

**SOUTH MONMOUTH
REGIONAL SEWERAGE AUTHORITY
BELMAR, NEW JERSEY**

FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

**SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
BELMAR, NEW JERSEY**

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INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
South Monmouth Regional Sewerage Authority
Belmar, New Jersey

Report on the Financial Statements

We have audited the accompanying statements of net position of the South Monmouth Regional Sewerage Authority as of December 31, 2020 and 2019, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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



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

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

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the South Monmouth Regional Sewerage Authority as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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



Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Monmouth Regional Sewerage Authority's basic financial statements. The supplementary information listed in the table of contents and the letter of comments and recommendations section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information listed in the table of contents are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information listed in the table of contents 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 February 2, 2022 on our consideration of the South Monmouth Regional Sewerage Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the South Monmouth Regional Sewerage 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 South Monmouth Regional Sewerage Authority's internal control over financial reporting and compliance.

Very truly yours,

Wielkocz & Company, LLC

WIELKOTZ & COMPANY, LLC
Certified Public Accountants
Pompton Lakes, New Jersey

February 2, 2022



Management's Discussion and Analysis

(SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)
(UNAUDITED)

INTRODUCTION

The South Monmouth Regional Sewerage Authority, hereafter referred to as the "Authority", is pleased to present its Annual Financial Report developed in compliance with the Statement of Governmental Accounting Standard No. 34, entitled "Basic Financial Statements - Management's Discussion and Analysis - For State and Local Governments" (hereafter "GASB 34").

PRELUDE

In each year's annual Audit, Management provides a Discussion and Analysis that is focused on significant highlights of the current year and how they relate to historical trends and future projections. In 2020, the COVID 19 pandemic created its own challenges which continue as of the writing of this MD&A. These challenges include but are not limited to: Continuity of Operations (i.e. staffing of critical infrastructure workers), navigating the mental effects and dealing with staff(s) emotional well-being and coping during COVID-19, shortage and/or price gouging of materials, etc. However, the most taxing challenge has been the time and effort required by management to stay abreast of the dynamic situation and to ensure regulatory compliance given the inordinate amount of Executive Orders.

The COVID 19 pandemic imposed nearly unimaginable challenges on communities and Authorities across our state, nation and the world. Yet these challenging times also provided all members of the SMRSA an opportunity to exhibit leadership and courage. We begin this Management, Discussion and Analysis by thanking the Board of Commissioners, Management team and entire staff who demonstrated leadership along with professionalism and resiliency in responding to the COVID 19 crisis while safely serving our member municipalities. As the Authority continued to navigate during this challenging time, it continued to invest in talent and infrastructure thus positioning itself to serve the future needs of our member municipalities.

Mission

The Authority was founded for the purpose of protecting and preserving the area's vital environment for current and future generations and by so doing ensure a healthy ecology, a robust economy and a high quality of life for its citizens.

The skilled and dedicated men and women of the Authority accomplish this by effectively treating wastewater from its service areas' eight participants and then recycling safe, clean water back into the natural ecosystem.

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A), (CONTINUED)
(UNAUDITED)

The Authority's philosophy is to never lose sight of those who we are committed to serve; residents, businesses, public institutions and the thousands of seasonal visitors to the many attractions located within our service region.

All of the plans, improvements and system changes are crafted in an effort to continue to meet or surpass all mandated federal and state regulations and standards, and to operate the Authority at as low of a cost to our members and ratepayers as possible.

The Authority's mission extends far beyond its geographical boundaries by virtue of its many affiliations and participation in organizations dedicated to better serving the environment as a whole. The Authority represents itself and its membership as an organization that is operating on the cutting edge of the industry. This is evidenced through numerous research and development projects targeted at better understanding or abating negative water quality effects in the Ocean Eco-System. By taking an active role in local watershed groups and agencies operating within our Service Area, the Authority continues to demonstrate its commitment to educating the public, and in particular, our youth, on the importance of protecting and preserving the earth's most valuable natural resource; WATER.

Responsibility and Controls

The Authority has prepared and is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions. Limitations exist in any system of internal controls; however, based on recognition that the cost of the system should not exceed its benefits, management believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The Authority's system of internal accounting controls is evaluated on an ongoing basis by the Authority's internal financial staff. Independent external auditors also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

The Finance Committee of the Authority's Board of Commissioners serves the role of an Audit Committee. It is composed of four members of the Board providing a broad overview of management's financial reporting and control functions. Periodically, this committee meets with management and external auditors to ensure these groups are fulfilling their obligations and to discuss auditing controls and financial reporting matters.

Management believes that its policies and procedures provide guidance and reasonable assurance that the Authority's operations are conducted in accordance with its intentions and to a high standard of business ethics.

In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flow of the Authority in conformity with accounting principles generally accepted in the United States of America.

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A), (CONTINUED)
(UNAUDITED)

Audit Assurance

The unmodified opinion of the Authority's independent external auditors, Wielkott & Company, LLC, is included in this report.

Financial Highlights

This section presents management's analysis of the Authority's financial condition and activities for the year. This information should be read in conjunction with the financial statements.

Management believes the Authority's financial condition is strong and the direct result of the stringent financial policies and guidelines set by the Board of Commissioners. The following are key financial highlights for 2020 and 2019:

- Total Assets and Deferred Outflows increased \$2,452,744 due mostly to an increase in cash and cash equivalents and Deferred Outflows related to medical benefits.
- Total Liabilities and Deferred Inflows decreased by \$267,549 due mostly to a decrease in Debt Outstanding.
- Operating Revenues increased \$82,643 due to an increase in sewerage use charges.
Total Operating Expenses decreased \$13,018 mostly due to administration expenses.
Net Position at year-end was \$18,410,146, an increase of \$2,185,195.

In compliance with Government Accounting Standards Board Statement (GASB) No. 68 '*Accounting and Financial Reporting for Public Employee Pensions*', the Authority began recognizing, accounting and reporting the pension liability in Statements of Revenues, Expenses, Changes in Net Position and notes to the Financial Statements. In addition, the GASB recently issued Statement No. 75 '*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*'. This statement applies to government employers who provided OPEB plans to their employees and basically parallels GASB Statement 68. It is important to note this requirement does not change the amount of local funds the Authority must budget for pension and health benefit payments under existing law. Despite the significance of this liability, and because of the Authority's past prudent procedures and asset management funding, it will continue to report a positive net position. Further, the Authority is of the position that this disclosure will not have a significant impact on its credit worthiness or have any effect on future financial statements. Any delays in the issuance of this audit is primarily due to the State of New Jersey - Division of Pensions and Benefits not issuing its Actuary report in a timely manner.

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A), (CONTINUED)
(UNAUDITED)

Overview of Annual Financial Report

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

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

The *Statement of Net Position* presents the financial position of the Authority on a full accrual historical cost basis. The Statement of Net Position presents information on all of the Authority's assets and liabilities, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the Authority is improving or deteriorating.

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

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

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

Supplementary Data (Budgetary Basis) comparing the budget to actual expenses, as well as important debt coverage data, is provided.

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A), (CONTINUED)
(UNAUDITED)

Summary of Organization and Business

The Authority, a public body corporate and politic of the State of New Jersey was created pursuant to parallel ordinances adopted by the Governing Bodies of the member municipalities of Belmar, Lake Como (formerly South Belmar), Brielle, Manasquan, Spring Lake, Spring Lake Heights, Sea Girt and Wall Township in May 1970, and the Sewerage Authorities Law, constituting Chapter 138 of the Pamphlet Laws of 1946 of the State as amended (the "Original Act").

The Authority has the statutory power to acquire, construct, maintain and operate sewerage facilities for the relief of waters in, bordering or entering the natural drainage area within Southern Monmouth County as determined by the Monmouth County Sewerage Advisory Board from pollution or threatened pollution and for the improvement of conditions affecting the public health.

The Authority has no power to levy or collect taxes. Operation and maintenance costs are funded from service fees and other charges. The acquisition and construction of capital assets are funded through Operating Revenues, General Fund, Federal and State Grants, Wastewater Revenue Bonds and New Jersey Environmental Infrastructure Trust Financing Program Loans.

Pursuant to the provisions of the Act, the Authority consists of one Commissioner from each member municipality. The Governing Body of their respective community appoints each Commissioner for a term of five years. The Authority is administered by an Executive Director appointed by the Commissioners and is directly responsible to them. The Authority currently employs 21 full-time and 1 part time employee(s) who are organized into the following departments: Administration, Operations and Support Services.

Management over the past several audit cycles has and continues to be of the opinion that the alignment and or organization of its personnel resources coupled with the succession of its existing staff by future staff, will be one of if not the single most complicated dynamics the Authority will need to undertake over the next decade. The water sector industry continues to experience significant loss of knowledge through the attrition of existing personnel with a succession rate of credentialed personnel lagging dismally behind. After extensive consideration, the Board of Commissioners has (and continues) over the past several years put in place new policies and a variety of administrative changes in efforts to counter act the negative effect of the ongoing rate of attrition. Those measures include but are not limited to, continued cross training, a complete re-design of the organizational chart, modification of job descriptions, institution of merit based (in lieu of across the board) collective bargaining increases, educational opportunity for advancement programs, internship programs and more. Coupled with these incentives is an active campaign to not only broaden the Authorities general transparency but to tell the story of the organization at every opportunity within the industry by actively participating in industry-based associations, and technical training functions and seminars, therein providing potential eligible successors with a background and insight into the Authority and marketing what sets SMRSA aside as an employer. The Commissioners and staff continually discuss the progress being made on this front and have committed to developing additional reform and planning to meet the demand of finding skilled and qualified successors to our aging work force.

The Authority currently has Service Agreements with its eight member municipalities for the treatment of wastewater emanating from each municipality which expire March 31, 2024.

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A), (CONTINUED)
(UNAUDITED)

Summary of Systems and Operations

A) Pretreatment Activities

The System consists of ten pump stations, one meter chamber, a series of force mains, and a treatment plant. The treatment of wastewaters discharged by the member municipalities begins at each of the ten Pumping Stations owned by the Authority typically in the form of Screening and Comminuting, coupled with Odor and Corrosion Control.

B) Primary/ Secondary Treatment

The Authority's regional treatment facility provides for both primary and secondary treatment, effluent disinfection and sludge management processes. The primary treatment process consists of screening to remove large objects, aerated grit chambers for grit removal, and primary settling to remove suspended and organic matter. The secondary treatment process is composed of two High Rate Trickling Filters incorporating the use of synthetic cross-flow media wherein the biological oxidation of suspended dissolved and colloidal pollutants takes place and the bio-solids being produced there-from are subsequently settled out and removed in the secondary sedimentation process. Disinfection of the treatment plants effluent is achieved through the application of Sodium Hypochlorite.

C) Final Disposal

For the most part, the facility discharges its effluent by gravity into the Atlantic Ocean through a wye diffuser approximately one mile offshore. During extreme wet weather seasons (or as daily flows begin to increase) the plant is equipped with an effluent pumping station for the purposes of assuring discharge capabilities. The Authorities treatment plant operations and discharge is governed by a NJPDES permit issued by the New Jersey Department of Environmental Protection wherein more than a hundred parameters are monitored and analyzed throughout any given year.

D) Solids Handling and Sludge Management

Wastewater treatment plants generate sludge as a by-product of the physical, chemical and biological processes used in the treatment of sewage. Generally, this sludge must be subjected to some form of treatment in order to alter its characteristics such that it may then be disposed of without creating health problems or further hindrance. At the Authority, anaerobic digestion of sludge is the designed method of treatment; one of the bi-products in that process is the production of Methane gases beneficial when used as a bio-fuel). By using anaerobic digestion in the treatment of wastewater sludge, the overall cost of sewage treatment can be and in fact is reduced.

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A), (CONTINUED)
(UNAUDITED)

E) Energy Conservation

In 1993, the Authority began a comprehensive effort to reduce its power usage through conservation and applying state of the art demand side management and technology. At the time, its annual treatment plant annual electric bill was approximately \$380,101 with an estimated usage of 5,722,000 kilowatt-hrs.

Today, the Authority has reduced its annual usage to 2,134,524 kilowatt-hrs. at a projected cost of \$241,201, if provided entirely by a third-party energy supplier. Clearly, the demand side management program consisting of retrofit to LED lighting and replacement of old motors to new premium efficiency motors has been very effective in that the Authority has reduced its electrical usage by nearly 63%, yet its cost for energy over the past 20 years continues to spiral upward and out of the general control of the Authority. The underlying driver of that problem is the ever-rising cost of oil and our nation's dependency on it to provide electrical energy. In order to offset rising energy costs, the Authority has implemented a competitive bidding process (reverse energy auction) for energy supply. In addition, the Authority has begun participation in Demand Response programs, which provides for direct payment to the Authority, as a result of the Authority curtailing its electric demand during the times when the PJM electrical grid is at its peak demands.

F) On Site Co-Generation

In its efforts to minimize these impacts on the sewer use rate payers of the system, and coupled with the success of the Authority's Sludge Management and Solids handling programs, the Board of Commissioners in 2008 authorized moving forward with the design and implementation of a full-scale Co-Generation facility. That facility ultimately consisted of two Internal Combustion Engines retrofitted to burn methane gas that would be utilized to power two 140 kw/hr electrical generators and to reclaim and utilize heat produced during the generation process to heat the anaerobic digester reactor and the facilities administration complex during the winter months.

The table below illustrates the overall savings generated by the system during the reporting period of this audit.

Total 2020 Demand (KW-hrs)	Power Purchased From JCP&L Aggressive (KW-hrs)	Power Generated by SMRSA (KW-hrs)	Offset of 3 rd Dependency (%)	Rate Per KW-hr (\$)	2020 Cost Savings (\$)
2,134,524	1,034,110	1,100,414	51.81%	\$0.10	\$ 113,899

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A), (CONTINUED)
(UNAUDITED)

G) CO-Generation Resiliency Upgrades

In order to become resilient to power outages, the Authority has embarked on a project to expand its existing cogeneration facility by upgrading the output of both of the existing 140 KW units to 160 KW, adding a third 315 KW cogen engine and providing dual fuel capabilities. The dual fuel capability will allow the Authority to operate as an "island", by when necessary, producing all necessary electricity on site, without the need to rely on the commercial power grid or on the diesel fired standby generator. To fund the combined heat and power system expansion project, the Authority, on January 11, 2018 received funding from the New Jersey Energy Resiliency Bank (ERB) in an amount not to exceed \$ 3,918,000 through a combination of a grant in the amount of \$2,847,674 and a low interest loan in the estimated amount of \$1,070,326.

The Authority awarded the Co-Generation Resiliency Upgrades construction project to Northeast REMSCO for their low bid amount of \$3,390,000. The project is currently under construction. The new 315 KW cogen engine is functional and producing heat and power as intended. Due to equipment related setbacks, the project completion has been delayed, however staff is working to close out the project with contractors.

The Authority successfully negotiated with the ERB to utilize remaining funds to replace aging treatment plant motors and variable frequency drives.

Clearly, through the increased use of waste methane gas, the Authority has emphasized its commitment to innovation, sustainability and environmental stewardship.

Authority staff is currently investigating the potential for additional or "add-on" sludge treatment applications that may cost effectively yield greater methane production and consequently greater cost savings.

H) Other Reduction Considerations

In 2012, the Authority continued its initiative of reducing energy cost and consumption by applying to the New Jersey Clean Energy Program's Local Government Energy Audit Program. The performance of an energy audit requires a coordinated phased in approach to identify, evaluate and implement energy conservation and retrofit measures (ECRM). That audit was successful in identifying opportunities for energy saving measures. Potential recommendations include the use of third-party electric and gas suppliers, participation in a Demand Response Program, and the use of solar, and/or wind power technologies. The Authority has installed LED lighting and is currently assessing its pumping operations in order to identify any possible energy efficiency cost savings either through operational efficiencies and/or motor upgrades. In addition, as mentioned above, the Authority recently contracted with an Energy Curtailment Service Provider, which will allow the Authority to partake in the Pennsylvania, Jersey, Maryland (PJM) Energy Demand Response program. This program will allow the Authority to further benefit from its co-generation facilities by receiving payment from PJM for curtailing energy demand upon request.

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A), (CONTINUED)
(UNAUDITED)

I) Pump Station Upgrades

Similarly, in accordance with the Authority's Asset Management Program, staff has identified the need to upgrade several of its regional pumping stations. The Authority has reinvested approximately \$1,500,000 into upgrades for the Wreck Pond and Wall North pumping stations, for which construction is currently on-going. In addition, another \$1,500,000 in improvements is slated for the Brielle and Glimmer Glass Pump Stations.

J) Force Main-Outfall Condition Assessment

In accordance with the Authority's Asset Management goals and objectives, the SMRSA staff has identified the need for the preparation of a Force Main/Outfall Pipe Condition Assessment Plan. The SMSRA owned and operated force mains and outfall pipe are increasing in age and are considered one of the Authority's most critical assets. SMRSA's intent is to expand upon and develop a Condition Assessment Plan that would strategically and systematically evaluate the force mains/outfall pipe and ultimately support an asset management plan that would include maintenance and replacement and/or upgrade strategies where necessary. The Force Main/Outfall Pipe Condition Assessment Plan is intended to be a document that SMRSA will use moving forward to evaluate the condition of its force main/outfall pipes and provide for as a guide to future Condition Assessments (phase II) and any necessary Repairs and/or Upgrades (phase III).

The Authority awarded the necessary engineering contract for development of the Force Main-Outfall Condition Assessment Plan (Phase I) to CDM Smith. The plan is complete. In accordance with priority recommendations from the Forcemain - Outfall Condition Assessment Plan (Phase I) and as a result of a Force Main break in January 2020, in 2020, the Authority embarked on Condition Assessments (Ph II) of three (3) of the Authority's most critical horizontal assets. The three (3) assets and a preliminary summary of results are identified below:

WWTP Outfall Pipe

The Authority contracted to perform an Acoustical Leak Detection (ALD) and Non-Destructive Electromagnetic (EM) inspection of the land-based portion (approx. 6,500 L.F.) of the 36" PCCP outfall pipe. The results of the ALD reported there are NO leaks. The results of the EM inspection reported one pipe segment with less than 5 wire breaks. These results indicate this pipeline is generally free from defects and at this time it is anticipated that no further action is required.

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A), (CONTINUED)
(UNAUDITED)

Glimmer Glass Force Main (GLGL FM)

The Authority contracted to perform an Acoustical Leak Detection (ALD) and Non-Destructive Electromagnetic (EM) inspection of the 16" DIP which extends northward from the GLGL PS to the intersection of Sea Girt Ave and Encampment Drive (approx. 5,600 L.F.). The results of the ALD reported there are NO leaks. The preliminary results of the EM inspection reported pipe wall loss anomalies in twelve (12) of the 352 pipe segments inspected. Staff is currently reviewing the data in order to determine next course of action, if any.

Brielle Force Main (B FM)

The Authority contracted to perform a Non-Destructive Electromagnetic (EM) inspection of the 12" DIP which extends northward (under tidal marsh area) from the Brielle PS to the intersection of Morris Ave and Mount Lane (approx. 680 L.F.). The results of the EM inspection reported multiple pipe sections with 0% Remaining Wall Thickness (RWT) and multiple pipe sections with less than 20% RWT.

General Trends and Significant Events

GENERAL TRENDS

A) Capacity

By virtue of its NJPDES permit the Authority has a limited flow through hydraulic capacity to which it can provide treatment at 9.1 million gallons per day (MGD). In accordance with NJDEP Capacity Assurance Program, the Authority's current 12 month rolling average (as of December 2020) daily treated flow is 6.33 MGD, which represents 69.56% of its overall capacity, with 25.44% remaining before Capacity Assurance Program requirements will be met. Maximizing the use of the Authority's current treatment capacity is in fact the single largest component of insuring its cost-effective sustainability. The consumption of all available capacity to treat will bring on significant financial burdens in providing for upgrades and expansion to accommodate connections to the system that go beyond the current capacity.

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A), (CONTINUED)
(UNAUDITED)

B) Inflow and Infiltration

Being cognizant of its limited capacity and the negative affects incurred through unabated inflow and infiltration, the Authority in 2005 undertook a comprehensive Inflow and Infiltration abatement program on behalf of six of its eight member municipalities. The overall success of that program is best illustrated by the continued evaluation of long-term trends. Nonetheless, current data reveals significant reductions in average daily or baseline flows when making a comparison from a point in time prior to the project's implementation to those of today. By way of example, in 1998, total annual plant flow was 2.430 billion gallons of flow, compared to 2020 annual flow of 1.974 billion gallons of flow; representing a slight decrease in total treated flow. It must be stressed that during the twenty-one-year time period the equivalent of nearly 1,500 new users have connected to the system with a total projected rate of flow of 450,000 gpd; and in fact, a 25% decrease in treated flow could have potentially been realized if it weren't for the additional users.

The system's ability to continue to favorably respond to Inflow and Infiltration will clearly be dependent on the level of maintenance, renewal and replacement performed and the continued funding of future capital improvement programs at the local municipal level. Its (the system's) sustainability is key in controlling future sewer use rates of the Authority. The Authority maintains a positive and constant dialogue with its municipalities in a constant continued effort to abate inflow and infiltration.

The Authority is cognizant of the fact that the required Debt Service Payments for the previously made I&I repairs will begin to decline in 2021 and are scheduled to end in 2024. To this end, the Authority continues to explore the opportunity of implementing additional I&I work in the member municipalities, which could roll the existing set aside debt payments into a future 20-year borrowing.

C) Climate Change Analysis

Another key component to maximizing the use of the Authority's current capacity is preparedness and adaptation to existing trends and projected future changes in the earth's environment, more specifically Climate change and Sea Level Rise. The United States Environmental Protection Agency (EPA) recently made public its Climate Resilience Evaluation and Awareness Tool (CREAT) version 2.0, which has been established to guide utility owners and operators through information on potential climate-related threats and assessment of the potential risks for their critical pieces of infrastructure. The Authority subscribes to the use of this tool, and continues to evaluate adaptation options that may enhance the utility's resiliency toward climate change challenges. In the aftermath of the devastation inflicted by Super Storm Sandy, the Authority recognizes the necessity to incorporate mitigation and adaptation measures that address climate challenges into long term planning goals. As such, management has and continues to utilize CREAT to develop planning that may reduce the risk associated with changing temperature and precipitation patterns and rising sea level to all current and future Capital Improvement projects ensuring a comprehensive and cost-effective approach thereby, ensuring capacity to treat and convey.

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A), (CONTINUED)
(UNAUDITED)

FINANCIAL ANALYSIS

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

The Authority's financial condition remained strong at year-end with adequate liquid assets, reliable facilities and systems to meet demand, and a reasonable level of unrestricted net position. The current financial condition, technical support staff capabilities, and operating and modernization plans to meet anticipated customer needs are well balanced and under control.

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total Unrestricted Current Assets	\$14,196,315	\$13,125,523	\$11,291,600
Total Restricted Assets	3,910,647	4,257,384	4,454,542
Net Capital Assets	33,088,994	32,815,735	32,438,430
Deferred Outflows	<u>3,580,610</u>	<u>2,125,180</u>	<u>2,277,476</u>
Total Assets and Deferred Outflows	<u>\$54,776,566</u>	<u>\$52,323,822</u>	<u>\$50,462,048</u>
Total Current Liabilities Payable from Unrestricted Assets	5,007,256	4,419,469	4,255,024
Total Current Liabilities Payable from Restricted Assets	1,857,455	1,872,263	1,863,214
Total Non-Current Liabilities and Deferred Inflows	<u>29,501,709</u>	<u>29,807,139</u>	<u>31,322,817</u>
Total Liabilities and Deferred Inflows	<u>36,366,420</u>	<u>36,098,871</u>	<u>37,441,355</u>
Total Net Investment in Capital Assets	19,061,223	17,296,805	15,797,161
Total Restricted Net Position	3,700,681	4,001,050	4,190,364
Total Unrestricted Net Position	<u>(4,351,758)</u>	<u>(5,072,904)</u>	<u>(6,966,832)</u>
Total Net Position	<u>18,410,146</u>	<u>16,224,951</u>	<u>13,020,693</u>
Total Liabilities and Net Position	<u>\$54,776,566</u>	<u>\$52,323,822</u>	<u>\$50,462,048</u>

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A), (CONTINUED)
(UNAUDITED)

Results of Operations

The following data summarized the Statement of Revenues, Expenses and Changes in Net Position:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating Revenues	\$8,418,948	\$8,336,305	\$8,017,390
Operating Expenses	4,367,868	4,424,149	5,017,324
Depreciation	<u>2,140,840</u>	<u>2,097,577</u>	<u>1,991,573</u>
Total Operating Expenses	<u>6,508,708</u>	<u>6,521,726</u>	<u>7,008,897</u>
Operating Income	<u>1,910,240</u>	<u>1,814,579</u>	<u>1,008,493</u>
Non-Operating Revenues/(Expenses):			
Interest Income	200,884	87,568	75,179
Increase (Decrease) in Unemployment Reserve	2,738	1,020	(11,553)
Increase in Asset Management			216,500
Increase in Rate Stabilization		150,000	121,200
Increase in NJEIT Debt Service Reserve			
Bond Interest Expense	(444,850)	(534,345)	(588,848)
Amortization of Deferred Loss on Ref.	(66,998)	(66,998)	(66,998)
Amortization of Premium on Bond	<u>117,327</u>	<u>117,327</u>	<u>117,327</u>
Total Non-Operating Expenses	<u>(190,899)</u>	<u>(245,428)</u>	<u>(137,193)</u>
Income Before Contributions	1,719,341	1,569,151	871,300
Capital Contributions	<u>465,854</u>	<u>1,635,107</u>	<u>816,925</u>
Change in Net Position	2,185,195	3,204,258	1,688,225
Net Position, January 1	<u>15,224,951</u>	<u>13,020,693</u>	<u>11,332,468</u>
Net Position, December 31	<u>\$18,410,146</u>	<u>\$16,224,951</u>	<u>\$13,020,693</u>

There were no significant budget-to-actual variances.

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A), (CONTINUED)
(UNAUDITED)

Rates, Billing and Collection Process

The rate of charge per million gallons of sewage treated, known as the Bulk Rate, is set by the Authority on an annual basis in accordance with the Municipal and County Utilities Authorities Law as well as all of the subsequent Bonding Resolutions.

Member municipalities are required to pay annual charges to the Authority in equal quarterly installments. These annual charge payments are based on the previous 12 months actual wastewater flows and the current bulk rate. The amount of annual charge is stated in a certificate delivered to each municipality in November of the preceding year. The participants are required to make annual charge payments on or before the 15th day of January, April, July, and October.

Recognizing its responsibility to its member municipalities and ratepayers, the Authority continues to maintain modest rate increases averaging two percent per year.

<u>Year</u>	<u>Total User Rate Charge</u>
2018	\$ 7,449,085
2019	\$ 7,654,680
2020	\$ 7,863,653

Pursuant to the service contracts, the participants are required to pay interest at the rate established under RS 40:14A-21 on any annual charge payment or part thereof due to the Authority that shall remain unpaid for 15 days following its due date.

A review of the above table reflects that on average, the annual user rate charge increased 2.63%, which clearly demonstrates the efficiencies by the Authority in the cost to provide service.

Accounting Policies and Procedures

The Authority maintains, evaluates and improves (when necessary) its series of documented internal controls. This program consists of: Separation of Duties amongst personnel including receipts, payroll, personnel and other expenditure activities. During 2018, and partially as a result of the New Jersey Economic Development Authority and Single Audit requirements, the Authority thoroughly reviewed, and expanded its documented controls to include compliance with Prevailing Wage/Certified Payroll matters and confirmation of a contractor being classified as a Minority Woman Business Enterprise (commonly referred to as MBWE).

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A), (CONTINUED)
(UNAUDITED)

Accounting for Rate Stabilization Fund/Asset Management Plan

In October 2006, the Authority approved a management plan - rate stabilization policy whereas the Authority would designate the entire balance contained in the Rate Stabilization Fund. The plan/policy states that of the available fund balance, between 40 and 60% would be designated to protect the Authority and its ratepayers against an unforeseen and/or catastrophic event, 30% would be assigned to 'green energy projects' and the remaining balance be used for future rate stabilization. To be prudent, the Authority currently does NOT budget any income from misc. sources (i.e. interest, connection fee, review fees etc.).

Additionally, the Authority has put a renewed emphasis on implementing and refining its asset management program. This program includes creating a working document, which will detail all components of the Authority's operational assets. When completed, the program document will contain valuable at-a-glance information enabling the Authority to make prudent and informed decisions regarding repair and replacement. Funding to support this ongoing program is included in the Authority's cash management program and appropriations.

As of December 31, 2020, the Authority has set aside funds in the approximate amount of \$3,024,000 for the purpose of funding its Asset Management Plan/ Program to include but not be limited to Capital Improvements and Major Repairs to its Force Main Pipe, co-generation system, vehicles, outfall pipe, and communication equipment.

Capital Improvement Program and Debt Administration

The Authority Capital Improvement Program has been prepared in consultation with, and reviewed by the Authority's attorney, engineer, commissioners, and staff.

The Capital Project financing and purchases have been developed from specific reports. The Project Financing Plan does not include full lifecycle costs. Improved Asset Management planning is being developed to incorporate same.

On May 13, 2016, the Monmouth County Improvement Authority (MCIA) informed the Authority of its intent to refund its 2009, 2010 and 2011 bonds. Since the Authority was part of the MCIA's 2011 bond issuances, it took advantage of the opportunity to refund its bonds in order to provide debt service savings. As a result of this transaction, the Authority recognized approximately \$488,300 in net present value savings over the life of the bonds.

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A), (CONTINUED)
(UNAUDITED)

5 YEAR CAPITAL IMPROVEMENT PLAN COSTS

DESCRIPTION	ESTIMATED TOTAL COST	CURRENT BUDGET YEAR	2022	2023	2024	2025
Co Gen Resiliency Upgrade	\$ 203,970	\$203,970				
Force Main Assessment	750,000	750,000				
Settling Tank Repairs	150,000	150,000				
Major Repair & Upgrades	<u>3,000,000</u>	<u>400,000</u>	<u>1,300,000</u>	<u>1,300,000</u>		
Total	<u>\$ 4,103,970</u>	<u>\$ 1,503,970</u>	<u>\$1,300,000</u>	<u>\$1,300,000</u>		

Awards and Accreditations

In November 2014, the Authority's Sea Girt mobile enclosure pumping station and co-generation system was highlighted in Municipal Sewer and Water Magazine, a national magazine dedicated for sanitary, storm and water system maintenance professionals. The article drew national attention to the Authority for its forward-thinking concepts.

In December 2014, the Authority received the Governor's Environmental Excellence Award in the category of Innovative Technology category. The Authority was recognized for the use or deployment of a new or alternative method, procedure, process, system or facility which results in greater environmental protection than other technologies in current practice or comparable results at lower costs in terms of energy, natural resources or environmental impacts.

In 2018, the Authority's Belmar Pump Station Replacement Project was recognized by the New Jersey Environmental Infrastructure Trust as their "Project of the Week".

In 2019, the Authority was featured in a video, which was produced by Brentwood Industries and featured at the WEFTEC Annual Conference, which showcases the efficiencies of the Trickling Filter secondary treatment process.

Transparency:

Much attention continues to be focused on the transparency of local authorities and commissions in disclosing operational and financial information to the public. It must be noted that since 2007, the SMRSA has maintained its own website, www.smrta.org. The Authority is proud of its web presence and current site information which complies with all requirements endorsed by the New Jersey Senate Committee and the Americans with Disabilities Act.

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS (MD&A), (CONTINUED)
(UNAUDITED)

Debt Administration

At December 31, 2020, the Authority had outstanding bonds and loans of \$13,556,929 (Gross). The debt service schedule has a final maturity in 2037. Full details of the specific bond issues outstanding are found in Note 6 to the financial statements and the supplementary schedules.

Closing Remarks

The Authority has adopted appropriate strategic operating, finance and capital improvement plans that ensure the Authority will continue to provide the residents of our eight member municipalities with exemplary service 24 hours a day, 7 days per week, 365 days a year. The Board of Commissioners, Management and Staff collectively look forward to dedicating their attentions to sustainability, asset management, and continued succession planning over the next and succeeding audit cycles.

Readers of this audit report are invited to explore all of the Authority's activities on its website and encouraged to contact Management and/or the Commissioners with any further inquiry that they may have regarding any aspect of our Administration or Operations.

In closing, this Discussion and Analysis would not be complete if the Authority did not recognize the underlying core of the Authority, the recognition of the Board of Commissioners for their sound guidance, as well as acknowledgement of the hard work, dedication, ingenuity and personal fortitude of all its staff. Their diligence and commitment to the Authority's overall mission continues to contribute to its success. Going forward, the Authority remains committed to guarding the public health, advancing the Authority and providing excellent, uninterrupted service our ratepayers have come to expect and deserve.

Financial Statements

**SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
STATEMENT OF NET POSITION
DECEMBER 31,**

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>
Current Assets:		
Unrestricted:		
Cash and Cash Equivalents	\$ 14,153,609	\$ 13,121,523
Accounts Receivable	38,706	
Prepaid Expenses	4,000	4,000
Total Current Assets	<u>14,196,315</u>	<u>13,125,523</u>
 Restricted Assets:		
Cash and Cash Equivalents	\$ 3,375,797	\$ 4,250,184
Prepaid Expenses	527,650	
Deposits Held by Clerk of Superior Court	7,200	7,200
Total Restricted Assets	<u>3,910,647</u>	<u>4,257,384</u>
 Capital Assets:		
Property, Plant and Equipment	78,020,270	76,266,818
Less: Accumulated Depreciation	(49,200,850)	(47,276,135)
Construction in Progress	4,269,574	3,825,052
Net Capital Assets	<u>33,088,994</u>	<u>32,815,735</u>
 Deferred outflow of resources:		
Pension Benefits Related	585,758	882,376
Medical Benefits Related	2,562,540	743,493
Unamortized Deferred Gain or Loss on Refunding (Net)	432,312	499,311
	<u>3,580,610</u>	<u>2,125,180</u>
 TOTAL ASSETS AND DEFERRED OUTFLOWS	 <u><u>\$ 54,776,566</u></u>	 <u><u>\$ 52,323,822</u></u>

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

**SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
STATEMENT OF NET POSITION
DECEMBER 31,**

	<u>2020</u>	<u>2019</u>
<u>LIABILITIES</u>		
Current Liabilities:		
Payable From Unrestricted Assets:		
Accounts and Accrued Liabilities		
Payable - Operations	\$ 949,230	\$ 433,807
Unearned Revenue	4,058,026	3,985,662
	<u>5,007,256</u>	<u>4,419,469</u>
 Payable From Restricted Assets:		
Accounts Payable	10,379	12,957
Revenue Bonds, Due Within One Year	1,205,000	1,190,000
NJ Envir. Infrastructure Bonds, Due within one Yr.	442,489	433,129
Accrued Interest Payable	199,587	236,177
	<u>1,857,455</u>	<u>1,872,263</u>
 Total Current Liabilities	<u>6,864,711</u>	<u>6,291,732</u>
 Non-Current Liabilities:		
Compensated Absences	197,197	233,211
Net Pension Obligation	3,669,062	4,101,196
Net Medical Benefit Obligation	7,061,633	4,845,159
Long Term Portion of ERB Note Payable	996,336	821,239
Long Term Portion of NJEIT Bonds Payable	2,433,104	2,875,591
Long Term Portion of Revenue Bonds Payable	8,480,000	9,685,000
	<u>22,837,332</u>	<u>22,561,396</u>
 Total Non-Current Liabilities	<u>22,837,332</u>	<u>22,561,396</u>
 Total Liabilities	\$ 29,702,043	\$ 28,853,128
 Deferred inflow of resources		
Medical Benefit Related	3,944,957	4,401,871
Pension Benefit Related	1,816,266	1,823,390
Unamortized Premium on Bonds	903,154	1,020,482
	<u>6,664,377</u>	<u>7,245,743</u>
<u>NET POSITION</u>		
Net Investment in Capital Assets	\$ 19,061,223	\$ 17,296,805
Restricted for:		
Unemployment Compensation Insurance	42,708	39,970
Construction Fund	341,748	651,130
Bond Reserve Fund	1,611,225	1,619,950
Renewal and Replacement	500,000	500,000
Current Debt Service	1,205,000	1,190,000
Unrestricted:		
Designated	6,995,825	5,960,721
Undesignated	(11,347,583)	(11,033,625)
 TOTAL NET POSITION	\$ 18,410,146	\$ 16,224,951

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

**SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
DECEMBER 31,**

	<u>2020</u>	<u>2019</u>
Operating Revenue:		
Sewerage Use Charges	\$ 7,863,653	\$ 7,654,680
Connection Fees	129,625	263,379
Discharge Fees	20,601	12,232
NJEIT Project Charges	393,061	400,074
Miscellaneous Income	<u>12,008</u>	<u>5,940</u>
Total Operating Revenue	<u>8,418,948</u>	<u>8,336,305</u>
Operating Expenses:		
Personnel Costs	1,718,000	1,550,246
Administrative Expenses	1,195,371	1,469,723
Office Expense	68,744	80,608
Plant Operations and Maintenance	861,205	1,100,207
Systems Operations and Maintenance	182,951	223,365
Special Projects	341,597	
Depreciation	<u>2,140,840</u>	<u>2,097,577</u>
Total Operating Expenses	<u>6,508,708</u>	<u>6,521,726</u>
Operating Income	<u>1,910,240</u>	<u>1,814,579</u>
Non-Operating Revenue (Expenses):		
Interest Income	200,884	87,568
Net increase (decrease) in unemployment reserve	2,738	1,020
Increase in Rate Stabilization Reserve	-	150,000
Bond Interest Expense	(444,850)	(534,345)
Amortization of Deferred Gain or Loss on Refunding	(66,998)	(66,998)
Amortization of Premium on Bond	<u>117,327</u>	<u>117,327</u>
Non-Operating Income (Loss)	<u>(190,899)</u>	<u>(245,428)</u>
Income(loss) before Contributions	1,719,341	1,569,151
Capital Contribution:		
Grants	<u>465,854</u>	<u>1,635,107</u>
Change In Net Position	2,185,195	3,204,258
Net Position - January 1	<u>16,224,951</u>	<u>13,020,693</u>
Net Position - December 31	\$ <u><u>18,410,146</u></u>	\$ <u><u>16,224,951</u></u>

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

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED
DECEMBER 31,

EXHIBIT C

Page 1 of 2

	<u>2020</u>	<u>2019</u>
Cash Flows From Operating Activities		
Receipts From Customers and Users	\$ 8,047,537	\$ 8,257,026
Payments to Employees	(1,813,501)	(1,747,529)
Payments to Suppliers	(2,277,085)	(2,912,341)
Other Operating Receipts	<u>407,797</u>	<u>406,014</u>
Net Cash Provided by Operating Activities	<u>4,364,748</u>	<u>4,003,170</u>
Cash Flows From Capital and Related Financing Activities		
Acquisition of Capital Assets	(2,416,665)	(2,474,882)
Increase(Decrease) in Principal on Bonds and Loans-net	(1,448,032)	(1,072,011)
Interest Paid on Debt	(481,440)	(542,187)
(Increase)Decrease in Prepaid Debt Service	(527,650)	149,525
Capital Contributions	<u>465,854</u>	<u>1,635,107</u>
Net Cash Provided/(Used) By Capital and Related Financial Activities	<u>(4,407,933)</u>	<u>(2,304,448)</u>
Cash Flows from Investing Activities:		
Interest Income	<u>200,884</u>	<u>87,568</u>
Net Cash Provided By Investing Activities	<u>200,884</u>	<u>87,568</u>
Net (Decrease)/Increase in Cash and Cash Equivalents	157,699	1,786,290
Balance - Beginning of the Year	<u>17,371,707</u>	<u>15,585,417</u>
Balance - End of the Year	<u><u>\$ 17,529,406</u></u>	<u><u>\$ 17,371,707</u></u>
Reconciliation to Balance Sheet:		
Unrestricted/Designated and Undesignated	\$ 14,153,609	\$ 13,121,523
Restricted	<u>3,375,797</u>	<u>4,250,184</u>
	<u><u>17,529,406</u></u>	<u><u>17,371,707</u></u>

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

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED
DECEMBER 31,

EXHIBIT C
Page 2 of 2

	<u>2020</u>	<u>2019</u>
Reconciliation of Operating Income Net Cash		
Provided By Operating Activities:		
Operating Income/(Loss)	\$ 1,910,240	\$ 1,814,579
Adjustments To Reconcile Operating Income To		
Net Cash Provided By Operating Activities:		
Depreciation Expense	2,140,840	2,097,577
	<u>4,051,080</u>	<u>3,912,156</u>
Changes In Net Assets And Liabilities		
Increase (Decrease) in Unemployment Reserve	2,738	1,020
(Increase)Decrease in Rate Stabilization Reserve		150,000
(Increase)Decrease in Accounts Receivable	(38,706)	
Increase(Decrease) in Compensated Absences	(36,014)	35,503
Increase(Decrease) in Accounts Payable	515,413	(12,290)
(Increase)Decrease in Deferred Outflows Related to Pension	296,618	(34,430)
Increase(Decrease) in Deferred Inflows Related to Pension	(7,124)	40,234
Increase(Decrease) in Net Pension Obligation	(432,134)	6,944
Increase(Decrease) in Net Medical Related Items	(59,487)	(272,702)
Increase(Decrease) in Deferred Revenue	72,364	176,735
	<u>313,668</u>	<u>91,014</u>
Net Cash Provided By Operating Activities	<u><u>4,364,748</u></u>	<u><u>4,003,170</u></u>

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

Notes to Financial Statements

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
BELMAR, NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

1. ORGANIZATION

Reporting Entity

The South Monmouth Regional Sewerage Authority, a public body, politic and corporate of the County of Monmouth, State of New Jersey, was organized and exists under the Sewerage Authorities Law, constituting Chapter 138 of the Pamphlet Laws of 1946, of the State of New Jersey, and the acts amendatory thereof and supplemental thereof. The Authority was established in 1970, in accordance with the provisions of the Act, by the municipalities of Belmar, Brielle, Lake Como, Manasquan, Sea Girt, Spring Lake, Spring Lake Heights and Wall Township after determining that the lack of adequate sewerage treatment and disposal services within all or a portion of the territorial boundaries of the incorporating municipalities posed a serious public and water pollution problem. The Act authorized the Authority to issue its bonds and other obligations in an unlimited aggregate amount in order to accomplish its public purpose of promoting the relief of waters in or bordering the State of New Jersey from pollution by providing adequate sewerage treatment and disposal services to the Service Area.

The Authority provides sewerage treatment to its eight member municipalities. It is primarily supported through sewer use charges paid by the member municipalities. In 2020 and 2019, approximately 91% and 92%, respectively, of the Authority's operating revenues came from sewer use charges from these municipalities.

Component Unit

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include any potential units in the financial reporting entity was made by applying the criteria set forth in GASB Statements No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*. Blended component units, although legally separate entities, are in-substance part of the government's operations. Each discretely presented component unit would be or is reported in separate column in financial statements to emphasize that is legally separate from the government.

The basic-but not the only-criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
BELMAR, NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(CONTINUED)

1. ORGANIZATION, (continued)

management, the ability to significantly influence operations, and accountability to fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Finally, the nature and significance of a potential component unit to the primary government could warrant its inclusion within the reporting entity.

Based upon the application of these criteria, the Authority has no component units.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Authority prepares its financial statements in accordance with GAAP on an Enterprise Fund basis. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private businesses where the intent is that all costs of providing certain goods and services to the general public be financed or recovered primarily through user charges, or where it has been deemed that periodic determination of net income is appropriate for major repairs, public policy, management control, accountability, or other purposes. Accordingly, the Authority's financial statements are presented on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned and expenses are recorded when liabilities are incurred.

The Authority has adopted Governmental Accounting Standards Board ("GASB") pronouncements 1 through 91 and related interpretations issued through December 31, 2020.

On January 1, 2012, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which amends the net asset reporting requirement of Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows from resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The classifications of net position are defined as follows:

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

Net Investment in Capital Assets

The *net investment in capital assets* component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt also should be included in this component of net position. If there are significant unspent related debt proceeds or deferred inflows of resources at the end of the reporting period, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component (restricted or unrestricted) as the unspent amount.

Restricted

The *restricted* component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Generally, a liability relates to restricted assets if the asset results from a resource flow that also results in the recognition of a liability or if the liability will be liquidated with the restricted assets reported.

Unrestricted

The *unrestricted* component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Budgets and Budgetary Accounting

An annual operating budget is required to be adopted and integrated into the accounting system to provide budgetary control over revenues and expenditures in accordance with NJSA 40A:5A. The operating budget adopted annually covers the general fund activity only. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for the operation, maintenance, certain interest and general functions, and other charges for the fiscal year.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

A. Cash and Cash Equivalents

The Authority considers all highly-liquid investments with an initial maturity of three months or less to be cash equivalents.

B. Property, Plant and Equipment

Property, plant and equipment is stated at cost which includes direct construction costs, other expenditures related to construction, and certain professional costs. Construction costs are aggregated by individual project and charged to construction in progress until such time as projects are completed and put into operation.

Plant and equipment are depreciated utilizing the straight-line method for financial reporting purposes. The estimated useful lives of the assets are :

Treatment Plant	50 years
Buildings and Improvements	40 years
Digestors	30 years
Settling Tanks	30 years
Generators	25 years
Headworks	25 years
Machinery and Equipment	10-20 years
Vehicles	3-5 years
Software	3 years

Depreciation expense related to assets acquired through debt financing is charged to operations.

C. Restricted Accounts

The Authority has established the following funds in accordance with the terms of the applicable Bond Resolutions and the related Trust Agreement:

Revenue Fund - all amounts payable to the Authority as pledged revenues shall be turned over to the Trustee for deposit in this fund. The Trustee shall reserve in and, from time to time, pay to the Authority from the Revenue Fund amounts necessary to pay the expenses of operating, maintaining and repairing the facilities and for administrative expenses attributable to such facilities. Interest earned on an Authority investment is credited to this Fund.

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2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

C. **Restricted Accounts, (continued)**

Transfers from the Revenue Fund to the Bond Service Fund and other funds established under the Agreement shall be made in the amounts and in the order specified in the Trust Agreement governed by the terms of the applicable Bond Resolutions.

Operating Fund - resources provided by transfer from the Revenue Fund, payments made for operating expenses, in accordance with the operating reserve requirement, or for deposit in the Rebate Fund pursuant to resolution.

Bond Service Fund - make available to the paying agent funds for the payment of both principal and interest on the bonds at January 1, and interest on the bonds at July 1.

Bond Service Reserve Fund - the Trustee established this Fund and has on deposit the sum of \$1,611,225 as provided in the Trust Agreement. The purpose of this Fund is to make up any deficiencies in the Bond Service Fund.

Rebate Fund - created in accordance with the terms of the arbitrage and tax regulatory agreement executed by the Authority in connection with the authentication and delivery of any Series of Bonds.

The Authority shall deposit into the Rebate Fund amounts which it determines are subject to rebate to the United States Government in order to ensure that interest on any bonds issued as tax-exempt obligations continue to be excludable from federal income taxation.

The Authority will, at the applicable intervals, disburse to the United States Government, amounts accumulated in the Rebate Fund.

Construction Fund - established to receive proceeds derived from the issuance of any bonds issued for construction purposes. Amounts deposited in the Construction Fund shall be applied to pay the cost of the construction to the System.

Renewal and Replacement Fund - the Trustee established this fund and deposited therein the sum of \$500,000 as provided in the Trust Agreement. The purpose of this fund is to pay, with respect to the System, the cost of major repairs, renewals, replacements, or maintenance items of a type not recurring annually or at shorter intervals.

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2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

C. **Restricted Accounts, (continued)**

General Fund - this fund may be used for deficiencies in any of the preceding funds, and then for any lawful purpose.

Each of the above funds is held by the Trustee, except the Operating Fund, which is held by the Authority.

In addition to the above, the Authority established funds as follows:

Payroll Fund - an imprest fund for the disbursement of payroll checks and payroll liabilities.

Rate Stabilization Fund - established to offset the impact on rates of future plant expansion.

Special Renewal and Replacement Fund - established to offset the impact on rates of any cost of major repair, renewals, replacements, or maintenance items of any type not recurring annually or at shorter intervals in excess of amounts provided by the Renewal and Replacement Fund.

Unemployment Fund - established for the deposit of New Jersey Unemployment Insurance payroll deductions and employer's contributions in accordance with the statutory requirement effective January 1, 1978. Under present regulations governing the reimbursement method elected by the Authority for providing such insurance, all deposits and interest earned shall be held in the Trust Fund for payment of claims. Any deficit in the fund would have to be made up through the operating budget.

D. **Use of Estimates**

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

E. **Inventory of Supplies**

Minimal inventories of replacement parts, chemicals and supplies are maintained by the Authority and are expensed at the time the individual items are purchased.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

F. Unamortized Premium on Bonds

Deferred inflow of resources were realized by the issue of the Sewer Revenue Refunding Bonds (Series 2016) and the New Jersey Environmental Infrastructure 2017 Refunding Bond Issue, in the form of premium on bonds, which are being amortized over the life of the issues.

G. Gains and Losses on Debt Defeasance

Accounting gains and losses on advanced refundings of debt will be amortized over the life of the new debt. The unamortized amount as of December 31, 2020 was \$432,312 and is shown on the Statement of Net Position as a deferred outflow of resources.

H. Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied and are recorded as a liability until the revenue is both measurable and the Authority is eligible to realize the revenue.

Unearned revenue consists of sewer rent reserves which have not been earned by the Authority.

I. Income Taxes

The Authority is exempt from federal income tax under the Internal Revenue Code as it is a public body politic and corporate of the State of New Jersey.

J. Recent Accounting Pronouncements

Recently Issued Accounting Pronouncements

In May 2020, the Government Accounting Standards Board issued GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The effective dates of certain provisions contained in the following pronouncements are postponed by one year: Statement No. 83, *Certain Asset Retirement Obligations*; Statement No. 84, *Fiduciary Activities*;

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

J. Recent Accounting Pronouncements, (continued)

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*; Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*; Statement No. 90, *Majority Equity Interests*; Statement No. 91, *Conduit Debt Obligations*; Statement No. 92, *Omnibus 2020*; Statement No. 93, *Replacement of Interbank Offered Rates*; Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*; Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*; Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*; Implementation Guide No. 2019-2, *Fiduciary Activities*. The effective dates of the following pronouncements are postponed by 18 months: Statement No. 87, *Leases*; Implementation Guide No. 2019-3, *Leases*. The requirements of this Statement are effective immediately. The Authority is still determining the effects, if any, this statement will have on future financial statements.

In May 2020, the Government Accounting Standards Board issued GASB Statement No. 96, Subscription-Based Information Technology Arrangements. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022. The Authority is still determining the effects, if any, this statement will have on future financial statements.

In June 2020, the Government Accounting Standards Board issued GASB 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 Supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

J. Recent Accounting Pronouncements, (continued)

fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged and permitted by requirement as specified within this Statement. The Board considered the effective dates for the requirements of this Statement in light of the COVID-19 pandemic and in concert with Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

K. Grants

Contributions received from the U.S. Department of Homeland Security, U.S. Environmental Protection Agency, N.J. Department of Environmental Protection, and U.S. Department of Housing and Urban Development are recorded in the period in which they are awarded.

Grants receivable represent the total grant awards less amounts collected to date. Grants not internally restricted and utilized to finance operations are identified as operating revenue. Grants externally restricted for non-operating purposes are recorded as contributed capital and identified as grants-in-aid.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

L. Deferred Outflows and Deferred 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, reported after total assets, represents 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. Deferred inflows of resources, reported after total liabilities, represents 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.

Transactions are classified as deferred outflows of resources and deferred inflow of resources only when specifically prescribed by the Governmental Accounting Standards Board (GASB) standards. The Authority is required to report the following as deferred outflows of resources and deferred inflows of resources:

Defined Benefit Pension Plans - The difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension plan investments, changes in the Authority's proportion of expenses and liabilities to the pension as a whole, differences between the Authority's pension contribution and its proportionate share of contributions, and the Authority's pension contributions subsequent to the pension valuation measurement date.

Deferred Loss on Refunding of Bonds - Deferred loss on refunding arising from the issuance of revenue refunding bonds, is recorded as a deferred outflow of resources. The deferred loss is amortized in a systematic and rational method as a component of interest expense.

M. Unamortized Bond Premiums

Bond premiums arising from the issuance of long-term debt (bonds) are amortized over the life of the bonds, in a systematic and rational method, from the issue date to maturity as a component of interest expense. Bond premiums are presented as a deferral inflow of resources on the Statement of Net Position.

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3. CASH AND CASH EQUIVALENTS

Deposits

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation ("FDIC"), or by any other agency of the United States that insures deposits or the State of New Jersey Cash Management Fund. N.J.S.A. 17:9-42 requires New Jersey governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA").

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed depository insurance limits as follows:

- (a) The market value of the collateral must equal 5% of the average daily balance of public funds;
or
- (b) If the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value equal to 100% of the amount exceeding 75%.
- (c) All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000. The State of New Jersey Cash Management Fund is authorized by statute and regulations of the State Investment Council to invest in fixed income and debt securities which mature within one year. Collateralization of fund investments is generally not required.

Investments

New Jersey statutes establish the following securities as eligible for the investment of Authority funds:

- (a) Bonds or other obligations of the United States or obligations guaranteed by the United States.
- (b) Government Money Market Mutual Funds.
- (c) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an Act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor.

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3. CASH AND CASH EQUIVALENTS, (continued)

Investments, (continued)

- (d) Bonds or other obligations of the Authority, or bonds or other obligations of school districts of which the Authority is a part or within which the school district is located.
- (e) Bonds or other obligations, having a maturity date of not more than 397 days from the date of purchase, that are approved by the New Jersey Department of Treasury, Division of Investments.
- (f) Local Government Investment Pools.
- (g) Deposits with the State of New Jersey Cash Management Fund established pursuant to Section 1 of P.L. 1977, C.281 (C.52:18A:90.4).
- (h) Agreements for the repurchase of fully collateralized securities.

Repurchase agreements (15.1(a)(8)) must comply with the following conditions:

- (a) The underlying securities are permitted investments, pursuant to the list contained in (a) and (c) above.
- (b) The custody of the collateral is transferred to a third party. This means the bank must contract with a trusted third party to hold the collateral to ensure it is not pledged against any other investments.
- (c) The maturity of the agreement is not more than 30 days.
- (d) The underlying securities are purchased through a GUDPA bank.
- (e) A master repurchase agreement providing for the custody and security of collateral is executed.

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3. CASH AND CASH EQUIVALENTS, (continued)

Investments, (continued)

Local Government Investment Pools ("LGIP") (15.1(e)(2)) are subject to the following requirements:

- (a) It is managed in accordance with the SEC's government money market rules (2a-7).
- (b) It is rated in the highest category by a nationally recognized statistical rating organization.
- (c) Have their portfolio limited to U.S. Government securities as defined in 2a-7 and repurchase agreements that are collateralized by such U.S. Government securities.

Every local unit must have a Cash Management Plan ("Plan"); the Plan is subject to audit. In addition, when the Plan permits investments for more than one year, the investment must approximate the prospective use of funds. This primarily relates to U.S. securities and local bond issue purchases. The law also requires that cash management plans provide for the CFO to give the governing body a monthly report that summarizes:

- (a) All investments made or redeemed over the past month.
- (b) Each organization holding local unit funds.
- (c) The amount of securities purchased or sold, class or type of securities purchased, book value, earned income, fees incurred, and market value of all investments as of the report date.
- (d) Other information that may be required by the governing body.

As of December 31, 2020, cash and cash equivalents consist of the following:

Cash - Checking	\$1,414,331
New Jersey Cash Management Fund	4,100,734
Money Market and Savings Accounts	<u>12,014,341</u>
Total	<u>\$17,529,406</u>

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3. CASH AND CASH EQUIVALENTS, (continued)

New Jersey Cash Management Fund

All investments in the Fund are governed by the regulations of the Investment Council, which prescribe specific standards designed to insure the quality of investments and to minimize the risks related to investments. In all the years of the Division of Investment's existence, the Division has never suffered a default of principal or interest on any short-term security held by it due to the bankruptcy of a securities issuer; nevertheless, the possibility always exists, and for this reason a reserve is being accumulated as additional protection for the "Other-than-State" participants. In addition to the Council regulations, the Division sets further standards for specific investments and monitors the credit of all eligible securities issuers on a regular basis. As of December 31, 2020, the Authority had \$4,100,734 on deposit with the New Jersey Cash Management Fund.

Investments are stated at cost, which approximates market. The types of investments permitted are limited to Bond Indentures and are invested in U.S. Government Obligations with a maturity of three months or more.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Authority's policy is based on New Jersey statutes requiring cash be deposited only in New Jersey based banking institutions that participate in New Jersey Governmental Depository Protection Act (GUDPA) or in a qualified investment established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. As of December 31, 2020, \$0- of the Authority's bank balance of \$17,555,143 was exposed to custodial risk.

Interest Rate Risk

New Jersey Statutes 40A:5-15.1(a) limits the length of time for most investments to 397 days.

Credit Risk

New Jersey Statutes 40A:5-15.1(a) limits municipal investment maturities to those specified in the Statutes. The type of allowance investments are Bonds of the United States of America or the local unit or school districts of which the local unit is part of: obligations of federal agencies not exceeding 397 days; government money market mutual funds; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

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3. **CASH AND CASH EQUIVALENTS, (continued)**

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

4. **ACCOUNTS RECEIVABLE**

As of December 31, 2020, the Authority had restricted and unrestricted accounts receivable as follows:

	Balance <u>Jan.1, 2020</u>	Award <u>Amount</u>	Less: Amounts Received/ <u>Cancelled</u>	Balance <u>Dec. 31, 2020</u>
<u>Unrestricted:</u>				
New Jersey Joint Insurance Fund	\$ _____	<u>\$38,706</u>	\$ _____	<u>\$38,706</u>
Total Accounts Receivable - Unrestricted	<u>\$ _____</u>	<u>\$38,706</u>	<u>\$ _____</u>	<u>\$38,706</u>
	Balance <u>Jan.1, 2019</u>	Award <u>Amount</u>	Less: Amounts Received/ <u>Cancelled</u>	Balance <u>Dec. 31, 2019</u>
<u>Restricted</u>				
FEMA	<u>149,525</u>	_____	<u>149,525</u>	<u>0</u>
Total Accounts Receivable - Restricted	<u>\$149,525</u>	<u>\$ _____</u>	<u>\$149,525</u>	<u>\$0</u>

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5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following at December 31, 2020 and 2019:

	Dec. 31, 2019			Dec. 31, 2020
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$681,778	\$	\$	\$681,778
Construction in Progress	<u>3,825,052</u>	<u>2,166,022</u>	<u>1,721,500</u>	<u>4,269,574</u>
Total Capital Assets Not Being Depreciated	<u>4,506,830</u>	<u>2,166,022</u>	<u>1,721,500</u>	<u>4,951,352</u>
Capital Assets Being Depreciated:				
Plant and Improvements	70,482,563	1,735,733	141,243	72,077,053
Equipment and Vehicles	<u>5,102,477</u>	<u>233,843</u>	<u>74,881</u>	<u>5,261,439</u>
Totals at Historical Cost	<u>75,585,040</u>	<u>1,969,576</u>	<u>216,124</u>	<u>77,338,492</u>
Less Accumulated Depreciation:				
Plant and Improvements	42,927,093	1,870,486	141,243	44,656,336
Equipment and Vehicles	<u>4,349,042</u>	<u>270,353</u>	<u>74,881</u>	<u>4,544,514</u>
Total Accumulated Depreciation	<u>47,276,135</u>	<u>2,140,839</u>	<u>216,124</u>	<u>49,200,850</u>
Capital Assets, Net	<u>\$32,815,735</u>	<u>\$1,994,759</u>	<u>\$1,721,500</u>	<u>\$33,088,994</u>

Property, plant and equipment consisted of the following at December 31, 2019 and 2018:

	Dec. 31, 2018			Dec. 31, 2019
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
Capital Assets Not Being Depreciated:				
Land	\$681,778	\$	\$	\$681,778
Construction in Progress	<u>2,520,349</u>	<u>2,123,279</u>	<u>818,576</u>	<u>3,825,052</u>
Total Capital Assets Not Being Depreciated	<u>3,202,127</u>	<u>2,123,279</u>	<u>818,576</u>	<u>4,506,830</u>
Capital Assets Being Depreciated:				
Plant and Improvements	69,618,277	864,286		70,482,563
Equipment and Vehicles	<u>4,796,584</u>	<u>305,893</u>		<u>5,102,477</u>
Totals at Historical Cost	<u>74,414,861</u>	<u>1,170,179</u>	<u>0</u>	<u>75,585,040</u>
Less Accumulated Depreciation:				
Plant and Improvements	41,063,942	1,863,151		42,927,093
Equipment and Vehicles	<u>4,114,616</u>	<u>234,426</u>		<u>4,349,042</u>
Total Accumulated Depreciation	<u>45,178,558</u>	<u>2,097,577</u>	<u>0</u>	<u>47,276,135</u>
Capital Assets, Net	<u>\$32,438,430</u>	<u>\$1,195,881</u>	<u>\$818,576</u>	<u>\$32,815,735</u>

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6. LONG AND SHORT-TERM DEBT

On November 4, 2004, the Authority closed on New Jersey Environmental Infrastructure Trust and Fund Loan Bonds totaling \$5,996,270. These monies were drawn down in 2007 and were used to fund improvements to the member municipalities sewer collection system. The Trust Loans of 2004 were refunded leaving principal and interest outstanding as of December 31, 2020 was as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$338,227	\$27,164	\$365,391
2022	347,290	18,054	365,344
2023	228,001	8,495	236,496
2024	4,622	185	4,807
	<u>\$918,140</u>	<u>\$53,898</u>	<u>\$972,038</u>

On October 5, 2016, the Authority issued \$6,065,000 Refunding Bonds through the Monmouth County Improvement Authority ("MCIA") to partially advance refund their Sewer Revenue Bonds, Series 2011 in the amount of \$6,195,000.

The refunding resulted in the recognition of an accounting loss of \$462,766. This loss is shown as a Deferred Outflow on the Authority's Statement of Net Position and is being amortized over the life of the Refunding Bonds.

The unrefunded Sewer Revenue Bonds, Series 2011 and the 2016 Refunding MCIA Bonds outstanding as of December 31, 2020 were as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$400,000	\$245,300	\$645,300
2022	410,000	235,300	645,300
2023	535,000	218,900	753,900
2024	555,000	197,500	752,500
2025	575,000	175,300	750,300
2026	600,000	152,300	752,300
2027	625,000	128,300	753,300
2028	650,000	103,300	753,300
2029	680,000	77,300	757,300
2030	705,000	50,100	755,100
2031	730,000	21,900	751,900
	<u>\$6,465,000</u>	<u>\$1,605,500</u>	<u>\$8,070,500</u>

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6. LONG AND SHORT-TERM DEBT, (continued)

On October 20, 2011, the Authority issued \$9,225,000 Sewer Revenue Refunding Bonds, Series 2011. The Bonds were issued to refund \$9,190,000 Sewer Revenue Bonds, Series 2003.

The Refunding resulted in the recognition of accounting loss of \$601,775 on October 20, 2011. The Authority, under guidelines of GASB 23 which was issued on December 31, 1993, allows this loss to be amortized over the life of the bonds.

On December 31, 1993, the Governmental Accounting Standards Board issued Statement No. 23, entitled "Accounting and Financial Report for Refunds of Debt Reported by Proprietary Activities" ("GASB 23"). GASB 23 requires that the difference between the reacquisition price and the net carrying amount of retired debt be deferred and amortized in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, which ever is shorter. GASB 23 also states the new debt may be reported "net", with either parenthetical or note disclosure of the deferred amount on refunding; or it may be reported "gross", with both the debt liability and related deferred amount presented in the statement of net position. The Authority has elected to show both amounts separately on the Statement of Net Position.

Principal and interest outstanding on the Sewer Revenue Refunding Bonds, Series 2011 as of December 31, 2020 was as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	\$805,000	\$128,800	\$933,800
2022	805,000	92,575	897,575
2023	805,000	52,325	857,325
2024	<u>805,000</u>	<u>16,100</u>	<u>821,100</u>
	<u>\$3,220,000</u>	<u>\$289,800</u>	<u>\$3,509,800</u>

On November 21, 2017, the Authority, through NJEIT, issued \$660,000 and \$1,558,817 2017A-2 Bonds. The 2017A-2 Bonds, together with \$528,884 of principal forgiveness, was used to permanently finance the Belmar Notes.

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6. LONG AND SHORT-TERM DEBT, (continued)

Principal and interest outstanding on the 2017A-2 Bonds as of December 31, 2020 was as follows:

<u>Date</u>	<u>Trust</u>		<u>Fund</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	
2/1/2021	\$	\$10,335	\$26,421	\$36,756
8/1/2021	25,000	10,334	52,841	88,175
2/1/2022		9,710	26,421	36,131
8/1/2022	25,000	9,709	52,841	87,550
2/1/2023		9,085	26,421	35,506
8/1/2023	30,000	9,084	52,841	91,925
2/1/2024		8,335	26,421	34,756
8/1/2024	30,000	8,334	52,841	91,175
2/1/2025		7,585	26,421	34,006
8/1/2025	30,000	7,584	52,841	90,425
2/1/2026		6,835	26,421	33,256
8/1/2026	35,000	6,834	52,841	94,675
2/1/2027		5,960	26,421	32,381
8/1/2027	35,000	5,959	52,841	93,800
2/1/2028		5,588	26,421	32,009
8/1/2028	35,000	5,587	52,841	93,428
2/1/2029		5,172	26,421	31,593
8/1/2029	35,000	5,171	52,841	93,012
2/1/2030		4,735	26,421	31,156
8/1/2030	35,000	4,734	52,841	92,575
2/1/2031		4,275	26,421	30,696
8/1/2031	40,000	4,275	52,841	97,116
2/1/2032		3,725	26,421	30,146
8/1/2032	40,000	3,725	52,841	96,566
2/1/2033		3,175	26,421	29,596
8/1/2033	40,000	3,175	52,841	96,016
2/1/2034		2,600	26,421	29,021
8/1/2034	40,000	2,600	52,841	95,441
2/1/2035		2,025	26,421	28,446
8/1/2035	45,000	2,025	52,841	99,866
2/1/2036		1,350	26,421	27,771
8/1/2036	45,000	1,350	52,841	99,191
2/1/2037		675	26,421	27,096
8/1/2037	45,000	675	52,841	98,516
	<u>\$610,000</u>	<u>\$182,320</u>	<u>\$1,347,454</u>	<u>\$2,139,774</u>

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(CONTINUED)

6. LONG AND SHORT-TERM DEBT, (continued)

On January 11, 2018, the Authority issued a promissory note in the principal amount up to \$1,070,326. The loan was financed through the Energy Resilience Bank financing program (the "ERB Program"). The ERB Program is an initiative funded under the Federal Community Development Block Grant Disaster Recovery Program relating to Superstorm Sandy. The loan terms are as follows:

The ERB Loan shall amortize on a level debt service basis, annually, commencing on the first day of the first month that is at least six (6) months after the first of the month immediately following the Project Completion Date, and annually thereafter, such that the final scheduled amortization date shall be no greater than twenty (20) years from the date of the Note, until repaid by or on behalf of the Authority in full.

Interest on the ERB Loan shall be payable semi-annually at the rate of two percent (2%) per annum, with one of the two semi-annual interest payment dates being an ERB Loan Principal Payment Date, until the ERB Loan has been repaid in full. Interest shall accrue from the Project Completion Date, and not be paid, until six (6) months prior to the first ERB Loan Principal Payment Date; provided however, that at the sole discretion of the Authority, depending on the circumstances of Project Completion and the Note Resolution, the Authority may determine to delay the first interest payment date of the ERB Loan to a date certain set forth in a certificate of an Authorized Officer of the Authority.

As of December 31, 2020, the Authority has drawn down \$996,336 of the ERB Loan and will continue to draw the remainder of the loan authorized amount until the project is complete.

Short-term and Long-term debt activity for the year ended December 31, 2020 is as follows:

	Balance Dec. 31, <u>2019</u>	<u>Additions</u>	<u>Deductions</u>	Balance Dec. 31, <u>2020</u>	Amount Due Within <u>One Year</u>
NJEIT Bonds Payable	\$1,247,007	\$	\$328,867	\$918,140	\$338,227
Sewer Revenue Bonds, Series 2011A (MCIA)	785,000		385,000	400,000	400,000
Sewer Revenue Refunding Bonds, Series 2011	4,025,000		805,000	3,220,000	805,000
MCIA Pooled Loan, Series 2016	6,065,000			6,065,000	
NJEIT Bonds Payable 2017	2,061,715		104,262	1,957,453	104,262
Energy Resilience Bank Promissory Note	<u>821,239</u>	<u>175,097</u>	<u> </u>	<u>996,336</u>	<u> </u>
Total Long-Term Debt	<u>\$15,004,961</u>	<u>\$175,097</u>	<u>\$1,623,129</u>	<u>\$13,556,929</u>	<u>\$1,647,489</u>

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
BELMAR, NEW JERSEY
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(CONTINUED)

7. ACQUISITION OF LAND, EASEMENTS

No agreement has been reached with the owner of Parcel E-10. Condemnation proceedings have been completed for Parcel 16, with \$7,200 on deposit with the Superior Court at December 31, 2020. The Authority has obtained fee title for all other required parcels of land.

8. SEWER RENT RESERVE ACCOUNTS

The Service Agreements with member municipalities provide that payments shall be at 102% of the member municipality's obligation for sewer treatment services. The additional 2% shall be deposited to the credit of the municipality in a Sewer Rent Reserve Account until deposits and interest earned in investment of such amounts equals the next two quarterly payments to become due from the member municipality. Any excess shall be returned to the municipality. These accounts are being recorded as advance revenues of the Authority.

Investment accounts with the State of New Jersey Cash Management Fund have been established for each of the member municipalities as directed by the individual governing bodies.

9. COMPENSATED ABSENCES PAYABLE

The following agreements are contained in the labor union contract:

"Employees hired by the South Monmouth Regional Sewerage Authority prior to January 1, 2011 shall accrue twelve days of sick leave for each calendar year. All employees hired by the South Monmouth Regional Sewerage Authority either on or subsequent to January 1, 2011 shall during the first calendar year of employment accrue one sick day per month to a maximum of ten (10) total sick days. Thereafter any and all employees shall accrue ten sick days of sick leave on an annual basis. Employees hired on or after July 1, 2017 shall accrue one sick day per month up to six (6) days during their first calendar year of employment. Thereafter, such employees shall accumulate nine (9) days per year (2018 and thereafter)." All part time employees shall earn paid time off at a rate of one hour of sick time for every thirty hours worked, up to a maximum of forty earned sick leave hours per year.

"Unused sick leave days can be accumulated from year to year. Sick leave is to be used only for any extended absence due to sickness or accident and will not be granted as credit toward early retirement. Union employees, upon retirement through the PERS retirement system, job related disability or death, shall be paid for accrued and unused sick leave up to a maximum of 50 days in accordance with the schedule as contained in Article XXVI - Sick Leave Policy of the 2017-2018 Collective Bargaining Agreement between the SMRSA and its Local Union 4-406. Union employees with less than fifty days accrued are not entitled to reimbursement".

"Union employees hired subsequent to January 1, 2015 are not entitled to be paid for accrued and unused sick leave upon retirement, job related disability or death".

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
BELMAR, NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(CONTINUED)

9. COMPENSATED ABSENCES PAYABLE, (continued)

“Each union employee who has had the length of continuous employment as specified in the labor union contract shall be entitled to vacation with pay at the employee’s regular rate of pay in effect at the start of each vacation”.

“An employee may accrue vacation only to the extent that said employee shall have no more than one (1) accrued week (five working days) of vacation in any one calendar year. Said (1) week (five working days) of accrued vacation must be taken in the calendar year next following year in which the additional one week was accrued and said one (1) week (five working days) must be taken in consecutive working days”.

The following policies are contained in the Non-Union Employee Policy Manual:

“All permanent employees of the Authority shall be granted 12 sick days per year. Probationary employees shall earn one sick day per month for the first three months of service”.

“Employees hired prior to March 1, 2005 will be compensated for 50% of their accumulated unused sick leave up to but not exceeding 200 days; those hired after March 1, 2005 will be compensated for 50% of their accumulated unused sick leave up to but not exceeding 100 days. Unused sick leave will be reimbursed only when an employee is separated from employment as a result of retirement, permanent disability or death”.

Each non-union employee who has had the length of continuous employment as specified in the Non-Union Employee Policy Manual shall be entitled to vacation with pay at the employee’s regular rate of pay in effect at the start of such vacation.

“Vacation days earned and not utilized by an employee in any calendar year may be accumulated; however, an employee can accumulate no more than 10 working days at the close of each calendar year. All unused days are reimbursable to the employee at 100%, payable in a lump sum (less any standard payroll deductions) in the first pay period of the following calendar year. Employees are not required to accumulate 10 working days before seeking reimbursement for unused days. All accumulated and/or used days shall be reimbursed upon resignation, retirement, termination, permanent disability or death”.

A record of each employee’s sick leave and unused vacation is maintained.

At December 31, 2020 and 2019, the computed contingent liability for accumulated sick leave compensation and unused vacation time is estimated at \$197,197 and \$233,211, respectively.

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
BELMAR, NEW JERSEY
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(CONTINUED)

10. SERVICE AGREEMENTS

Service agreement rates were authorized for all member municipalities. The rate for 2020 was \$3,225.26 per million gallons of flow. The 2019 rate was \$3,486.04 per million gallons of flow.

11. PENSION PLAN

Description of Plans

Authority employees participate in the State of New Jersey Public Employees' Retirement System (PERS), a defined benefit public employee retirement systems or the Defined Contribution Retirement Program (DCRP), a tax-qualified defined contribution money purchase pension plan under Internal Revenue Code (IRC) 401(a).

Public Employees' Retirement System (PERS)

Plan Description

The State of New Jersey Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the "Division"). For additional information about the PERS, please refer to the Division's Comprehensive Annual Financial Report (CAFR) which can be found at www.state.nj.us/treasury/pensions.

Benefits Provided

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, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS. The following represents the membership tiers for PERS:

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

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11. PENSION PLAN, (continued)

Contribution Requirements

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

The contribution policy is set by laws of the State of New Jersey and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The pension funds originally provided for employee contributions based on 5.5% for PERS. This amount was increased to 6.5% plus an additional 1% phased in over 7 years beginning 2012, of the employee's annual compensation, as defined by law. Employers are required to contribute at an actuarially determined rate in all Funds. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS.

The Authority's contribution to the various plans, equal to the required contributions for each year, were as follows:

<u>Fiscal</u> <u>Year</u>	<u>PERS</u>
2020	\$229,555
2019	214,642
2018	206,834

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11. PENSION PLAN, (continued)

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68

Public Employees Retirement System (PERS)

At December 31, 2020, the Authority reported a liability of \$3,669,062 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2020, the Authority's proportion was .0224993920 percent, which was a decrease of .00026166 percent from its proportion measured as of June 30, 2019.

For the year ended December 31, 2020, the Authority recognized pension expense of \$229,555. At December 31, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$66,808	\$12,975
Changes of assumption	119,029	1,536,271
Net difference between projected and actual earnings on pension plan investments	125,411	
Changes in proportion	<u>274,510</u>	<u>267,020</u>
Total	<u>\$585,758</u>	<u>\$1,816,266</u>

Amounts reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date (June 30, 2020) will be recognized as a reduction of the net pension liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions (excluding changes in proportion) will be recognized in pension expense as follows:

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11. PENSION PLAN, (continued)

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)

Public Employees Retirement System (PERS), (continued)

Year ended December 31:

2021	\$(465,755)
2022	(424,627)
2023	(242,663)
2024	(98,129)
2025	(21,223)

Changes in Proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 5.16, 5.21, 5.63, 5.48, 5.57, 5.72 and 6.44 years for 2020, 2019, 2018, 2017, 2016, 2015 and 2014 amounts, respectively.

Additional Information

Local Group Collective balances net of nonemployer (State of New Jersey) balances at June 30, 2020 and June 30, 2019 are as follows:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
Collective deferred outflows of resources	\$2,347,583,337	\$3,149,522,616
Collective deferred inflows of resources	7,849,949,467	7,645,087,574
Collective net pension liability	16,435,616,426	18,018,482,972
Authority's Proportion	.0224993920%	.0227610530%

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
BELMAR, NEW JERSEY
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11. PENSION PLAN, (continued)

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)

Public Employees Retirement System (PERS), (continued)

Actuarial Assumptions

The collective total pension liability for the June 30, 2020 measurement date was determined by an actuarial valuation as of July 1, 2019, which rolled forward to June 30, 2020. This actuarial valuation used the following assumptions, applied to all periods in the measurement.

Inflation Rate:	
Price	2.75%
Wage	3.25%
Salary Increases:	
Through 2026	2.00-6.00% (based on years of service)
Thereafter	3.00-7.00% (based on years of service)
Investment Rate of Return	7.00 Percent

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2014 to June 30, 2019. 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.

Mortality Rates

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

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
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11. PENSION PLAN, (continued)

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)

Public Employees Retirement System (PERS), (continued)

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2020) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments 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 real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2020 are summarized in the following table:

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

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
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11. PENSION PLAN, (continued)

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)

Public Employees Retirement System (PERS), (continued)

Discount Rate

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

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

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

	<u>June 30, 2020</u>		
	<u>1%</u>	<u>At Current</u>	<u>1%</u>
	<u>Decrease</u>	<u>Discount Rate</u>	<u>Increase</u>
	<u>6.00%</u>	<u>7.00%</u>	<u>8.00%</u>
Authority's proportionate share of the pension liability	\$4,709,193	\$3,669,062	\$2,919,312

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
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11. PENSION PLAN, (continued)

ACCOUNTING AND FINANCIAL REPORTING FOR PENSION IN THE FINANCIAL STATEMENTS PER - GASB NO. 68, (continued)

Public Employees Retirement System (PERS), (continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Financial Report for the State of New Jersey Public Employees Retirement System (PERS). The financial report may be accessed at www.state.nj.us/treasury/pensions.

12. OTHER POST-RETIREMENT BENEFITS

The South Monmouth Regional Sewerage Authority contributes to the State Health Benefits Program (SHBP) a cost-sharing, multi-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. The SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq. to provide health benefits to State employees, retirees, and their dependents. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, dental, and Medicare Part B reimbursement to retirees and their covered dependents.

The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. In 1994, the South Monmouth Regional Sewerage Authority authorized participation in the SHBP's post-retirement benefit program through resolution number 18-94. Members enrolled in the New Jersey State Health Benefits Program who retire from the South Monmouth Regional Sewerage Authority with a minimum of 15 years consecutive employment or service with the SMRSA and with 25 years or more of service in the State of New Jersey pension system or retire on an approved disability retirement are eligible to participate in the SHBP's post-retirement benefit program, which includes surviving spouses and dependents. In accordance with Chapter 2, P.L. 2010 while either actively employed and/or retired, said employee will contribute a state mandated copayment toward the cost of the health plan selected.

Pursuant to Chapter 78, P.L. 2011, future retirees eligible for postretirement medical coverage who have less than 20 years of creditable service on June 28, 2011 will be required to pay a percentage of the cost of their health care coverage in retirement provides 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.

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
BELMAR, NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(CONTINUED)

12. OTHER POST-RETIREMENT BENEFITS, (continued)

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at <http://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

Funding Policy

Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the plan have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Contributions to pay for the health premiums of participating employees in the SHBP are billed to the South Monmouth Regional Sewerage Authority on a monthly basis.

The South Monmouth Regional Sewerage Authority contributions for retirees to health benefits for the years ended December 31, 2020 and 2019 were \$180,884 and \$173,226, respectively, which equaled the required contributions for each year. There were 14 and 14 retired participants and dependents eligible at December 31, 2020 and 2019, respectively.

Total OPEB Liability

At December 31, 2020 and 2019, the Authority had a liability of \$7,061,633 and \$4,845,159, respectively, for its proportionate share of the non-special funding net OPEB liability. The net OPEB liability was measured as of June 30, 2020 and 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net OPEB liability was based on a projection of the Authority's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers in the plan. At June 30, 2020, the Authority's proportion was .039348 percent, which is a decrease of .00358 percent from its proportion measured at June 30, 2019.

For the year ended December 31, 2020 and 2019, the Authority recognized medical expense of \$69,345 and \$133,110, respectively. At December 31, 2020 and 2019, deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
BELMAR, NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(CONTINUED)

12. OTHER POST-RETIREMENT BENEFITS, (continued)

	<u>2020</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	185,998	1,315,008
Changes of assumptions	1,056,198	1,570,398
Net difference between projected and actual earnings on OPEB plan investments	4,485	
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	<u>1,315,859</u>	<u>1,059,551</u>
Total	<u>\$2,562,540</u>	<u>\$3,944,957</u>

	<u>2019</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$	1,717,016
Net difference between projected and actual earnings on OPEB plan investments	3,991	1,416,913
Changes in proportion and differences between the Authority's contributions and proportionate share of contributions	<u>739,502</u>	<u>1,267,942</u>
Total	<u>\$743,493</u>	<u>\$4,401,871</u>

Amounts reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the subsequent year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB (excluding changes in proportion) will be recognized in OPEB expense as follows:

Year ended June 30:	
2021	(379,596)
2022	(379,942)
2023	(380,498)
2024	(381,007)
2025	(259,798)
Thereafter	<u>142,118</u>
Total	<u>(1,636,725)</u>

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
BELMAR, NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(CONTINUED)

12. OTHER POST-RETIREMENT BENEFITS, (continued)

Changes in Proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflows of resources related to changes in proportion. These amounts should be recognized (amortized) by each employer over the average of the expected remaining service lives of all plan members, which is 7.87, 8.05 and 8.14 years for 2020, 2019 and 2018 amounts, respectively.

Actual Assumptions and Other Inputs

The total OPEB liability for the June 30, 2020 measurement date was determined by an actuarial valuation as of July 1, 2019, which rolled forward to June 30, 2019. The total OPEB liability as of June 30, 2020 was determined by an actuarial valuation as of June 30, 2019, which was rolled forward to June 30, 2020. The 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.

Inflation rate	2.50%
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Salary increases*:

Public Employees' Retirement System (PERS)

Initial fiscal year applied

Rate through 2026

2.00% to 6.00%

Rate thereafter

3.00% to 7.00%

Police and Firemen's Retirement System (PFRS)

Rate for all future years

3.25% to 15.25%

Mortality:

PERS

Pub-2010 General classification headcount weighted mortality with fully generational mortality improvement projections from the central year using Scale MP-2020

PFRS

Pub-2010 Safety classification headcount weighted mortality with fully generational mortality improvement projections from the central year using Scale MP-2020

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

100% of active members are considered to participate in the Plan upon retirement.

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
BELMAR, NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(CONTINUED)

12. OTHER POST-RETIREMENT BENEFITS, (continued)

Health Care Trend Assumptions

For pre-Medicare medical benefits, the trend is initially 5.6% and decreases to a 4.5% long-term trend rate after seven years. For post-65 medical benefits, the actual fully-insured Medicare Advantage trend rates for fiscal year 2021 through 2022 are reflected.. The rates used for 2023 and 2024 are 21.83% and 18.53%, respectively, trending to 4.5% for all future years. For prescription drug benefits, the initial trend rate is 7.5% and decreases to a 4.5% long-term trend rate after seven years.

Discount Rate

The discount rate for June 30, 2020 and 2019 was 2.21% and 3.50%, respectively. This represents the municipal bond return rate as chosen by the Division. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

Sensitivity of Net OPEB Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net OPEB liability as of June 30, as well as what the Authority's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1 percentage point higher than the current rate:

	<u>June 30, 2020</u>		
	<u>1%</u>	<u>At Current</u>	<u>1%</u>
	<u>Decrease</u>	<u>Discount Rate</u>	<u>Increase</u>
	<u>1.21%</u>	<u>2.21%</u>	<u>3.21%</u>
Authority's proportionate share of			
Net OPEB liability	\$8,348,342	\$7,061,633	\$6,043,086

Sensitivity of Net OPEB Liability to Changes in the Healthcare Trend Rates:

The following presents the Authority's proportionate share of the net OPEB liability as of June 30, as well as what the Authority's proportionate share of the net OPEB liability would be if it were calculated using a healthcare trend rate that is 1-percentage point lower or 1 percentage point higher than the current rate:

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
BELMAR, NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(CONTINUED)

12. OTHER POST-RETIREMENT BENEFITS, (continued)

	<u>June 30, 2020</u>		
	<u>1%</u> <u>Decrease</u>	<u>Healthcare Cost</u> <u>trend Rate</u>	<u>1%</u> <u>Increase</u>
Authority's proportionate share of Net OPEB liability	\$5,843,509	\$7,061,633	\$8,656,784

Chapter 48, P.L. 1999, provides eligible participating local employers considerable flexibility in managing their postretirement medical costs. It also brings State Health Benefits Program (SHBP) eligibility standards for employer-paid coverage into alignment with local government laws.

13. HEALTHCARE COSTS

Governor Christie signed Chapter 78, P.L. 2011 into law, effective June 28, 2011. This law provides for changes to the manner in which the State-administered retirement systems operate and to the benefit provisions of those systems. The law also changes the manner in which the State-administered Health Benefits Programs operate and the employee contribution and benefit provisions of those programs. In summary, the changes in the law require that effective June 28, 2011, all employees receiving health benefits to contribute to the cost of health benefits at a rate of not less than 1.5%, with increased employee contributions phased in over a 4-year period. The percentage rate of contribution is determined based on the employee's annual salary and the selected level of coverage.

In addition, the law Requires all public employers, including local government employers to establish a Section 125 Plan flexible spending arrangement (FSA) that satisfies the requirements under Section 125 of the Internal Revenue Code for reimbursement of medical and dental plan participant costs. The law specifically required all local unit employers to provide their employees with two plan benefits: a 'Premium Option Plan' (POP) and a Flexible Spending Account (FSA). In September 2011, the Authority by resolution implemented the 'Premium Option Plan' (POP) and authorized the 'Flexible Spending Account' (FSA).

Chapters 1 and 2 P.L. 2010 restricts health benefits participation for newly appointed and elected Authority Commissioners. As of May 21, 2010, newly appointed Commissioners of the SMRSA are not eligible for participation in the State Health Benefit Program.

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
BELMAR, NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(CONTINUED)

14. DEFERRED COMPENSATION PLAN

The Authority offers its employees a Deferred Compensation Plan ("Plan") created in accordance with Internal Revenue Code Section 457. The Plan, available to all Authority employees, permits them to defer a portion of their salary until future years. The Authority, as Plan Administrator, has contracted with MetLife Retirement Service to be the Plan Agent and to assist in the administration of the Plan. The Plan Agent is subject to the supervision and direction of the Plan Administrator and does not have authority to control the operation of the Plan.

Prior to December 1998, all amounts of compensation deferred under the Plan, all property and rights purchased with these amounts, and all income attributable to those amounts, property, or rights (until paid or made available to the employee or other beneficiary) was solely the property and rights of the Authority without being restricted to the provisions of benefits under the Plan, subject only to the claims of the Authority's general creditors. Participants' rights under the Plan were equal to those of general creditors of the Authority in an amount equal to the fair market value of the deferred account for each participant.

The Small Business Job Protection Act of 1996 ("Act") required plans created before August 20, 1996 to be held in trust for the exclusive benefit of participating employees and not be accessible by the Authority or its creditors by January 1, 1999. In addition, the Act permits certain in-service distributions of \$3,500 or less to program participants and provides the indexing of the previous \$7,500 annual contribution limit for inflation.

The Authority, in accordance with Internal Revenue Code 457, amended the Deferred Compensation Plan to establish an exclusive benefit trust whereby all Plan investments are held for the exclusive benefit of the Plan's participants and beneficiaries, and are not subject to the claims of the Authority's general creditors. As such, the Deferred Compensation Plan amounts as of December 31, 2020 or 2019 are not reflected on the Authority's balance sheet.

15. AMOUNTS REQUIRED BY BOND RESOLUTIONS

The following cash and cash equivalent accounts are required by the Authority's bond resolutions:

Bond Service Reserve Fund:	
Cash and Investments on Hand	\$1,579,100
Bond Reserve Required	<u>1,611,225</u> ⁽¹⁾
Excess or (Deficit)	<u>(\$32,125)</u>
Bond Debt Service Fund:	
Cash and Prepaid Expenses	1,405,100
Debt Service Required	<u>1,404,587</u>
Excess or (Deficit)	<u>\$513</u>

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
BELMAR, NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(CONTINUED)

15. AMOUNTS REQUIRED BY BOND RESOLUTIONS, (continued)

Renewal and Replacement Account:	
Cash and Investments on Hand	\$657,891
Renewal and Replacement Required	<u>500,000</u>
Excess or (Deficit)	<u>\$157,891</u>

⁽⁴⁾There were sufficient funds in the Revenue Fund to fund this deficit.
The appropriate transfer was made by the trustee after year end.

16. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; error and omission, injuries to employees; and natural disaster. The Authority is a member of the New Jersey Utility Authority Joint Insurance Fund. The joint insurance pool is both an insured and self-administered group of municipalities established for the purpose of insuring against property damage, general liability, motor vehicles and equipment liability and workmen's compensation. The joint insurance fund will be self-sustaining through member premiums. The joint insurance fund participates in the Municipal Excess Liability Program which has a contract for excess liability insurance for property.

New Jersey Unemployment Compensation Insurance

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

<u>Fiscal</u>	Employee Contributions/ Interest Earnings/ Authority	Amount	Ending
<u>Year</u>	<u>Contributions</u>	<u>Reimbursed</u>	<u>Balance</u>
2020	\$2,738	\$-0-	\$42,708
2019	3,251	-0-	39,970
2018	3,301	14,854	36,719

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
BELMAR, NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(CONTINUED)

17. DESIGNATION OF UNRESTRICTED NET POSITION

The Authority maintains funds that, although may be spent for any lawful purpose by the Authority, have been designated by the Board as follows:

	<u>2020</u>	<u>2019</u>
Designated for:		
Pension	\$719,457	\$494,457
Rate Stabilization Fund	1,797,475	1,797,475
Asset Management	3,023,985	2,406,473
NJEIT Debt Service	1,275,954	1,233,362
Healthcare	<u>178,954</u>	<u>28,954</u>
Total Designated - Unrestricted	<u>\$6,995,825</u>	<u>\$5,960,721</u>

The remaining, undesignated portion of the Authority's net position was comprised of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Post-Retirement Employer Health		
Benefits Related	\$(8,440,050)	\$(8,503,537)
Pension Related	(4,899,570)	(5,276,356)
Available for Use in Future Budgets	<u>1,992,037</u>	<u>2,746,268</u>
Total	<u>(\$11,347,583)</u>	<u>(\$11,033,625)</u>

18. CONTINGENCIES AND COMMITMENTS

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

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
BELMAR, NEW JERSEY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(CONTINUED)

18. CONTINGENCIES AND COMMITMENTS, (continued)

The Authority has entered into contracts for the capital projects that have remaining balances as follows:

Force Main/Outfall Pipe Assessment	\$636,758
Co-Generation	<u>203,071</u>
Total	<u><u>\$839,829</u></u>

19. OTHER MATTERS

On March 9, 2020, Governor Phil Murphy signed Executive Order No. 103 that declared a State of Emergency and Public Health Emergency across all 21 counties in New Jersey in response to address the novel coronavirus (COVID-19) outbreak. At the time of this report, the overall effects of the COVID-19 pandemic are unknown. In efforts to reduce the spread of the virus, many companies and organizations have either reduced staff or closed down, thus creating a potential financial dilemma among many of the ratepayers in the municipalities serviced by the South Monmouth Regional Sewerage Authority. The Authority has identified several risks as a result of this pandemic, including a possible delay in collection of participant charges. The Authority will continue to monitor the situation closely.

20. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through February 2, 2022 the date which the financial statements were available to be issued and no additional items, except as noted above, were noted for disclosure.

Required Supplementary Information

South Monmouth Regional Sewerage Authority
Schedules of Required Supplementary Information
Schedule of Authority's Share of Net Pension Liability - PERS
Last 10 Fiscal Years*

	2020	2019	2018	2017	2016	2015	2014
Authority's proportion of the net pension liability (asset)	0.0227610530%	0.0227610530%	0.0207940900%	0.0225781018%	0.0230401048%	0.0232544613%	0.0217067116%
Authority's proportionate share of the net pension liability (asset)	\$ 3,669,062	\$ 4,101,196	\$ 4,094,252	\$ 5,255,821	\$ 6,523,968	\$ 5,220,161	\$ 4,064,090
Authority's covered payroll - PERS	\$ 1,562,040	\$ 1,626,257	\$ 1,599,913	\$ 1,476,385	\$ 1,551,574	\$ 1,586,916	\$ 1,608,288
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	234.89%	252.19%	255.90%	355.99%	420.47%	328.95%	252.70%
Plan fiduciary net position as a percentage of the total pension liability	58.32%	56.27%	53.60%	48.10%	57.23%	52.07%	47.92%

* GASB requires that ten years of information be presented. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

South Monmouth Regional Sewerage Authority
Schedules of Required Supplementary Information
Schedule of Authority's Contributions - PERS
Last 10 Fiscal Years*

	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 229,555.00	\$ 214,642.00	\$ 206,834.00	\$ 204,685.00	\$ 206,019.00	\$ 184,863.00	\$ 168,310.00
Contributions in relation to the contractually required contribution	\$ (229,555.00)	\$ (214,642.00)	\$ (206,834.00)	\$ (204,685.00)	\$ (206,019.00)	\$ (184,863.00)	\$ (168,310.00)
Contribution deficiency (excess)				\$ -	\$ -	\$ -	\$ -
Authority's covered payroll - PERS	\$ 1,562,040	\$ 1,626,257	\$ 1,599,913	\$ 1,476,385	\$ 1,551,574	\$ 1,586,916	\$ 1,608,288
Contributions as a percentage of covered payroll	14.70%	13.20%	12.93%	13.86%	13.28%	11.65%	10.47%

* GASB requires that ten years of information be presented. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

**South Monmouth Regional Sewerage Authority
Note to Required Schedules of Supplementary Information
For the Year Ended December 31, 2020**

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Change in benefit terms

None

Change in assumptions

The calculation of the discount rate used to measure the total pension liability is dependent upon the long-term expected rate of return, and the municipal bond index rate. There was a change in the municipal bond index rate from the prior measurement date (3.87%) to the current measurement date (3.50%), resulting in a change in the discount rate from 5.66% to 6.28%. This change in the discount rate is considered to be a change in actuarial assumptions under GASBS No. 68.

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
Required Supplementary Information Schedule of Changes in the Authority's Proportionate Share of the State OPEB Liability
Last Three Fiscal Years

	2020	2019	2018	2017
Total OPEB Liability:				
Service Cost	238,429	\$238,420	\$354,811	\$375,416
Interest	195,734	227,514	302,493	228,673
Changes in Benefit Terms	407	(681)		
Difference Between Expected and Actual Experience	213,072	(500,724)	(1,435,649)	
Changes of Assumptions	1,209,939	(585,079)	(916,185)	(912,632)
Benefit Payments	-183,448	(168,174)	(166,916)	(147,232)
Contributions - Members	14,774	15,470	21,373	18,897
Change in Allocation			891,793	(810,422)
Net Change in Total OPEB Liability	1,688,907	(773,254)	(948,280)	(1,247,300)
Total OPEB Liability - Beginning	5,553,505	6,326,759	7,275,039	8,522,339
Total OPEB Liability - Ending	7,242,412	\$5,553,505	\$6,326,759	\$7,275,039
Plan Fiduciary Net Position:				
Contributions - Employer	115,055	123,906	166,747	134,650
Contributions - Non-Employer Contribution Entities	13,776	15,686	21,199	18,714
Contributions - Members	14,774	15,470	21,373	18,897
Net Investment Income	1,125	1,726	919	279
Benefit Payments	-183,448	(168,174)	(166,916)	(147,232)
Administrative Expense	-3,901	(3,390)	(3,246)	(3,137)
Change in Allocation			9,219	(5,573)
Net Change in Plan Fiduciary Net Position	-42,619	(14,776)	49,295	16,598
Plan Fiduciary Net Position - Beginning	109,727	124,503	75,207	58,609
Plan Fiduciary Net Position - Ending	67,108	109,727	124,502	75,207
Authority's Net OPEB Liability	\$7,242,412	\$5,443,778	\$6,202,257	\$7,199,832

GASB requires that ten years of information be presented. However, since fiscal year 2017 was the first year of GASB 75 implementation, ten years is not presented. Each year thereafter, or additional year will be included until ten years of date is presented.

South Monmouth Regional Sewerage Authority
Schedules of Required Supplementary Information
Schedule of Authority's Share of Net OPEB Liability
*Last 10 Fiscal Years**

	2020	2019	2018	2017
Authority's proportion of the net OPEB liability (asset)	0.0357680000%	0.0357680000%	0.0358900000%	0.0352660000%
Authority's proportionate share of the net OPEB liability (asset)	\$ 7,061,633	\$ 4,845,159	\$ 6,202,257	\$ 7,199,832
Authority's covered payroll	\$ 1,562,040	\$ 1,626,257	\$ 1,599,913	\$ 1,476,385
Authority's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	452.08%	297.93%	387.66%	487.67%
Plan fiduciary net position as a percentage of the total OPEB liability	0.91%	1.97%	1.97%	1.03%

* GASB requires that ten years of information be presented. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

South Monmouth Regional Sewerage Authority
Schedules of Required Supplementary Information
Schedule of Authority's OPEB Contributions
Last 10 Fiscal Years*

	2019	2019	2018	2017
Contractually required contribution	\$ 163,470.00	\$ 163,470.00	\$ 277,916.00	\$ 272,058.00
Contributions in relation to the contractually required contribution	\$ (163,470.00)	\$ (163,470.00)	\$ (277,916.00)	\$ (272,058.00)
Contribution deficiency (excess)				\$ -
Authority's covered payroll	\$ 1,626,257	\$ 1,626,257	\$ 1,599,913	\$ 1,476,385
Contributions as a percentage of covered payroll	10.05%	10.05%	17.37%	18.43%

* GASB requires that ten years of information be presented. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

**South Monmouth Regional Sewerage Authority
Note to Required Schedules of Supplementary Information
For the Year Ended December 31, 2020**

Other Postemployee Retirement Benefits

Change in benefit terms

None

Change in assumptions

Assumptions used in calculating the OPEB liability are presented in Note 12.

Supplementary Information

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2020

	Unrestricted	Invested in Capital Assets	Unemployment Compensation Insurance	Bond Reserve Fund	Restricted Revel and Replacement	Construction Fund	Current Debt Service	Total
Operating Revenue:								
Sewer Use Charges	7,863,653							7,863,653
Connection Fees	129,625							129,625
Discharge Fees	20,601							20,601
NET Project Charges	393,061							393,061
Miscellaneous Income	12,008							12,008
Total Operating Revenue	8,418,948							8,418,948
Operating Expense:								
Personnel Costs	1,718,000							1,718,000
Administrative Expenses	1,195,371							1,195,371
Office Expenses	68,744							68,744
Plant Operations and Maintenance	861,205							861,205
Systems Operations and Maint.	182,951							182,951
Special Projects	341,597							341,597
Depreciation Expense	2,140,840							2,140,840
Total Operating Expense	6,508,708							6,508,708
Operating Income	1,910,240							1,910,240
Non-Operating Revenue (Expense):								
Interest Income	200,884							200,884
Interest Expense	(444,850)							(444,850)
Net Increase in Reserve for Unemployment			2,738					2,738
Amortization of Deferred Gain or Loss on Refunding	(66,998)							(66,998)
Amortization of Bond Premiums	117,527							117,527
Non-Operating Revenue (Expense)	(193,637)		2,738					(190,899)
Net Income (Loss) Before Transfers	1,716,603		2,738					1,719,341
Transfers:								
Other	(1,461,311)	1,764,418		(8,725)		(309,382)	15,000	-
Increase/(Decrease) in Net Position before Contributions	255,292	1,764,418	2,738	(8,725)		(309,382)	15,000	1,719,341
Capital Contribution:								
Grants	465,854							465,854
Change in Net Position	721,146	1,764,418	2,738	(8,725)		(309,382)	15,000	2,185,195
Net Position - January 1, 2019	(5,072,904)	17,296,805	39,970	1,619,950	500,000	651,130	1,190,000	16,224,951
Net Position - December 31, 2019	(4,351,758)	19,061,223	42,708	1,611,225	500,000	341,748	1,205,000	18,410,146
Analysis of Unrestricted:								
Designated	6,995,825							6,995,825
Undesignated	(11,347,583)							(11,347,583)
Total	(4,351,758)							(4,351,758)

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY

SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND INVESTMENTS
UNRESTRICTED AND RESTRICTED ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Revenue Fund	Operating Account	General Fund
Cash, Cash Equivalents and Investments - January 1, 2020	6,513,515	1,231,075	874,275
Cash Receipts:			
User Charges			
Connection Fees			
Interest on Investments			13,010
Bond Proceeds			
Other			
Transfers	8,634,574	2,880,995	76,875
Total Cash Receipts	8,634,574	2,880,995	89,885
Cash and Investments Available	15,148,089	4,112,070	964,160
Cash Disbursements:			
Operations		3,255,907	
Bond Principal and Interest Payments			
Construction in Progress			
Other			
Transfers	8,428,100	122,442	363,010
Total Cash Disbursements	8,428,100	3,378,349	363,010
Cash, Cash Equivalents and Investments - December 31, 2020	6,719,989	733,721	601,150
Analysis of Balance:			
Unrestricted	6,687,864	733,721	601,150
Restricted	32,125		
	6,719,989	733,721	601,150
Cash and Cash Equivalents	6,719,989	733,721	601,150
Investments			
	6,719,989	733,721	601,150

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND INVESTMENTS
UNRESTRICTED AND RESTRICTED ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Series 2011A Project Fund	Rebate Fund	Rate Stabilization Fund	Sewer Rent Reserve Account
Cash, Cash Equivalents and Investments - January 1, 2020	90,796	10,377	1,368,384	3,985,662
Cash Receipts:				
User Charges	1,778			51,032
Connection Fees				
Interest on Investments		172	22,640	21,332
NJEIT SAIL Funds				
Other	50,748			
Transfers	1,873,061			
Total Cash Receipts	1,925,587	172	22,640	72,364
Cash and Investments Available	2,016,383	10,549	1,391,024	4,058,026
Cash Disbursements:				
Operations				
Bond Iprincipal and nterest Payments				
Construction in Progress	1,681,835			
Other				
Transfers		172	22,640	
Total Cash Disbursements	1,681,835	172	22,640	-
Cash, Cash Equivalents and Investments - December 31, 2020	334,548	10,377	1,368,384	4,058,026
Analysis of Balance:				
Unrestricted			1,368,384	4,058,026
Restricted	334,548	10,377		
	334,548	10,377	1,368,384	4,058,026
Cash and Cash Equivalents	334,548	10,377	1,368,384	4,058,026
Investments				
	334,548	10,377	1,368,384	4,058,026

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND INVESTMENTS
UNRESTRICTED AND RESTRICTED ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 2020

	ERB Construction	Depository Account	Payroll Account	Special Operating Account
Cash, Cash Equivalents and Investments - January 1, 2020	<u>378,935</u>	<u>5,517</u>	<u>352,074</u>	<u>2,000</u>
Cash Receipts:				
User Charges		7,863,707		
Connection Fees		129,625		
Interest on Investments	2,563	1,895		1,245
Bond Proceeds				
Other	436,908	442,226		
Transfers			2,146,536	
Total Cash Receipts	<u>439,471</u>	<u>8,437,453</u>	<u>2,146,536</u>	<u>1,245</u>
Cash and Investments Available	<u>818,406</u>	<u>8,442,970</u>	<u>2,498,610</u>	<u>3,245</u>
Cash Disbursements:				
Operations			2,161,962	
Bond Principal and Interest Payments				
Construction in Progress				
Other				
Transfers	818,406	8,435,558		1,245
Total Cash Disbursements	<u>818,406</u>	<u>8,435,558</u>	<u>2,161,962</u>	<u>1,245</u>
Cash, Cash Equivalents and Investments - December 31, 2020	<u>-</u>	<u>7,412</u>	<u>336,648</u>	<u>2,000</u>
Analysis of Balance:				
Unrestricted		7,412	336,648	2,000
Restricted				
	<u>-</u>	<u>7,412</u>	<u>336,648</u>	<u>2,000</u>
Cash and Cash Equivalents Investments		7,412	336,648	2,000
	<u>-</u>	<u>7,412</u>	<u>336,648</u>	<u>2,000</u>

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND INVESTMENTS
UNRESTRICTED AND RESTRICTED ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Escrow Account	Unemployment Trust Account	Construction Fund	Bond Service Fund
Cash, Cash Equivalents and Investments - January 1, 2020	<u>2,582</u>	<u>37,542</u>	<u>5,107</u>	
Cash Receipts:				
User Charges				
Connection Fees				
Interest on Investments		204	49	
Bond Proceeds				
Other		4,962	153,293	
Transfers				2,855,903
Total Cash Receipts	<u>-</u>	<u>5,166</u>	<u>153,342</u>	<u>2,855,903</u>
Cash and Investments Available	<u>2,582</u>	<u>42,708</u>	<u>158,449</u>	<u>2,855,903</u>
Cash Disbursements:				
Operations				
Bond Principal and Interest Payments				1,978,453
Construction in Progress				
Other	2,580			
Transfers			158,449	
Total Cash Disbursements	<u>2,580</u>	<u>-</u>	<u>158,449</u>	<u>1,978,453</u>
Cash, Cash Equivalents and Investments - December 31, 2020	<u>2</u>	<u>42,708</u>	<u>-</u>	<u>877,450</u>
Analysis of Balance:				
Unrestricted				513
Restricted	2	42,708	-	876,937
	<u>2</u>	<u>42,708</u>	<u>-</u>	<u>877,450</u>
Cash and Cash Equivalents	<u>2</u>	<u>42,708</u>		<u>877,450</u>
Investments				
	<u>2</u>	<u>42,708</u>	<u>-</u>	<u>877,450</u>

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY

SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND INVESTMENTS
UNRESTRICTED AND RESTRICTED ACCOUNTS
FOR THE YEAR ENDED DECEMBER 31, 2020

	Bond Reserve Fund	Renewal & Replacement Fund	Special Ren. & Repl. Fund	Total
Cash, Cash Equivalents and Investments - January 1, 2020	<u>1,655,975</u>	<u>657,891</u>	<u>200,000</u>	<u>17,371,707</u>
Cash Receipts:				
User Charges				7,916,517
Connection Fees				129,625
Interest on Investments	26,853	10,885	3,309	104,157
Bond Proceeds				-
Other				1,088,137
Transfers				18,467,944
Total Cash Receipts	<u>26,853</u>	<u>10,885</u>	<u>3,309</u>	<u>27,706,380</u>
Cash and Investments Available	<u>1,682,828</u>	<u>668,776</u>	<u>203,309</u>	<u>45,078,087</u>
Cash Disbursements:				
Operations				5,417,869
Bond Principal and Interest Payments				1,978,453
Construction in Progress				1,681,835
Other				2,580
Transfers	103,728	10,885	3,309	18,467,944
Total Cash Disbursements	<u>103,728</u>	<u>10,885</u>	<u>3,309</u>	<u>27,548,681</u>
Cash, Cash Equivalents and Investments - December 31, 2020	<u>1,579,100</u>	<u>657,891</u>	<u>200,000</u>	<u>17,529,406</u>
Analysis of Balance:				
Unrestricted		157,891	200,000	14,153,609
Restricted	1,579,100	500,000		3,375,797
	<u>1,579,100</u>	<u>657,891</u>	<u>200,000</u>	<u>17,529,406</u>
Cash and Cash Equivalents	<u>1,579,100</u>	<u>657,891</u>	<u>200,000</u>	<u>17,529,406</u>
Investments				
	<u>1,579,100</u>	<u>657,891</u>	<u>200,000</u>	<u>17,529,406</u>

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY

**SUPPLEMENTAL SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES (BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2020
(With Comparative Actual Amounts for the Year Ended December 31, 2019)**

	Acct. No.	2020 Adopted Budget	2020 Budget as Amended	2020 Actual	Excess / (Deficit)	2019 Actual
Operating Revenues:						
Sewer Use Charges		7,863,653	7,863,653	7,863,653	0	7,654,680
Interest on Investments			165,000	199,106	34,106	84,975
Connection Fees			125,000	129,625	4,625	263,379
Discharge Fees			12,000	20,601	8,601	12,232
NJEIT Project Charges		373,702	373,702	393,061	19,359	400,074
Reserve Set Aside Funds						
Miscellaneous Income		12,000	10,000	12,008	2,008	5,940
Interest on Investments-Construction Fund			1,500	1,778	278	2,593
Total Operating Revenue		\$ 8,249,355	\$ 8,550,855	\$ 8,619,832	\$ 68,977	\$ 8,423,873
Expenses:						
Salaries and Wages:						
Administrative:						
Members	100-510	\$ 16,000	16,000	16,000	\$ 0	\$ 16,000
Executive Director	100-511	133,524	137,530	137,530	0	133,524
Office:						
Office Coordinator	150-520	49,940	38,000	37,743	257	49,940
Finance Coordinator	150-522	55,500	57,026	57,026	0	55,500
CFO/Director of Human Resources	150-524	124,000	127,720	127,720	0	124,000
Engineer	150-525	84,025	70,500	72,136	(1,636)	84,023
Treatment Plant:						
Journeyman Operator	200-533		3,750	3,732	18	
Lab Technician	200-534	88,639	88,639	83,346	5,293	51,727
Superintendent/CPO	200-535	124,000	127,720	127,720	0	124,000
Operations - Overtime	200-536	68,000	68,000	76,538	(8,538)	74,083
Operations Leader	200-600				0	0
Shift Operators	200-605	369,720	392,089	379,510	12,579	418,910
Senior Operator	200-610	87,173	56,118	56,118	0	2,345
Floater	200-615	62,400	62,400	62,400	0	62,400
Custodian	200-620	61,256	61,256	61,256	0	61,256
Systems:						
Systems - Overtime	250-536	26,500	26,500	16,943	9,557	14,707
System Support Manager	250-540	106,000	108,500	100,567	7,933	106,004
System Leader	250-600	172,000	23,000	26,265	(3,265)	91,052
Mechanic	250-605	75,816	0		0	0
Journeyman II	250-608	67,600	47,272	47,664	(392)	
Journeyman II	250-610	175,240	89,000	88,120	880	141,400
Apprentice II	250-615	113,203	135,250	131,458	3,792	97,750
Authority Intern		8,000	0		0	0
Succession Planning					0	0
Other:						
Longevity Bonus	351-501	13,500	12,000	11,950	50	11,750
Benefits Taxable	351-502	75,000	40,000	37,170	2,830	43,656
License	351-503	22,000	18,500	18,575	(75)	20,025
Total Salaries		2,179,036	1,806,770	1,777,487	29,283	1,784,052

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY

SUPPLEMENTAL SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES (BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2020

(With Comparative Actual Amounts for the Year Ended December 31, 2019)

	Acct. No.	2020 Adopted Budget	2020 Budget as Amended	2020 Actual	Excess / (Deficit)	2019 Actual
Administrative Expense:						
Trustee	400-601	27,500	23,000	23,049	(49)	23,049
Insurance	400-602	165,000	159,500	159,380	120	148,028
Pension Fund	400-603	230,000	231,500	231,209	291	214,642
Hospitalization	400-604	950,000	635,000	630,394	4,606	634,855
Payroll Taxes	400-605	152,710	138,500	134,969	3,531	130,032
Travel Expenses	400-606	4,000	1,000	998	2	1,925
Auditing and Accounting	400-609	35,125	35,125	34,338	787	33,738
Legal	400-610	37,500	30,400	25,488	4,912	30,786
Engineering	400-611	5,000	5,000	4,244	756	1,930
Physical Examination	400-612	8,000	6,500	6,136	364	7,835
Rate Stabilization/Snady NJEIT	400-613				0	150,000
N.J.DEF Discharge Permit	400-614	70,000	53,100	53,085	15	46,007
Advertisement	400-616	5,000	5,000	5,200	(200)	5,649
Office Renovations	400-619	4,760	2,260	2,068	192	
Membership and Meetings	400-620	36,000	17,000	15,711	1,289	29,360
Payroll Data Processing	400-621	12,000	12,000	11,649	351	11,887
Total Administrative Expense		1,742,595	1,354,885	1,337,918	16,967	1,469,723
Office Expense						
Postage	450-631	3,600	3,000	2,868	132	3,503
Telephone	450-632	16,000	16,000	15,128	872	15,813
Office Supply	450-633	15,000	12,000	11,139	861	10,585
Copier Rental and Supplies	450-634	2,200	2,500	2,718	(218)	2,311
General Office Renovations	450-635				0	0
Information Technology Support Services	450-640	38,000	36,500	36,891	(391)	48,396
Total Office Expense		74,800	70,000	68,744	1,256	80,608
Operating Expense - Plant						
Electric	500-641	145,000	125,000	113,846	11,154	128,295
Fuel Oil and Gas	500-642	14,000	14,000	12,340	1,660	11,136
Water	500-643	1,500	2,500	2,561	(61)	1,558
Gasoline	500-644	17,500	15,000	13,494	1,506	14,172
Chemicals	500-646	535,000	245,000	238,884	6,116	357,062
Vehicles Parts and Maintenance	500-647	12,500	12,500	10,388	2,112	13,921
Housekeeping Supplies	500-648	17,500	15,000	14,720	280	16,943
Equipment and Maintenance	500-649	165,000	180,000	160,367	19,633	145,620
Sludge Removal	500-650	315,000	230,000	218,105	11,895	227,334
Grounds Maintenance	500-651	15,000	15,000	15,007	(7)	14,011
Uniforms	500-652	8,000	9,500	8,798	702	6,421
Meal Expense	500-653	500	150	150	0	200
Lab Testing Fees	500-655	50,000	31,500	30,954	546	46,530
Grit/Screening Removal	500-656	25,000	22,500	21,591	909	17,507
Grit Chambers	500-702				0	99,497
		1,321,500	917,650	861,205	56,445	1,100,207

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY

SUPPLEMENTAL SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES (BUDGETARY BASIS)
FOR THE YEAR ENDED DECEMBER 31, 2020

(With Comparative Actual Amounts for the Year Ended December 31, 2019)

	Acct. No.	2020 Adopted Budget	2020 Budget as Amended	2020 Actual	Excess / (Deficit)	2019 Actual
Operating Expenses - Systems:						
Telephone	550-632	7,000	7,000	6,596	404	5,934
Electric	550-641	115,000	97,000	94,903	2,097	98,836
Fuel Oil and Gas	550-642	1,000	1,000	961	39	738
Water and Sewer	550-643	10,000	8,000	6,199	1,801	7,888
Equipment and Maintenance	550-649	94,000	94,000	53,777	40,223	68,950
Safety	550-660	18,000	18,000	12,109	5,891	14,628
Electrical and Meter Maintenance	550-661	9,000	6,500	6,075	425	9,114
Scada Development	550-700	7,500	3,500	2,331	1,169	3,775
Wet Well Cleaning	550-701				0	1,650
Special Project VFD & Pump	550-702				0	10,500
Safety Grating/Upgrades	550-703				0	1,352
		261,500	235,000	182,951	52,049	223,365
Special Projects:						
Force Main Break	570-103		155,000	156,366	(1,366)	
Media Replacement	570-106		19,500	19,157	343	
Covid-19	570-107		9,500	9,039	461	
Storm Expense	570-111		8,000	8,012	(12)	
Polymer Parts	570-112		220,000	149,023	70,977	
Sub-Total Special Projects		0	412,000	341,597	70,403	
Debt Service:						
Bond Principal	600-100	1,190,000	1,190,000	1,190,000	0	1,175,000
Loan Principal	600-110	433,128	433,128	433,129	(1)	431,538
2017 Series A-2 Belmar					0	0
Interest on Bonds and NJEIT Loan	600-120	496,704	496,704	444,850	51,854	534,345
Sub-Total Debt Service		2,119,832	2,119,832	2,067,979	51,853	2,140,883
Reserves:						
Reserve for Debt Service		117,592	167,592	42,592	125,000	122,200
Reserve for Asset Management		335,000	784,613	617,512	167,101	787,780
Reserve for Capital Improvements-Force Main Assessment		97,500	307,513	485,965	(178,452)	
Reserve for Pension	400-615		225,000	225,000	0	200,000
Reserve for Healthcare	400-614		150,000	150,000	0	28,954
Sub-Total Reserves		550,092	1,634,718	1,521,069	113,649	1,138,934
Total Expenses		<u>\$ 8,249,355</u>	<u>8,550,855</u>	<u>8,158,950</u>	<u>\$ 391,905</u>	<u>\$ 7,937,772</u>
Excess or (Loss) of Revenues Over Expenses		\$ 0	\$ 0	\$ 460,882	460,882	\$ 486,101
Reconciliation of Budgetary Basis to GAAP:						
Net Increase (Decrease) in unemployment reserve				2,738		1,020
Depreciation Expense				(2,140,840)		(2,097,577)
Amortization of Deferred Gain or Loss on Refunding				(66,998)		(66,998)
Amortization of Premium on Bond				117,327		117,327
Bond Principal				1,190,000		1,175,000
Loan Principal				433,129		431,538
Capital Contributions(Net)				465,854		1,635,107
Capitalized Capital Improvements				485,965		
Net Pension Adjustment				142,547		(38,896)
Net Medical Benefit Adjustment				59,487		272,702
Increase in Healthcare Reserve				150,000		28,954
Increase in Pension Reserve				225,000		200,000
Increase in Debt Service Reserve				42,592		122,200
Increase in Asset Management Reserve (Net)				617,512		787,780
						150,000
Total Adjustments				<u>1,724,313</u>		<u>2,718,157</u>
Change In Net Position				<u>\$ 2,185,195</u>		<u>\$ 3,204,258</u>

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY

Schedule of Bonds and Loans Payable
For the Year Ended December 31, 2020

	Date of Issue	Amount of Original Issue	Interest Rate	Maturities		Balance Jan. 1, 2020	Issued 2020	Redeemed	Balance Dec. 31, 2020
				Date	Amount				
New Jersey Environmental Infrastructure Trust Loan	11/04/04	3,005,000.00	Various	08/01/21	182,123				
				08/01/22	191,185				
				08/01/23	207,755				
				08/01/24	4,621				
						758,771		173,087	585,684

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY

Schedule of Bonds and Loans Payable
For the Year Ended December 31, 2020

Date of Issue	Amount of Original Issue	Interest Rate	Maturities Date	Amount	Balance Jan. 1, 2020	Issued 2020	Redeemed	Balance Dec. 31, 2020
New Jersey Environmental Infrastructure Fund Loan 11/04/04	2,991,270.00	0.00%	02/01/21	13,042				
			08/01/21	143,062				
			02/01/22	9,792				
			08/01/22	146,313				
			02/01/23	6,379				
			08/01/23	13,867				
					488,235		155,780	332,455

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY

Schedule of Bonds and Loans Payable
For the Year Ended December 31, 2020

	Date of Issue	Amount of Original Issue	Interest Rate	Maturities		Balance Jan. 1, 2020	Issued 2020	Redeemed	Balance Dec. 31, 2020
				Date	Amount				
Sewer Revenue Bonds Series 2011	01/24/11	9,435,000.00	5.00%	01/15/21	400,000				
						785,000		385,000	400,000

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY

Schedule of Bonds and Loans Payable
For the Year Ended December 31, 2020

	Date of Issue	Amount of Original Issue	Interest Rate	Maturities		Balance Jan. 1, 2020	Issued 2020	Refunded	Balance Dec. 31, 2020
				Date	Amount				
Sewer Revenue Refunding Bonds Series 2011	10/20/11	9,225,000.00	4.00%	01/01/21	805,000				
			5.00%	01/01/22	805,000				
			5.00%	01/01/23	805,000				
			4.00%	01/01/24	805,000				
						4,025,000		805,000	3,220,000

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY

Schedule of Bonds and Loans Payable
For the Year Ended December 31, 2020

	Date of Issue	Amount of Original Issue	Interest Rate	Maturities		Balance Jan. 1, 2020	Issued 2020	Redeemed	Balance Dec. 31, 2020
				Date	Amount				
Sewer Revenue Refunding Bonds Series 2016	10/05/16	6,065,000.00	4.00%	08/01/22	410,000				
			4.00%	08/01/23	535,000				
			4.00%	08/01/24	555,000				
			4.00%	08/01/25	575,000				
			4.00%	08/01/26	600,000				
			4.00%	08/01/27	625,000				
			4.00%	08/01/28	650,000				
			4.00%	08/01/29	680,000				
			4.00%	08/01/30	705,000				
			3.00%	08/01/31	730,000				
						6,065,000			6,065,000

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY

Schedule of Bonds and Loans Payable
For the Year Ended December 31, 2020

Date of Issue	Amount of Original Issue	Interest Rate	Maturities		Balance Jan. 1, 2020	Issued 2020	Redeemed	Balance Dec. 31, 2020
			Date	Amount				
New Jersey Environmental Infrastructure Trust Loan 11/21/17	660,000.00	5.000%	09/01/21	25,000				
		5.000%	09/01/22	25,000				
		5.000%	09/01/23	30,000				
		5.000%	09/01/24	30,000				
		5.000%	09/01/25	30,000				
		5.000%	09/01/26	35,000				
		2.125%	09/01/27	35,000				
		2.375%	09/01/28	35,000				
		2.500%	09/01/29	35,000				
		2.625%	09/01/30	35,000				
		2.750%	09/01/31	40,000				
		2.750%	09/01/32	40,000				
		2.875%	09/01/33	40,000				
		2.875%	09/01/34	40,000				
		3.000%	09/01/35	45,000				
		3.000%	09/01/36	45,000				
		3.000%	09/01/37	45,000				
					635,000		25,000	610,000

SCHEDULE 5

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY
BELMAR, NEW JERSEY

ROSTER OF OFFICIALS

The following officials were in office as of December 31, 2020:

<u>Office</u>	<u>Name</u>	<u>Town</u>	<u>Term Expires</u>
Chairman	Joseph C. May	Spring Lake Heights	2023
Vice Chairman	Kevin Lynch	Lake Como	2022
Secretary	Ken Farrell	Sea Girt	2023
Treasurer	Edward Donovan	Manasquan	2025
Commissioner	Mary L. Burne	Wall Township	2025
Commissioner	E. Gene Cory	Belmar	2024
Commissioner	Thomas B. Nicol	Brielle	2024
Commissioner	Michael Mattia	Spring Lake	2021

Government Auditing Standards Report



WIELKOTZ & COMPANY ^{LLC}

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN D. WIELKOTZ, CPA, RMA, PSA
MATTHEW B. WIELKOTZ, CPA, PSA
PAUL J. CUVA, CPA, RMA, PSA
JAMES J. CERULLO, CPA, RMA, PSA
THOMAS M. FERRY, CPA, RMA, PSA

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(973)-835-7900

**INDEPENDENT AUDITOR'S 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**

The Board of Commissioners
South Monmouth Regional Sewerage Authority
Belmar, New Jersey

We have audited, in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the South Monmouth Regional Sewerage Authority, as of and for the year ended December 31, 2020, and the related notes to the financial statements, and have issued our report thereon dated February 2, 2022.

Internal Control Over Financial Reporting

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

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



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

Compliance and Other Matters

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

Purpose of this Report

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

Wielkatz & Company, LLC

WIELKOTZ & COMPANY, LLC
Certified Public Accountants
Pompton Lakes, New Jersey

February 2, 2022

General Comments and Recommendations

GENERAL COMMENTS

N.J.S.A. 40A:11-2 contains definitions for terms used throughout N.J.S.A. 40A:11-1 et seq. and was amended under P.L. 1999, c.440. It includes as subsection (23) the term 'competitive contracting', which is defined as "the method described in sections 1 through 5 of P.L. 1999, c.440 (C.40:11-4.1 through C.40A:11-4.5) of contracting for specialized goods and services in which formal proposals are solicited from vendors' formal proposals are evaluated by the purchasing agent or counsel; and the governing body awards a contract to a vendor or vendors from among the formal proposals received."

N.J.S.A. 40A:11-3 was amended with P.L. 1999, c.440 to raise the bid threshold and require award by governing body resolution. "When the cost or price of any contract awarded by the purchasing agent in the aggregate does not exceed in a contract year the total sum of \$44,000.00, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids and bidding therefore, except that the governing body may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations."

N.J.S.A. 40A:11-15 was amended with P.L. 1999, c.440 to extend the base contract period. "Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection (a) of N.J.S.A. 40A:11-5 may be awarded for a period not exceeding 12 consecutive months."

The governing body has the responsibility of determining whether the expenditures in any category will exceed the statutory thresholds within the contract year. Where question arises as to whether any contract or agreement might result in violation of the statute, the opinion of the Authority's attorney should be sought before a commitment is made.

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed. No violations were discovered.

The results of our examination indicated that no individual payments, contracts, or agreements were made "for the performance of any work or the furnishing or hiring of any materials or supplies," in excess of the statutory thresholds where there had been no advertising for bids in accordance with the provision of N.J.S.A. 40A:11-4.

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

SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY

COMMENTS AND RECOMMENDATIONS

There were no problems and weaknesses that were noted in our audit that were material that they would affect our ability to express an opinion on the financial statements taken as a whole.

There was no prior year's recommendations that needed corrective action.

Should any questions arise as to our comments and recommendations, or should you desire assistance in implementing our recommendations, do not hesitate to call us.

We wish to thank South Monmouth Regional Sewerage Authority for their cooperation during the performance of our audit.

Respectfully submitted,

Wielkatz & Company, LLC

WIELKOTZ & COMPANY, LLC
Certified Public Accountants
Pompton Lakes, New Jersey