.11%	240.43%	248.43%
Total pension liability	22,594,749	20,320,628	19,709,847	22,232,296	23,238,767	24,311,285	26,586,506	22,668,589	20,545,204	18,910,353
Plan fiduciary net position	14,283,953	14,356,038	11,532,270	12,577,485	12,455,294	11,693,715	10,670,976	10,828,120	10,700,107	9,213,756
Plan fiduciary net position as a % of total pension liability	63.22%	70.65%	58.51%	56.57%	53.60%	48.10%	40.14%	47.77%	52.08%	48.72%

## SCHEDULE OF CONTRIBUTIONS

	PERS - Last 10 Fiscal Years									
	2022	2021	2020	2019	2018	2017	2016	2015	2014	2013
Contractually required contribution	\$ 694,457	\$ 589,645	\$ 548,577	\$ 521,203	\$ 544,761	\$ 502,132	\$ 477,397	\$ 453,476	\$ 433,492	\$ 382,283
Contributions in relation to the contractually required contribution	589,645	568,314	542,409	565,617	526,545	496,901	470,629	450,146	398,452	382,283
State contributions	17,486									
Authority's covered-employee payroll	3,987,536	3,759,048	3,689,580	3,583,842	4,171,943	4,096,888	4,138,447	4,138,447	4,094,825	3,903,104
Contributions as a % of covered-employee payroll	14.79%	15.12%	14.70%	15.78%	12.62%	12.13%	11.37%	10.88%	9.73%	9.79%

See Independent Auditors' Report.

# **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									
	2022	2021	2020	2019	2018	2017	2016			
Proportion of the net OPEB liability	0.070585%	0.071057%	0.068138%	0.063489%	0.069523%	0.067673%	0.072678%			
Proportionate share of net plan OPEB liability	\$ 11,399,192	\$ 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	1,284,170	1,134,387	1,126,217	867,762	93,196			
Authority's covered payroll	3,987,536	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	285.9%	340.2%	331.4%	240.0%	265.9%	337.3%	388.1%			
Plan Contributions	\$ 983,930	\$ 918,351	\$ 824,342	\$ 897,142	\$ 960,772	\$ 953,509	\$ 1,048,570			
Dental Plan Contributions	81,449	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 seven years of OPEB information to the Authority for the Plan and the Authority has seven 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, 2022 (With Comparative Totals for Year Ended December 31, 2021)

	2022				2021*
	Unrestricted	Future Debt Service	Current Debt Service	Investment in Property, Plant and Equipment	Total
Operating revenues					
Annual Charges	\$15,133,631	\$ -	\$ -	\$ -	\$14,740,824
Connection fees	547,012	-	-	-	414,018
Inspection fees	26,751	-	-	-	8,200
Developer applications	128,860	-	-	-	11,970
Interest	133,224	-	-	-	2,957
Miscellaneous	249,350	-	-	-	3,258
Total operating revenues	16,218,827	-	-	-	15,181,226
Operating expenses					
Costs of providing services	8,362,584	-	-	-	8,400,135
Administrative and general	1,541,948	-	-	-	1,636,221
Depreciation and amortization	-	-	-	2,700,258	2,615,962
Total operating expenses	9,904,532	-	-	2,700,258	12,652,318
Income from operations	6,314,295	-	-	(2,700,258)	2,528,908
Non-operating revenues (expenses)					
Interest income	-	156,491	-	-	19,294
Interest expense	-	-	(335,935)	-	(376,018)
Total non-operating revenues (expenses), net	-	156,491	(335,935)	-	(356,724)
Contributed capital					
Donated capital for system improvements	3,419,158	-	-	-	-
Capacity fees	769,049	-	-	-	-
Total Contributed capital	4,188,207	-	-	-	-
Income (loss) before transfers	10,502,502	156,491	(335,935)	(2,700,258)	2,172,184
Transfers	(5,139,999)	(124,040)	335,935	4,928,105	-
Changes in net position	5,362,502	32,451	-	2,227,847	2,172,184
Net position, beginning of year	(7,697,924)	2,639,673	-	37,785,566	-
Net position, beginning of year, as previously reported	-	-	-	-	28,780,179
Prior period restatement	-	-	-	-	1,774,952
Net position, end of year	\$ (2,335,423)	\$ 2,672,125	\$ -	\$ 40,013,413	\$32,727,315

\*Certain balances have been restated to conform to current year presentation.

See Independent Auditors' Report.

# EWING-LAWRENCE SEWERAGE AUTHORITY

## SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES COMPARED TO BUDGET Year Ended December 31, 2022

	2022 Budget Unaudited	2022 Actual
Revenues		
Annual charge	\$ 15,133,631	\$ 15,133,631
Connection fees	450,000	547,012
Inspection fees	2,000	26,751
Developer applications	10,430	128,860
Interest	2,500	133,224
Miscellaneous	40,000	249,350
Total operating revenues	<u>\$ 15,638,561</u>	<u>\$ 16,218,827</u>
Expenses		
Cost of providing services		
Labor	\$ 3,949,000	\$ 3,749,358
Employee benefits	2,084,418	485,358
Materials and supplies	1,176,500	664,233
Contracted services	100,000	34,603
Repairs and maintenance	1,301,500	874,468
Sludge disposal	795,000	551,364
Utilities	1,279,350	1,410,161
Transportation	75,000	101,494
Remediation	300,000	400,538
Compliance	20,000	11,433
Permits	150,000	79,574
Total cost of providing services	<u>11,230,768</u>	<u>8,362,584</u>
Administrative and general		
Labor	686,000	652,675
Employee benefits	367,838	71,574
Materials and supplies	14,000	10,553
Contracted services	490,200	340,640
Insurance	377,000	240,793
Repairs and maintenance	32,000	32,420
Utilities	55,000	43,834
Miscellaneous	7,000	20,295
Loan fees	27,000	129,165
Total administrative and general	<u>2,056,038</u>	<u>1,541,948</u>
Interest expense	<u>353,122</u>	<u>335,935</u>
Other costs funded by operating revenues		
Principal maturity	2,379,800	2,316,545
Contributed capital - system improvements	-	3,419,158
Contributed capital - capacity revenue	-	769,049
Capital outlays	118,833	2,412,251
Total other costs funded by operating revenues	<u>2,498,633</u>	<u>8,917,003</u>
Total costs funded by operating revenues	<u>16,138,561</u>	<u>19,157,470</u>
(Utilization of Net Position)/Excess Revenues	<u>(500,000)</u>	<u>(2,938,643)</u>
Total	<u>\$ 15,638,561</u>	<u>\$ 16,218,827</u>

See Independent Auditors' Report.

## EWING-LAWRENCE SEWERAGE AUTHORITY

### ROSTER OF OFFICIALS (UNAUDITED)

Year Ended December 31, 2022

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Board Members	Position
Basit Muzaffar	Chairman
Harold Vereen	Vice Chair
John T. Ryan	Treasurer
Charles Geter	Assistant Treasurer
Allen Lee	Secretary
James Kownacki	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, 2022

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#### **Finding 2022-001**

##### 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 budgeting, 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 a significant amount of 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, 2022

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#### **Finding 2021-001**

##### **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.

##### **Status**

The finding remains in the current year. See finding 2022-001.

**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, 2022, and the related notes to the financial statements, which comprise the Authority's basic financial statements, and have issued our report thereon dated March 13, 2024.

**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 2022-001 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 2022-001.

**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.

*Mercadieu, P.C.*  
*Certified Public Accountants*

March 13, 2024