

THE SOUTHEAST MORRIS COUNTY
MUNICIPAL UTILITIES AUTHORITY
COUNTY OF MORRIS
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
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PART I - INTRODUCTORY SECTION (UNAUDITED)



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July 11, 2024

The Honorable Chairman and Members
of The Southeast Morris County
Municipal Utilities Authority
Cedar Knolls, NJ 07927

Dear Authority Members:

The Annual Financial Report of The Southeast Morris County Municipal Utilities Authority (the “Authority”) for the year ended December 31, 2023 is hereby submitted. Responsibility for both the accuracy of the data and completeness and fairness of the presentation, including all disclosures, rests with the management of the Authority. To the best of our knowledge and belief, the data presented in this report is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the Authority. All disclosures necessary to enable the reader to gain an understanding of the Authority's financial activities have been included.

The Annual Financial Report is presented in four sections: Introductory, Financial, *Government Auditing Standards* section and Comments and Recommendations. The Introductory section includes this transmittal letter, the Authority's organizational chart, a list of principal officials and a list of consultants and advisors. The Financial section includes the financial statements as well as the auditors' report thereon. Information related to *Government Auditing Standards* section, including the auditors' report on internal control and compliance with applicable laws and regulations and findings are included in the *Government Auditing Standards* section of this report.

REPORTING ENTITY AND ITS SERVICES:

The Southeast Morris County Municipal Utilities Authority is a public body corporate and politic of the State of New Jersey and was created by parallel ordinances adopted by the governing bodies, effective in December 1976, of the Township of Hanover, the Township of Morris, the Borough of Morris Plains and the Town of Morristown (“the creating municipalities”). Additionally, all municipal service contracts were signed in January 1977.

The Authority was created for the purpose of acquiring, constructing, maintaining, operating and improving the water supply and distribution system previously owned and operated by the Town of Morristown.

The ordinances creating the Authority provide that the Authority shall consist of eight members, two of whom shall be appointed by each of the governing bodies of the creating municipalities.

As a public body under existing statute, the Authority is exempt from both federal and state taxes.

The Honorable Chairman and Members
of The Southeast Morris County
Municipal Utilities Authority
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July 11, 2024

REPORTING ENTITY AND ITS SERVICES: (Cont'd)

Governmental Accounting Standards Board Codification Section 2100, "Defining the Financial Reporting Entity" establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. The basic criterion for inclusion or exclusion from the financial reporting entity is the exercise of oversight responsibility over agencies, boards and commissions by the primary government. The exercise of oversight responsibility includes financial interdependency and a resulting financial benefit or burden relationship, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

CASH MANAGEMENT: The investment policy of the Authority is guided in large part by state statute as detailed in "Notes to Financial Statements", Note 5. The Authority has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect Governmental Units from a loss of funds on deposit with a failed banking institution in New Jersey. The law requires governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

RISK MANAGEMENT: The Authority carries various forms of insurance, including but not limited to general liability, excess liability, automobile liability, workers' compensation insurance, cyber security insurance and comprehensive/collision, hazard and theft insurance on property, contents, and fidelity bonds which are described in the "Notes to Financial Statements", Note 6.

OTHER INFORMATION:

Independent Audit - State statutes require an annual audit by independent certified public accountants or registered municipal accountants. The accounting firm of Nisivoccia, LLP, CPAs, was selected by the Authority. The auditors' report on the financial statements is included in the financial section of this report.

ACKNOWLEDGEMENTS:

We would like to express our appreciation to the members of The Southeast Morris County Municipal Utilities Authority for their concern in providing fiscal accountability to the citizens of the participating municipalities and thereby contributing their full support to the development and maintenance of our financial operation. The preparation of this report could not have been accomplished without the efficient and dedicated services of our financial and accounting staff.

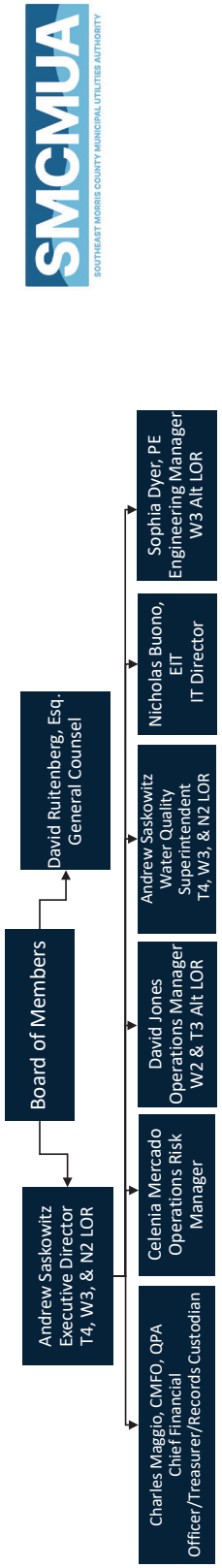
Respectfully submitted,


Drew Saskowitz
Executive Director

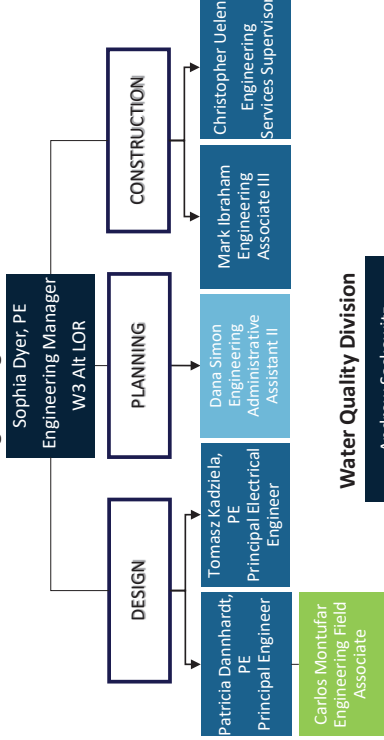

Charles Maggio, CMFO
Chief Financial Officer / Treasurer

SMCMUA Organizational Chart

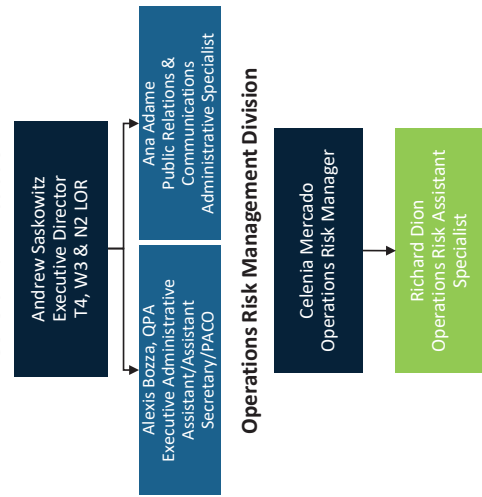
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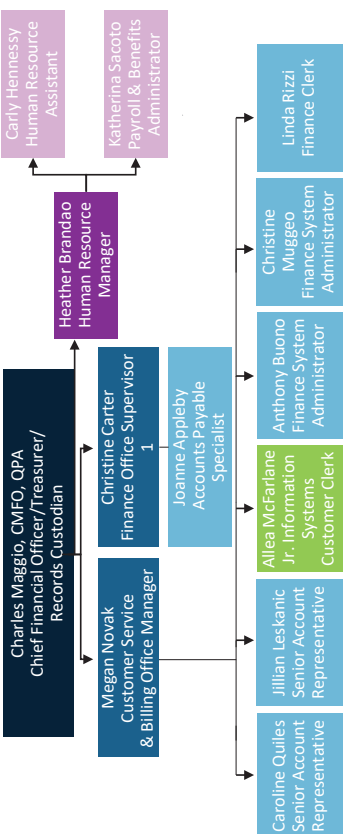
Engineering Division



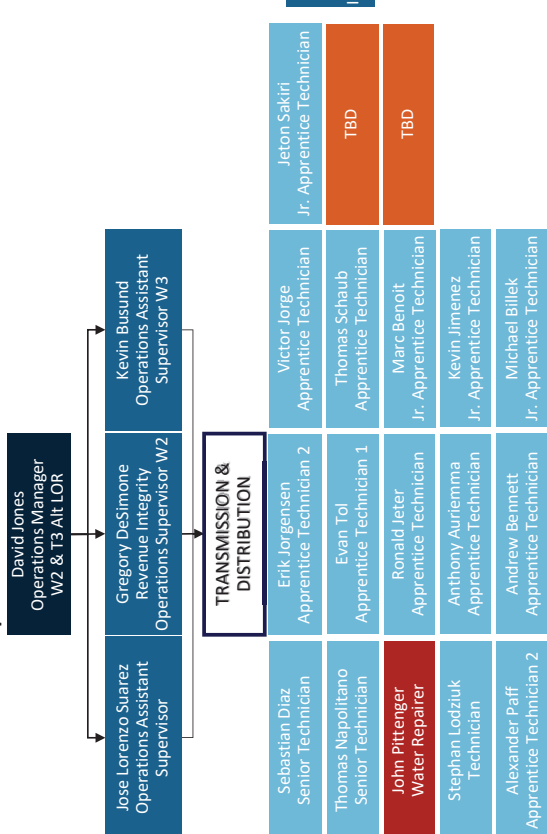
General Administration



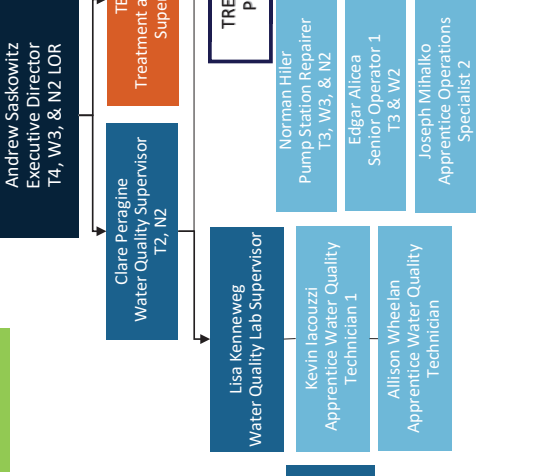
Finance Division



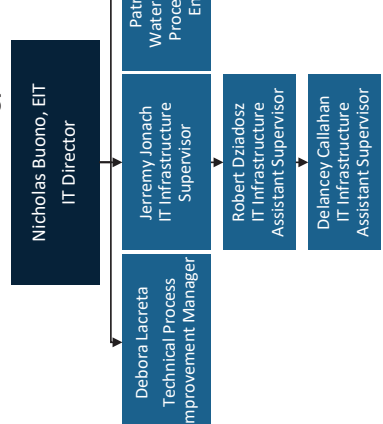
Operations Division



Water Quality Division



Information Technology Division



THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
ROSTER OF OFFICIALS
DECEMBER 31, 2023

<u>Authority Board</u>	<u>Position</u>
Michael Chumer, PhD.	Chairman
Nicola Marucci	Vice Chairman
Dennis Baldassari (to April 20, 2023)	Secretary
Matthew Loughman (from July 20, 2023)	Secretary
Nathan Kiracofe	Board Member
Donald Kissil Arthur (to May 31, 2023)	Board Member
Clarke (from October 26, 2023)	Board Member
Patricia Webster	Board Member
Max Huber	Board Member
Ralph R. Rotando	Board Member
 <u>Other Officials Drew</u>	
Saskowitz (from April 20, 2023)	Acting Executive Director/Assistant Treasurer
Laura Cummings, P.E. (to April 20, 2023)	Executive Director/Assistant Treasurer
Charles Maggio, CMFO, QPA	Chief Financial Officer/Treasurer
Alexis Bozza, QPA	Executive Administrative Assistant/Assistant Secretary

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
CONSULTANTS AND ADVISORS

AUDIT FIRM

Nisivoccia, LLP
200 Valley Road, Suite 300
Mt. Arlington, New Jersey 07856

ATTORNEYS

Genova Burns LLC
494 Broad Street
Newark, NJ 07102

Murphy McKeon P.C.
51 Route 23 South, P.O. Box 70
Riverdale, NJ 07457

INSURANCE AGENT

Willis of New Jersey
10000 Midlantic Drive, East 200
Mount Laurel, New Jersey 08054

PART II - FINANCIAL SECTION

Independent Auditors' Report

The Honorable Chairman and Members
of The Southeast Morris County
Municipal Utilities Authority
Cedar Knolls, NJ

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of business-type activities of the Southeast Morris County Municipal Utilities Authority (the "Authority"), as of and for the year ended December 31, 2023, and the related notes to the financial statements which collectively comprise the Authority's basic financial statements, as listed in the table of contents.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements referred to above, present fairly, in all material respects, the financial position of the Authority as of December 31, 2023, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

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

Matter Giving Rise to Qualified Opinion

The Authority's net postemployment benefits other than pensions ("OPEB") liability and the related deferred outflows and inflows of resources reported in the financial statements at December 31, 2023 are based on the June 30, 2022 Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, report for the State of New Jersey State Health Benefits Local Government Retired Employees Plan ("SHBP"), from the Division of Pensions and Benefits, Department of the Treasury, State of New Jersey (the "State"). We were unable to obtain the June 30, 2023 GASB No. 75 report as it has not been released by the State as of the date of this report. The amount by which this omission would affect the OPEB liability and the related deferred inflows and outflows of resources, net position and expenses of the Authority has not been determined.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, *Government Auditing Standards* and audit requirements prescribed by the Division, we

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

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

Required Supplementary Information

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

The Schedule of the Authority's Proportionate Share of the Net OPEB Liability does not contain the Authority's proportionate share of OPEB liability as of June 30, 2023 as the related GASB No. 75 report for SHBP has not been released by the State as of the date of this report. This required supplementary information is required to be presented to supplement the basic financial statements in accordance with accounting principles generally accepted in the United States of America. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information 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 accompanying supplementary information schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

The Honorable Chairman and Members
of The Southeast Morris County
Municipal Utilities Authority
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In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 11, 2024 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

Mount Arlington, New Jersey
July 11, 2024

Nisivoccia, LLP

NISIVOCCIA LLP

Kathryn L. Mantell

Kathryn L. Mantell

Registered Municipal Accountant No. 447
Certified Public Accountant

This section presents management's analysis of the Authority's financial condition and activities for the year ended December 31, 2023. This information should be read in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

Management believes the Authority's financial position to be strong. The Authority is functioning within its stringent financial policies and guidelines set forth by the Members of the Board. Following is a list of key highlights for 2023:

- The Authority is required to report liabilities for GASB Statement 68 and 75 for pension and postemployment benefits other than pensions (OPEB) which are determined by the Division of Pensions and are outside of the Authority's control.
- When compared to the 2023 budget, operating revenues were up by \$1,990,529 and expenses were below budget by \$4,073,553 before depreciation. The excess in revenue was primarily due to metered sales and connection fees. Operating expenses were lower than that budgeted for some accounts including salaries and wages, Public Employees' Retirement System, transmission and distribution, and treatment and pumping expenses.
- Overall operating revenue for 2023 was higher by 5.67% when compared to 2022.
- Revenues from water charges were \$21,199,038; this represents an increase of \$1,399,336 from 2022.
- Revenues from connection fees were \$937,076; this represents a decrease of \$329,238 from 2022.
- Overall operating expenses for 2023 were higher by 20.64% when compared to 2022.
- Cash and cash equivalents and investments have increased by \$682,897 from 2022.
- Total expenses for capital projects and other capital assets, net of refunds, were \$8,299,800.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

The Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with the audited financial statements and supplementary information. The Management's Discussion and Analysis 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, and other management tools were used for this analysis.

The financial statements report information about the Authority using full accrual accounting as utilized by similar government activities. 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. In addition, there is a supplementary information schedule.

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 as well as any deferred inflows or outflows of resources, with the difference reported as net position. Over time, increases and decreases in net position is 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 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. This statement also provides certain information about the Authority's recovery of its costs.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT (CONT'D)

The primary objectives of the rate model are to improve equity among customer classes and ensure that capital costs are allocated on the basis of long-term requirements.

The *Statement of Cash Flows* presents changes in cash and cash equivalents, resulting from operational, capital 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 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 concerning the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

The *Supplementary Information Schedule* provides detailed comparison of budget to actual expenses.

FINANCIAL CONDITION

The Authority's total net position increased 5.39%. This was mainly the result of normal business operations, nonbudgeted connection fees which are used to offset future improvements and the practice of budgeting for high precipitation conditions. The Authority is in excellent shape to meet future financial demands. The analysis below focuses on the Authority's net position (Table 1).

**TABLE 1
Condensed Statement of Net Position**

	Dec. 31, 2023	Dec. 31, 2022	Increase/ (Decrease) from 2022	Percentage Increase/ (Decrease)
Current Assets	\$ 36,378,477	\$ 36,329,107	\$ 49,370	
Noncurrent Assets	92,564,478	86,489,927	6,074,551	
Total Assets	<u>128,942,955</u>	<u>122,819,034</u>	<u>6,123,921</u>	4.99%
Deferred Outflows of Resources	<u>7,305,126</u>	<u>8,508,732</u>	<u>(1,203,606)</u>	-14.15%
Current Liabilities	14,972,764	13,076,198	1,896,566	
Noncurrent Liabilities	<u>20,259,928</u>	<u>22,533,622</u>	<u>(2,273,694)</u>	
Total Liabilities	<u>35,232,692</u>	<u>35,609,820</u>	<u>(377,128)</u>	-1.06%
Deferred Inflows of Resources	<u>8,653,517</u>	<u>8,080,724</u>	<u>572,793</u>	7.09%
Net Position:				
Net Investment in Capital Assets	91,804,483	85,604,578	6,199,905	
Restricted	5,576,340	5,401,486	174,854	
Unrestricted/(Deficit)	<u>(5,018,951)</u>	<u>(3,368,842)</u>	<u>(1,650,109)</u>	
Total Net Position	<u>\$ 92,361,872</u>	<u>\$ 87,637,222</u>	<u>\$ 4,724,650</u>	5.39%

FINANCIAL RESULTS

Changes in the Authority’s net position can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Position for the year. The Authority’s total net position increased from the prior year by \$4,724,650. The analysis below further focuses on the Authority’s changes in net position (Table 2) during the year.

**TABLE 2
Condensed Statement of Revenue, Expenses
and Changes in Net Position**

	2023	2022	Increase/ (Decrease) from 2022	Percentage Increase/ (Decrease)
Operating Revenue	\$ 22,558,369	\$ 21,347,919	\$ 1,210,450	
Nonoperating Revenue	583,523	433,971	149,552	
Total Revenue	<u>23,141,892</u>	<u>21,781,890</u>	<u>1,360,002</u>	6.24%
Operating Expenses	14,576,147	12,082,302	2,493,845	
Depreciation	3,353,437	770,231	2,583,206	
Nonoperating Expenses	27,848	27,950	(102)	
Total Expenses	<u>17,957,432</u>	<u>12,880,483</u>	<u>5,076,949</u>	39.42%
Other Items	<u>(459,810)</u>	<u>(31,291)</u>	<u>(428,519)</u>	-1369.46%
Change in Net Position	4,724,650	8,870,116	(4,145,466)	-46.74%
Beginning Net Position	<u>87,637,222</u>	<u>78,767,106</u>	<u>8,870,116</u>	11.26%
Ending Net Position	<u>\$ 92,361,872</u>	<u>\$ 87,637,222</u>	<u>\$ 4,724,650</u>	5.39%

Operating Revenues: The \$1,210,452 increase in operating revenues compared to 2022 is primarily due to a \$1,399,336 increase in water charges as a result of commercial and residential rate increases; net of a \$329,238 decrease in water connection fees which vary year to year based upon development service. Water connection fees are not budgeted due to the fact that they are reliant on development in the service area which has proven to be unpredictable.

Expenses: Operating expenses increased by \$2,493,845 from 2022 which is due to an increase of \$1,322,560 in employee benefits, an increase of \$370,939 in salaries and wages and an increase in other expenses of \$800,346. Nonoperating expenses decreased by \$102. Annual depreciation increased by \$2,583,206 as many assets added in the previous year began depreciating during the current year. The Authority closely monitors its budget and spending throughout the year in order to control its operations.

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

One of the most important questions asked about the Authority's finances is "is the Authority, as a whole, better or worse off as a result of the year's activities?" The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position report information about the Authority's activities in a way that will help answer this question. These two statements report the net position of the Authority, and changes in them. The Authority's net position – the difference between assets and liabilities and deferred inflows and outflows – is a measurement of its financial health or financial position.

Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, customer growth and legislative mandates also need to be considered.

The greatest impacts on the Authority's performance were:

- Revenue from metered sales for 2023 was \$758,761 above the 2023 projected amount.
- Connection fees were \$937,076 above the 2023 budgeted amount.
- Miscellaneous revenue was \$225,431, an increase of \$117,034 from 2022 and an excess of \$200,431 as compared to the 2023 budget.
- Interest income for the Authority was \$583,523, an increase of \$477,549 from 2022 and an excess of \$523,523 as compared to the 2023 budget.
- The Authority paid its actuarially calculated pension payment of \$647,832 in 2023.
- Operating expenses were less than budgeted in 2023 because budgeting projections were based on a low precipitation year where water production would be high and there was higher precipitation throughout the year than anticipated resulting in lower production.

BUDGETARY HIGHLIGHTS

The State of New Jersey requires local authorities to prepare and adopt annual budgets in accordance with the Local Authorities Fiscal Control Law and regulations adopted by the Local Finance Board pursuant to statute and codified as N.J.A.C. 5:31-1 et seq. The statutory budget was designed to demonstrate to the Bureau of Authority Regulation of the Division of Local Government Services that the cash flows of the Authority for the coming year will be sufficient to cover operating expenses, interest accruing on bonded indebtedness and cash payments of maturing bond and loan principal.

In the event that current projected revenues lag behind budget amounts, adjustments to discretionary spending and/or rate impact analyses need to be performed. However, in order to present a true budgetary comparison, the statutory budget is amended only in instances wherein planned spending will exceed legal appropriation amounts.

In order to continue its aggressive capital improvement program as outlined in the 2006 Master Plan and in the current budget report on a "pay-as-you-go" basis, the Authority raises rates when necessary to fund current and future capital projects.

BUDGETARY HIGHLIGHTS

A Cost of Services study was generated in 2016 and analysis of revenues and expenses and customer rates were performed. The COSS concluded that the customer class rates were in need of realignment, so a strategy was developed over a period of time as part of the budget process. The proposed strategy was put in place for the development of the 2017 budget and forward. In addition, the COSS concluded that there was a need, based on consumer demand patterns, to convert from a 4-Tier to a 3-Tier residential rate structure. In 2019, the residential rate structure was modified to a 3-Tier rate structure. Statutory adjustments to the Connection Fee will continue annually as required. The Cost of Service Study was updated in the middle of 2022 and it's findings were used to help establish the 2024 Budget and Rate structure.

CAPITAL ASSETS

At December 31, 2023, the Authority had \$92,359,285 invested in a broad range of utility capital assets, including water treatment plants, water storage facilities, water mains, pump stations, and related land, facilities and equipment.

The following table summarizes the Authority’s capital assets, net of accumulated depreciation and changes therein, for the year ended December 31, 2023. These changes are presented in detail in Note 2 to the financial statements.

**TABLE 3
Capital Assets, Net of Accumulated Depreciation**

	Dec. 31, 2023	Dec. 31, 2022	Increase/ (Decrease) from 2022	Percentage Increase/ (Decrease)
Land	\$ 4,045,860	\$ 4,045,860		
Plant, Equipment and Vehicles	102,010,663	101,406,329	\$ 604,334	
Construction in Progress	32,040,721	23,093,865	8,946,856	
Total	138,097,244	128,546,054	9,551,190	7.43%
Less: Accumulated Depreciation	45,737,959	42,384,522	3,353,437	7.91%
Capital Assets, Net of Accumulated Depreciation	\$ 92,359,285	\$ 86,161,532	\$ 6,197,753	7.19%

During the year, the Authority’s change in Construction in Progress included \$9,551,190 of additions; offset by \$604,334 of transfers to Plant, Equipment and Vehicles for fully completed projects. Annual depreciation expense was \$3,353,437 for the current year.

Based on the 2006 Master Plan and revised in 2012 and the current budget report, the Authority’s 2024 capital budget requires an investment of \$12,421,107, including the following:

Engineering	\$ 7,896,970
Information Technology	1,370,000
Operations Risk Management	32,500
Operations	2,611,637
Treatment and Pumping / Water Quality	510,000
	\$ 12,421,107

LONG TERM LIABILITIES

The Authority plans to continue funding its capital projects through its general operating budget which also comprises annual depreciation and connection fee transfers from revenues.

At year-end, the Authority had \$20,262,188 in long term liabilities – a decrease of \$2,271,434 from last year – as shown in Table 4. (More detailed information about the Authority’s long-term liabilities is presented in Note 4 to the financial statements.)

**TABLE 4
Outstanding Long-Term Liabilities**

	Dec. 31, 2023	Dec. 31, 2022	Increase/ (Decrease) from 2022	Percentage Increase/ (Decrease)
Loan - Town of Morristown	\$ 554,802	\$ 556,954	\$ (2,152)	-0.39%
Net Pension Liability	7,668,195	7,752,819	(84,624)	-1.09%
Net OPEB Liability	11,855,257	13,983,850	(2,128,593)	-15.22%
Other Long-Term Liabilities	183,934	239,999	(56,065)	-23.36%
	<u>\$ 20,262,188</u>	<u>\$ 22,533,622</u>	<u>\$ (2,271,434)</u>	-10.08%

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The Authority’s 2024 budget revenues were projected as \$23,358,653, assuming conservative sales based on the assumption of high precipitation, or low usage, and no connection fees. The 2024 total budgetary expenses are projected as \$21,803,600, resulting in a contribution to the net position of \$1,555,053 in order to balance the budget. The operating budget was created utilizing a zero-based budget approach together with management’s thorough review of expenses for each Division. The proposed 2024 rate reflects increases of 10% for commercial rates, 11% for residential rates and a 11% rate increase for all other charges which were incorporated into all revenue projections. The revenue projections remained consistent with the recommendations of the 2016 COSS, updated in 2022, where it was concluded that customer class rates needed realignment.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The 2024 Budget was developed utilizing a six (6) year planning period. Criteria utilized to develop the budget includes the following:
 - Projected consumption is based on a high precipitation year, or low usage, resulting in conservative sales projections.
 - Class rate adjustments are based on the 2022 Cost of Services Study.
 - Assumption of “zero” collection of connection fees.
 - Cash funding of all capital projects.
 - Assume an annual rate increase of 3% of PVWC and 4% for MCMUA.
 - Maintenance of a minimum of 1/12th of the operating budget, cash working capital (cash flow reserve).
 - Maintain a year-end General Fund balance of \$5 million at the end of the six (6) year budgeting cycle.
 - Include depreciation and amortization in the budget.
- An overall operating budget increase of 3.12% was observed from 2023 to 2024.
- Metered sales are estimated to be \$1,983,107 more than those estimated for 2023 as a result of projected rate increases.
- Expenses for PVWC and MCMUA increased by 3% and 4%, respectively, above the 2023 rates.
- A decrease in the labor budget of (\$11,400) was realized in 2024 when compared to 2023. This is attributed to a change in upper level management, and a thorough resourcing review resulting in the elimination of approximately 2 positions from 2023.
- Purchased water expenses were increased (through 2024) to achieve the minimum purchase requirements of 2.4 MGD through the NJ American Water Bulk Purchase Agreement by assignment to Passaic Valley Water Commission (PVWC).
- NJ State Health Benefits Program for retired and active employees budget increased by \$126,900 due to projected increases in premiums.
- Depreciation and amortization for 2023 is equal to \$2,464,000.

It should be noted that based on the Board's commitment to supply the highest water quality and superior customer service and the practice of internal financing for projects and capital improvements, an annual review of revenues and rates is required.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Authority's customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Charles Maggio, CMFO, Chief Financial Officer/Treasurer at The Southeast Morris County Municipal Utilities Authority, 19 Saddle Road, Cedar Knolls, NJ 07927 or e-mail cmaggio@smcmua.org.

FINANCIAL STATEMENTS

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF NET POSITION
DECEMBER 31, 2023

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 32,683,415
Change Fund	700
	32,684,115

Total Cash and Cash Equivalents	32,684,115
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Water Charges Receivable	2,439,467
Lease Receivable	123,202
Other Accounts Receivable	828,701
Inventory	302,992
	36,378,477

Total Current Assets	36,378,477
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Noncurrent Assets:

Lease Receivable	205,193
Depreciable Capital Assets	56,272,704
Land	4,045,860
Construction in Progress	32,040,721
	92,359,285

Total Capital Assets	92,359,285
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Total Noncurrent Assets	92,564,478
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TOTAL ASSETS	128,942,955
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions	1,283,360
Deferred Outflows Related to OPEB	5,314,192
Authority Contribution Subsequent to the Measurement Date - Pensions	707,574
	7,305,126

Total Deferred Outflows of Resources	7,305,126
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THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF NET POSITION
DECEMBER 31, 2023
(Continued)

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 2,810,214
Contracts Payable	11,934,653
Payroll Deductions Payable	95,737
Accrued Wages Payable	129,900
Loan Payable - Due to Town of Morristown - Due Within One Year	2,260
	14,972,764

Total Current Liabilities

14,972,764

Noncurrent Liabilities:

Net Pension Liability	7,668,195
Net OPEB Liability	11,855,257
Compensated Absences Payable	183,934
Loan Payable - Due to Town of Morristown - Due Beyond One Year	552,542
	20,259,928

Total Noncurrent Liabilities

20,259,928

Total Liabilities

35,232,692

DEFERRED INFLOWS OF RESOURCES:

Deferred Lease Resources	328,395
Deferred Inflows Related to Pensions	507,849
Deferred Inflows Related to OPEB	7,817,273
	8,653,517

Total Deferred Inflows of Resources

8,653,517

NET POSITION

Net Investment in Capital Assets	91,804,483
Restricted	5,576,340
Unrestricted/(Deficit)	(5,018,951)
	92,361,872

Total Net Position

\$ 92,361,872

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF REVENUE, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
FOR THE YEAR ENDED DECEMBER 31, 2023

Operating Revenue:		
Water Charges		\$ 21,199,038
Water Connection Fees		937,076
Other		225,431
Miscellaneous:		
Wet Cut Application Fees	\$ 7,835	
Tap Application Fees	25,706	
Main Extension Inspection Fees	2,907	
Fines/Penalties	17,001	
Leases/Rents	143,375	
Total Miscellaneous		<u>196,824</u>
Total Operating Revenue		<u>22,558,369</u>
Operating Expenses:		
Operating Appropriations		14,576,147
Depreciation		<u>3,353,437</u>
Total Operating Expenses		<u>17,929,584</u>
Operating Income		<u>4,628,785</u>
Nonoperating Revenue/(Expenses):		
Interest Income		583,523
Interest Expense - Loans		<u>(27,848)</u>
Total Nonoperating Revenue/(Expenses)		<u>555,675</u>
Change in Net Position Before Other Items		5,184,460
Other Items:		
Cancellation of Prior Year Accounts Receivable		(707,575)
Cancellation of Prior Year Accounts Payable		<u>247,765</u>
Total Other Items		<u>(459,810)</u>
Change in Net Position		4,724,650
Net Position, Beginning of Year		<u>87,637,222</u>
Net Position, End of Year		<u><u>\$ 92,361,872</u></u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2023

Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 22,561,246
Cash Paid to Suppliers and Employees	<u>(14,132,072)</u>
Net Cash Provided by Operating Activities	<u>8,429,174</u>
Cash Flows from Capital and Related Financing Activities:	
Construction in Progress	(8,299,800)
Principal Paid on Loans	(2,152)
Interest Expense	<u>(27,848)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(8,329,800)</u>
Cash Flows from Investing Activities:	
Interest on Investments	<u>583,523</u>
Net Cash Provided by Investing Activities	<u>583,523</u>
Net Increase in Cash and Cash Equivalents	682,897
Cash and Cash Equivalents - Beginning of Year	<u>32,001,218</u>
Cash and Cash Equivalents - End of Year	<u>\$ 32,684,115</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income	\$ 4,628,785
Adjustments to Reconcile Operating Income to Net	
Cash Provided by Operating Activities:	
Depreciation	3,353,437
Changes in Net Position:	
(Increase) in Water Charges Receivable	(226,408)
Decrease in Lease Receivable	124,920
Decrease in Other Accounts Receivable	229,285
(Increase) in Inventory	(78,643)
Increase in Accounts Payable	793,926
(Decrease) in Payroll Deductions Payable	(1,316)
Increase in Accrued Wages Payable	38,329
(Decrease) in Accrued Compensated Absences Payable	(56,065)
Decrease in Deferred Outflows Related to Pensions	566,640
Decrease in Deferred Outflows Related to OPEB	696,708
(Decrease) in Deferred Lease Resources	(124,920)
(Decrease) in Deferred Inflows Related to Pensions	(775,372)
Increase in Deferred Inflows Related to OPEB	1,473,085
(Decrease) in Net Pension Liability	(84,624)
(Decrease) in Net OPEB Liability	<u>(2,128,593)</u>
Net Cash Provided by Operating Activities	<u>\$ 8,429,174</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS
ARE AN INTEGRAL PART OF THIS STATEMENT

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023

Note 1 - Organization and Summary of Significant Accounting Policies

The Southeast Morris County Municipal Utilities Authority is a public body corporate and politic of the State of New Jersey and was created by parallel ordinances adopted by the governing bodies, effective in December 1976, of the Township of Hanover, the Township of Morris, the Borough of Morris Plains and the Town of Morristown (“the creating municipalities”), all municipal corporations of the State of New Jersey located in the County of Morris. Additionally, all municipal service contracts were signed in January 1977.

The Authority was created for the purpose of acquiring, constructing, maintaining, operating and improving the water supply and distribution system previously owned and operated by the Town of Morristown.

The ordinances creating the Authority provide that the Authority shall consist of eight members, two of whom shall be appointed by each of the governing bodies of the creating municipalities.

A. Basis of Presentation and Accounting

The Authority utilizes the accrual basis of accounting whereby revenue is recorded as earned and expenses are reflected as the liability is incurred. Operating revenue, such as charges for services result from exchange transactions associated with the principal activity of the Authority. Exchange transactions are those in which each party receives and gives up essentially equal value. Nonoperating revenue, such as subsidies and investment earnings, results from nonexchange transactions or ancillary activities. Nonexchange transactions, in which the Authority gives or receives value without directly receiving or giving equal value in exchange, generally do not occur, with the exception of investment earnings.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned and/or expenses incurred is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

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

Reporting Entity

Governmental Accounting Standards Board ("GASB") Codification Section 2100, "Defining the Financial Reporting Entity" establishes standards to determine whether a governmental component unit should be included in the financial reporting entity. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

A. Basis of Presentation and Accounting (Cont'd)

Reporting Entity (Cont'd)

In addition, component units can be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading. The primary government is financially accountable if it appoints a voting majority of the organization's governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. A legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met: (1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents. (2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization. (3). The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government. There were no additional entities required to be included in the reporting entity under the criteria as described above, in the current fiscal year. Furthermore, the Authority is not includable in any other reporting entity on the basis of such criteria.

B. Grants

Recognition of revenue from grants is based on the accrual basis of accounting. Grant funds received before costs are incurred are recorded as unearned revenue.

Grant related expenses incurred in advance of receipt of grant funds result in the recording of receivables and revenue. Grants not externally restricted and utilized to finance operations are identified as nonoperating revenue.

C. Inventories

The cost of inventories of supplies are recorded on a first-in, first-out basis and are stated at cost.

D. Cash and Cash Equivalents

Amounts include petty cash, amounts on deposit, and short-term investments with original maturities of three months or less.

E. Investments

The Authority generally records investments at fair value and records the unrealized gains and losses as part of investment income. Fair value is the price that would be received to sell an investment in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

E. Investments (Cont'd)

The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from the estimates.

G. Compensated Absences

A liability for compensated absences attributable to services already rendered and not contingent on a specific event that is outside the control of the employer and employee is accrued as employees earn the rights to the benefits.

Authority employees are granted varying amounts of vacation and sick leave in accordance with the Authority's employee contracts/agreements and personnel manual. Employees are permitted to accrue up to one year of unused vacation time and all unused sick time. Upon retirement, employees shall be paid for their unused (prorated) vacation time. Employees hired prior to December 31, 2011 shall be paid for their unused sick leave in accordance with the Authority's applicable employee contracts/agreements and personnel manual. Employees hired after December 31, 2011, are not entitled to payment for their unused sick time.

In the *Statement of Net Position*, the liabilities, whose average maturities are greater than one year, should be reported in two components – the amount due within one year and the amount due in more than one year. Compensated absences are accrued and reported as a liability in the period earned. The balance as of December 31, 2023 was \$183,934, which is included on the Statement of Net Position as a non-current liability.

H. Net Position

Net Position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources.

A deferred outflow of resources is a consumption of net position by the Authority that is applicable to a future reporting period. The Authority had deferred outflows of resources related to pensions and OPEB at December 31, 2023.

A deferred inflow of resources is an acquisition of net position by the Authority that is applicable to a future reporting period. The Authority had deferred inflows of resources related to pensions, OPEB and leases at December 31, 2023.

Net position is displayed in three components - net investment in capital assets; restricted and unrestricted.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

H. Net Position (Cont'd)

The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of borrowings that are attributable to the acquisition, construction, or improvement 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 would be included in this component of net position.

The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

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.

I. Allowance for Uncollectible Accounts

All receivables are reported at their gross values and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. The allowance is established at the discretion of management of the Authority as deemed necessary based on prior collection history.

J. Revenue Recognition

Large commercial customers are billed monthly and residential and small commercial customers are billed quarterly. Revenue is recorded net of any discounts, assessments or abatements, if applicable.

K. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the State of New Jersey Public Employees' Retirement System (PERS) and additions to/deductions from the PERS's net position have been determined on the same basis as they are reported by the PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Pension Plan investments are reported at fair value.

L. Deficit Net Position

The Authority has a deficit in unrestricted net position of \$5,018,951 which is primarily due to deferred inflows related to pensions and OPEB, net pension liability and net OPEB liability; net of deferred outflows related to pensions and OPEB. This deficit does not indicate that the Authority is in financial difficulties. This is a permitted practice under generally accepted accounting principles.

M. Inventory

Inventories are valued at cost, which approximate market, using the first-in, first out (FIFO) method.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 1 - Organization and Summary of Significant Accounting Policies (Cont'd)

N. Lease Receivables

Lease receivables are recognized at the net present value of the leased assets at a borrowing rate either explicitly described in the agreement or implicitly determined by the Authority, reduced by the principal payments received.

Note 2 - Capital Assets

Capital assets are recorded at cost and consisted of the following:

	<u>Dec. 31, 2022</u>	<u>Increases</u>	<u>Transfers</u>	<u>Dec. 31, 2023</u>
Capital Assets Being Depreciated:				
Plant	\$ 73,297,735		\$ 604,334	\$ 73,902,069
Vehicles	1,284,363			1,284,363
Machinery and Equipment	26,824,231			26,824,231
Total Capital Assets Being Depreciated	<u>101,406,329</u>		<u>604,334</u>	<u>102,010,663</u>
Capital Assets not Being Depreciated:				
Land	4,045,860			4,045,860
Construction in Progress	23,093,865	\$ 9,551,190	(604,334)	32,040,721
Total Capital Assets not Being Depreciated	<u>27,139,725</u>	<u>9,551,190</u>	<u>(604,334)</u>	<u>36,086,581</u>
Total Capital Assets	128,546,054	9,551,190		138,097,244
Accumulated Depreciation	<u>(42,384,522)</u>	<u>(3,353,437)</u>		<u>(45,737,959)</u>
Capital Assets (Net)	<u>\$ 86,161,532</u>	<u>\$ 6,197,753</u>	<u>\$ - 0 -</u>	<u>\$ 92,359,285</u>

Property and equipment are recorded at cost. Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. Capital assets have been reviewed for impairments.

Major classes of property, plant and equipment and their estimated useful lives are summarized below:

Plant Structures and Improvements	50-100 Years
Plant Transmission and Distribution Mains, Reservoirs and Standpipes	100 Years
Vehicles, Machinery and Equipment	5-50 Years

As of December 31, 2023, the Authority has \$11,934,653 in active construction projects.

Note 3 - Lease Receivables

The Authority entered into two lease agreements for the lease of the Authority's cell towers with different wireless carriers. The terms of the leases are for 5 years and 10 years each, which will expire in January 2025 and 2027, respectively. Annual principal and interest payments range from \$9,664 to \$75,402.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 3 - Lease Receivables (Cont'd)

	<u>Original Amount</u>	<u>Outstanding Dec. 31, 2022</u>	<u>Additions</u>	<u>Decrease</u>	<u>Outstanding Dec. 31, 2023</u>
Cell Tower Leases; interest at 3%	\$ 870,554	\$ 453,315	\$ - 0 -	\$ 124,920	\$ 328,395

Future maturities are as follows:

<u>Fiscal Year Ending Dec. 31,</u>	<u>Principal</u>	<u>Interest</u>
2024	\$ 123,202	\$ 20,334
2025	110,153	22,379
2026	52,486	15,648
2027	42,554	14,224
	<u>\$ 328,395</u>	<u>\$ 72,585</u>

Note 4 - Long-Term Liabilities

During the year ended December 31, 2023, the following changes occurred in the long-term liabilities reported in the financial statements:

	<u>Balance Dec. 31, 2022</u>	<u>Accrued</u>	<u>Retired</u>	<u>Balance Dec. 31, 2023</u>
Loan - Town of Morristown	\$ 556,954		\$ 2,152	\$ 554,802
Net Pension Liability	7,752,819		84,624	7,668,195
Net OPEB Liability	13,983,850		2,128,593	11,855,257
Compensated Absences Payable	239,999	\$ 28,167	84,232	183,934
	<u>\$ 22,533,622</u>	<u>\$ 28,167</u>	<u>\$ 2,299,601</u>	<u>\$ 20,262,188</u>

Loans Payable

On January 20, 1977, under a regionalization plan approved by ordinances of the creating municipalities (see Note 1), the Authority acquired the water utility owned and operated by the Town of Morristown. Under the plan, a portion of the acquisition cost is required to be paid to the Town of Morristown in annual installments of \$30,000 until year 2076. The current portion of the loan payable at December 31, 2023 is \$2,260 and the long-term portion is \$552,542. Interest expense on the annual payment due to the Town of Morristown was \$27,848 and \$27,950 for 2023 and 2022, respectively, at an assumed interest rate of 5%.

Bonds Authorized But Not Issued

As of December 31, 2023, the Authority has no bonds authorized but not issued.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 4 - Long-Term Liabilities (Cont'd)

Net Pension Liability

The Public Employee's Retirement System (PERS) net pension liability is recorded in the current and long-term liabilities. The current portion of the net pension liability at June 30, 2023 is \$-0- and the long term portion is \$7,668,195. See Note 12 for further information on the PERS.

Net OPEB Liability

The Authority's net OPEB liability related to the State Health Benefit Local Government Retired Employees Plan at June 30, 2022 was calculated to be \$11,855,257, all of which is a long term portion. See Note 13 for further information on OPEB.

Compensated Absences Payable

The liability for compensated absences is recorded as a current and/or long-term portion. The compensated absences balance is \$183,934, none of which represents a current portion of the liability; therefore, the entire balance is reported in the long-term portion of the liability.

Note 5 - Cash and Cash Equivalents and Investments

Cash and cash equivalents include petty cash, amounts in deposits, money market accounts, and short-term investments with original maturities of three months or less.

The Authority classifies certificates of deposit which have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

GASB requires disclosure of the level of custodial credit risk assumed by the Authority in its cash, cash equivalents and investments, if those items are uninsured or unregistered. Custodial risk is the risk that in the event of bank failure, the government's deposits may not be returned.

Interest Rate Risk – In accordance with its cash management plan, the Authority ensures that any deposit or investment matures within the time period that approximates the prospective need for the funds, deposited or invested, so that there is not a risk to the market value of such deposits or investments.

Custodial Credit Risk – The Authority's policy with respect to custodial credit risk requires that the Authority ensures that Authority funds are only deposited in financial institutions in which New Jersey Authorities are permitted to invest their funds.

Credit Risk – The Authority limits its investments to those authorized in its cash management plan which are permitted under state statutes as detailed in the investments section of this note.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
 (Continued)

Note 5 - Cash and Cash Equivalents and Investments (Cont'd)

Deposits:

New Jersey statutes require that authorities deposit public funds in public depositories located in New Jersey which are insured by the Federal Deposit Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories. Authorities are also permitted to deposit public funds in the State of New Jersey Cash Management Fund.

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

The market value of the collateral must equal 5% of the average daily balance of collected public funds on deposit.

In addition to the above collateral requirement, 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%.

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.

Investments:

New Jersey statutes permit the Authority to purchase the following types of securities:

- (1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- (2) Government money market mutual funds;
- (3) 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;
- (4) Bonds or other obligations of the local unit or bonds or other obligations of school districts of which the local unit is a part or within which the school district is located;
- (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties, and entities subject to the "Local Authorities Fiscal Control Law" P.L. 1983, c. 313 (C.40A:5A-1 et seq.) Other bonds or obligations having a maturity date not more than 397 days from the date of purchase may be approved by the Division of Local Government Services in the Department of Community Affairs for investment by local units;
- (6) Local government investment pools;
- (7) 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); or

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 5 - Cash and Cash Equivalents and Investments (Cont'd)

Investments: (Cont'd)

- (8) Agreements for the repurchase of fully collateralized securities if:
 - (a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this subsection a. or are bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties and entities subject to the “Local Authorities Fiscal Control Law”, P.L. 1983 c.313 (C.40A:5A-1 et seq.);
 - (b) the custody of collateral is transferred to a third party;
 - (c) the maturity of the agreement is not more than 30 days;
 - (d) the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c.236 (C.17:9-41); and
 - (e) a master repurchase agreement providing for the custody and security of collateral is executed.

As of December 31, 2023, cash and cash equivalents of the Southeast Morris County Municipal Utilities Authority consisted of the following:

	Cash on Hand	Checking/ Savings Accounts	Money Market Funds	NJ Cash Management Fund	Total
Cash and Cash Equivalents	\$ 700	\$ 19,897,966	\$ 7,279,294	\$ 5,506,155	\$ 32,684,115

The carrying amount of the Authority's cash and cash equivalents at December 31, 2023, was \$32,684,115, and the bank balance was \$33,234,039. The Authority did not hold any investments during the year ended December 31, 2023. The \$5,506,155 in the NJ Cash Management Fund is uninsured and unregistered.

Note 6 - Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Health benefits are provided to employees through the State of New Jersey health benefits plan.

The Authority secures all of its non-health related insurances through private insurance carriers using a broker as its representative.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 6 - Risk Management (Cont'd)

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 and employee contributions, interest earned and reimbursements to the State for benefits paid and the ending balance of the Authority's account for the current and previous two years which is included in the Authority's restricted net position:

<u>Year</u>	<u>Authority/ Employee Contributions</u>	<u>Interest Earned</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
2021	\$ 7,931	\$ - 0 -	\$ 8,897	\$ 105,954
2022	9,607	- 0 -	- 0 -	115,561
2023	9,878	- 0 -	- 0 -	125,439

Note 7 - Intraentity and Interfund Transfers

In the normal course of business, the Authority will from time to time authorize transfers between accounts. There were no transfers outstanding as of December 31, 2023.

Note 8 - Accounts Payable, Contracts Payable and Accrued Expenses

Accounts payable, contracts payable and accrued expenses were as follows:

	<u>2023</u>	<u>2022</u>
Vendors	\$ 14,037,293	\$ 12,239,742
Pensions - Authority Contribution Subsequent to the Measurement Date	707,574	647,832
Payroll Deductions Payable	95,737	97,053
Accrued Wages Payable	129,900	91,571
Total	<u>\$ 14,970,504</u>	<u>\$ 13,076,198</u>

Note 9 - Environmental Matters

The Authority's past and present daily operations include activities which are subject to extensive federal and state environmental regulations. Compliance with these regulations has not had, nor does the Authority expect such compliance to have, any material effect upon expected capital expenses, financial condition or competitive position of the Authority. The Authority believes that its current practices and procedures comply with applicable regulations. The Authority's policy is to accrue environmental and related costs of a non-capital nature when it is both probable that a liability has been incurred and that the amount can be reasonably estimated. No such amounts have been accrued in these statements.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
 (Continued)

Note 10 - Contingencies

The Authority is periodically involved in various lawsuits, claims, and grievances arising in the normal course of business, including claims for personal injury and personnel practices, property damage, and disputes over eminent domain proceedings. In the opinion of the General Counsel to the Authority, payment of claims by the Authority, for amounts not covered by insurance, in the aggregate, are not expected to have a material adverse effect on the Authority's financial position.

Amounts received or receivable from grantors, principally the federal and state governments are subject to regulatory requirements and adjustments by the agencies. Any disallowed claims, including amounts previously recognized by the Authority as revenue would constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although Authority officials expect such amounts, if any, to be immaterial.

Note 11 - Service Contract

On January 20, 1977, the Authority entered service contracts with the Township of Hanover, the Township of Morris, the Borough of Morris Plains and the Town of Morristown. The contracts authorize the Authority to supply water within the territorial boundaries of the participating municipalities and to establish service charges at rates sufficient (1) to pay or provide for the expenses of operations and maintenance of the system and the principal of and interest on any and all bonds as the same become due, (2) to maintain such reserves and sinking funds as may be required by the terms of any contract of the Authority or any Bond Resolutions, or as may be deemed necessary or desirable by the Authority to the Town of Morristown pursuant to its agreement with said Town, (3) to provide for any deficits of the Authority resulting from failure to receive any sum payable by any municipality, any county or any person, or from any other cause, and (4) to comply in all respects with the terms and provisions of any Bond Resolutions and of the Act.

The service contract does not obligate any municipality to make payments in lieu of service charges; however, the creating municipalities are required to enforce a lien on real property equal to the unpaid balance of service charges with respect to real property located within such municipalities.

The service contract also provides that the Authority shall not supply or distribute water to any property located outside its district (the territorial area of the creating municipalities) without the consent of all the creating municipalities unless such property was previously supplied with water by the Town of Morristown water system.

Note 12 - Pension Plans

Authority employees participate in a contributory, defined benefit public employee retirement system: the State of New Jersey Public Employee's Retirement System (PERS).

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 annual financial statements which can be found at www.state.nj.us/treasury/pensions/annual-reports.shtml.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 12 - Pension Plans (Cont'd)

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.

The following represents the membership tiers for PERS:

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

Service retirement benefits of 1/55th of final average salary for each year of service credit 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 1/60th 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 with 25 or more years of service credit before age 62 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.

Contributions

The contribution policy for PERS is set by N.J.S.A. 43:15A and requires contributions by active members and contributing members. State legislation has modified the amount that is contributed by the State. The State’s pension contribution is based on an actuarially determined amount, which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid.

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

Authority contributions to PERS amounted to \$647,832 for 2023. During the fiscal year ended June 30, 2023, the State of New Jersey contributed \$23,914 to the PERS for normal pension benefits on behalf of the Authority. The employee contribution rate was 7.50% effective July 1, 2018.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 12 - Pension Plans (Cont'd)

Special Funding Situation

Under N.J.S.A. 43:15A-15, local participating employers are responsible for their own contributions based on actuarially determined amounts, except where legislation was passed that legally obligated the State if certain circumstances occurred. The legislation, which legally obligates the State, is Chapter 366, P.L. 2001 and Chapter 133, P.L. 2001. The amounts contributed on behalf of the local participating employers under the legislation is considered to be special funding situation as defined by GASB statement No. 68 and the State is treated as a nonemployer contributing entity. Since the local participating employers do not contribute under the legislation directly to the plan (except for employer specific financed amounts), there is no net pension liability or deferred outflows or inflows to report in the financial statement of the local participating employers related to the legislation. However, the notes to the financial statements of the local participating employers must disclose the portion of the nonemployer contributing entity's total proportionate share of the collective net pension liability that is associated with the local participating employer. In addition, each local participating employer must disclose pension expense as well as revenue associated with the employers in an amount equal to the nonemployer contributing entity's total proportionate share of the collective pension expense associated with the local participating employer.

Pension Liabilities and Pension Expense

At June 30, 2023, the Authority's liability was \$7,668,195 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2022 which was rolled forward to June 30, 2023. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, actuarially determined. At June 30, 2023, the Authority's proportion was 0.0529%, which was an increase of 0.0015% from its proportion measured as of June 30, 2022.

For the year ended December 31, 2023, the Authority recognized actual pension expense in the amount of \$647,832. At June 30, 2023, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferral Year	Amortization Period in Years	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions	2019	5.21		\$ 41,654
	2020	5.16		379,006
	2021	5.13	\$ 16,845	
	2022	5.04		44,066
				<u>16,845</u>
Changes in Proportion	2019	5.21		11,778
	2020	5.16	243,010	
	2021	5.13	426,027	
	2022	5.04	278,866	
	2023	5.08	209,981	
			<u>1,157,884</u>	<u>11,778</u>

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 12 - Pension Plans (Cont'd)

Pension Liabilities and Pension Expense (Cont'd)

	Deferral Year	Amortization Period in Years	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Projected and Actual	2020	5.00	\$ 118,752	
Investment Earnings on Pension	2021	5.00	(987,599)	
Plan Investments	2022	5.00	1,175,003	
	2023	5.00	(270,843)	
			<u>35,313</u>	
Difference Between Expected and Actual	2019	5.21	3,184	
Experience	2020	5.16	21,116	
	2021	5.13		\$ 13,396
	2022	5.04		17,949
	2023	5.08	49,018	
			<u>73,318</u>	<u>31,345</u>
Authority Contribution Subsequent to the				
Measurement Date	2023	1.00	707,574	
			<u>\$ 1,990,934</u>	<u>\$ 507,849</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding the Authority contribution subsequent to the measurement date) related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Total</u>
2024	\$ 136,074
2025	150,757
2026	484,982
2027	(1,380)
2028	5,078
	<u>\$ 775,511</u>

Actuarial Assumptions

The total pension liability for the June 30, 2023 measurement date was determined by an actuarial valuation as of July 1, 2022 which was rolled forward to June 30, 2023. This actuarial valuation used the actuarial assumptions on the following page.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 12 - Pension Plans (Cont'd)

Actuarial Assumptions (Cont'd)

Inflation Rate:	
Price	2.75%
Wage	3.25%
Salary Increases	2.75 – 6.55% based on years of service
Investment Rate of Return	7.00%

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 a 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2010 Non-Safety Disabled Retiree mortality table with a 127.7% adjustment for males and 117.2% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2021.

The actuarial assumptions used in the July 1, 2022 valuation were based on the results of an actuarial experience study for the period July 1, 2018 to June 30, 2021.

Long Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on pension plan investments (7.00% at June 30, 2023) 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' target asset allocation as of June 30, 2023 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	28.00%	8.98%
Non-U.S. Developed Market Equity	12.75%	9.22%
International Small Cap Equity	1.25%	9.22%
Emerging Markets Equity	5.50%	11.13%
Private Equity	13.00%	12.50%
Real Estate	8.00%	8.58%
Real Assets	3.00%	8.40%
High Yield	4.50%	6.97%

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 12 - Pension Plans (Cont'd)

Long Term Expected Rate of Return (Cont'd)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Private Credit	8.00%	9.20%
Investment Grade Credit	7.00%	5.19%
Cash Equivalents	2.00%	3.31%
U.S. Treasuries	4.00%	3.31%
Risk Mitigation Strategies	3.00%	6.21%

Discount Rate

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2023. 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 upon 100% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for the local employers. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all projected benefit payments in determining the total pension liability.

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

The following presents the Authority's proportionate share of the collective net pension liability as of June 30, 2023 calculated using the discount rate as disclosed below, as well as what the Authority's proportionate share of the net pension 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:

	June 30, 2023		
	At 1% Decrease (6.00%)	At Current Discount Rate (7.00%)	At 1% Increase (8.00%)
Authority's proportionate share of the Net Pension Liability	\$ 9,982,359	\$ 7,668,195	\$ 5,698,536

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued PERS financial statements.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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(Continued)

Note 13 - Post-Employment Benefits Other Than Pensions (OPEB)

State Health Benefit Local Government Retired Employees Plan

As of the date of this report, the Division of Pensions and Benefits, Department of the Treasury, State of New Jersey has not released the June 30, 2023 Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* report.

General Information about the OPEB Plan

Plan Description

The State Health Benefit Local Government Retired Employees Plan (the Plan) is a cost sharing multiple employer defined benefit other postemployment benefit (OPEB) plan with a special funding situation. It covers employees of local government employers that have adopted a resolution to participate in the Plan. For additional information about the Plan, please refer to the State of New Jersey (the State), Division of Pensions and Benefits' (the Division) annual financial statements, which can be found at <https://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

Benefits Provided

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

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

The Authority provides its retirees and their spouse or dependents with health benefits which are funded by the Authority for any employee hired on or prior to May 18, 2017 (and in some cases, may be offset by employee contributions). These benefits are negotiated through each bargaining unit's contract. In order to receive fully paid health benefits, retirees must have been enrolled in the Public Employees Retirement System for 25 years and have served 20 consecutive years with the Authority. Retirees receive the same type of health insurance coverage that they were receiving prior to retirement. The annual costs are determined by the provider, per approved schedules in accordance with the insured individual's age and plan status. This represents billings to the Authority on an experience basis.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 13 - Post-Employment Benefits Other Than Pensions (OPEB) (Cont'd)

State Health Benefit Local Government Retired Employees Plan (Cont'd)

Contributions

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

Allocation Methodology

GASB Statement No. 75 requires participating employers in the Plan to recognize their proportionate share of the collective net OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective OPEB (benefit)/expense. The special funding situation's and nonspecial funding situation's net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense are based on separately calculated total OPEB liabilities. The nonspecial funding situation's net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB (benefit)/expense are further allocated to employers based on the ratio of the plan members of an individual employer to the total members of the Plan's nonspecial funding situation during the measurement period July 1, 2021 through June 30, 2022. Employer and nonemployer allocation percentages were rounded for presentation purposes; therefore, amounts presented in the schedule of OPEB amounts by employer and nonemployer may result in immaterial differences.

OPEB Expense and Deferred Outflows of Resources and Inflows of Resources Related to OPEB

The total OPEB liability as of June 30, 2022 was determined by an actuarial valuation as of July 1, 2021, which was rolled forward to June 30, 2022.

At June 30, 2022, the Authority had a liability of \$11,855,257 for its proportionate share of the net OPEB liability. At June 30, 2022, the Authority's proportion was 0.073%, which was a decrease of 0.005% from its proportion measured as of June 30, 2021.

For the year ended June 30, 2022, the Authority's OPEB expense as determined by the State of New Jersey Division of Pensions and Benefits was \$349,237. The Authority's actual post retirement payments in 2023 for 21 retired employees and 13 spouses were \$293,179.

At June 30, 2022, the Authority had deferred outflows of resources and deferred inflows of resources related to OPEB from the sources on the following page.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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(Continued)

Note 13 - Post-Employment Benefits Other Than Pensions (OPEB) (Cont'd)

State Health Benefit Local Government Retired Employees Plan (Cont'd)

OPEB Expense and Deferred Outflows of Resources and Inflows of Resources Related to OPEB (Cont'd)

	Deferral Year	Amortization Period in Years	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions	2017	8.04		\$ 482,016
	2018	8.14		655,335
	2019	8.05		604,127
	2020	7.87	\$ 1,396,832	
	2021	7.82	185,301	
	2022	7.82		2,304,492
				<u>1,582,133</u>
Changes in Proportion	2017	8.04		447,281
	2018	8.14	487,795	
	2019	8.05		224,726
	2020	7.87	1,144,077	
	2021	7.82	1,484,848	
	2022	7.82		901,835
				<u>3,116,720</u>
Net Difference Between Projected and Actual Investment Earnings on OPEB Investments	2019	5.00	949	
	2020	5.00	1,402	
	2021	5.00	960	
	2022	5.00	(190)	
				<u>3,121</u>
Difference Between Expected and Actual Experience	2018	8.14		1,026,901
	2019	8.05		517,026
	2020	7.87	245,984	
	2021	7.82		653,534
	2022	7.82	366,234	
				<u>612,218</u>
			<u>\$ 5,314,192</u>	<u>\$ 7,817,273</u>

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
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(Continued)

Note 13 - Post-Employment Benefits Other Than Pensions (OPEB) (Cont'd)

State Health Benefit Local Government Retired Employees Plan (Cont'd)

OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB (Cont'd)

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

Fiscal Year Ending June 30,	Total
2023	\$ (837,621)
2024	(838,569)
2025	(401,958)
2026	(56,915)
2027	237,703
Thereafter	(605,721)
	\$ (2,503,081)

The above table does not include the deferred inflows of resources related to changes in proportion which should be amortized over the average remaining service lives of all Plan members, which is 7.82, 7.82, 7.87, 8.05, and 8.14 years for the 2022, 2021, 2020, 2019 and 2018 amounts, respectively.

Actuarial Assumptions and Other Inputs

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

Salary Increases*:
Public Employees' Retirement System (PERS)
Rate for all future years 2.75% to 6.55% based on years of service

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

Mortality:

PERS Pub-2010 General classification headcount weighted mortality with fully generational mortality improvement projections from the central year using Scale MP-2021

Actuarial assumptions used in the July 1, 2021 valuation were based on the results of the PERS experience study prepared for July 1, 2018 – June 30, 2021.

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

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2023
(Continued)

Note 13 - Post-Employment Benefits Other Than Pensions (OPEB) (Cont'd)

State Health Benefit Local Government Retired Employees Plan (Cont'd)

Health Care Trend Assumptions

For pre-Medicare medical benefits, the trend rate is 6.25% for fiscal year 2023 and decreases to a 4.50% long term trend rate in 2030. For PPO post 65 medical benefits, the trend rate is -1.89% in fiscal year 2023 and increases to a 4.50% trend rate starting with fiscal year 2033 and later. For HMO Post 65 medical benefits, the trend rate is -1.99% in fiscal year 2023 and increases to a 4.50% trend rate starting with fiscal year 2033 and later. For prescription drug benefits, the trend rate is 8.00% for fiscal year 2023 and decreases to a 4.50% trend rate in 2030 and later.

Discount Rate

The discount rate for June 30, 2022 was 3.54%. This represents the municipal bond rate as chosen by the State. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

Sensitivity of the Net OPEB Liability Attributable to the Authority to Changes in the Discount Rate

The following presents the net OPEB Liability of the Authority as of June 30, 2022, calculated using the discount rate as disclosed in this note, as well as what the net OPEB Liability of the Authority 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:

	June 30, 2022		
	1% Decrease (2.54%)	Current Discount Rate (3.54%)	1% Increase (4.54%)
Authority's proportionate share of the Net OPEB Liability	\$ 13,742,629	\$ 11,855,257	\$ 10,336,689

Sensitivity of the Net OPEB Liability Attributable to the Authority to Changes in the Healthcare Trend Rate

The following presents the net OPEB Liability of the Authority as of June 30, 2022, calculated using the healthcare trend rate as disclosed in this note, as well as what the net OPEB Liability of the Authority 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:

	June 30, 2022		
	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Authority's proportionate share of the Net OPEB Liability	\$ 10,057,171	\$ 11,855,257	\$ 14,158,098

REQUIRED SUPPLEMENTARY INFORMATION

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST NINE YEARS

	Year Ending June 30,								
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Authority's Proportion of the Net Pension Liability	0.0416135588%	0.0437543056%	0.0409283017%	0.0407258872%	0.0394358853%	0.0442372314%	0.0489418546%	0.0513725083%	0.0529411574%
Authority's Proportionate Share of the Net Pension Liability	\$ 9,341,410	\$ 12,958,770	\$ 9,527,454	\$ 8,018,724	\$ 7,105,748	\$ 7,213,936	\$ 5,797,896	\$ 7,752,819	\$ 7,668,195
Authority's Covered Employee Payroll	\$ 2,850,329	\$ 2,969,533	\$ 2,663,260	\$ 2,627,287	\$ 2,960,312	\$ 3,501,247	\$ 3,436,862	\$ 3,737,478	\$ 4,043,869
Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	327.73%	436.39%	357.74%	305.21%	240.03%	206.04%	168.70%	207.43%	189.63%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	47.93%	40.14%	48.10%	53.60%	56.27%	58.32%	70.33%	62.91%	65.23%

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the year ended December 31, 2015.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF AUTHORITY CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST NINE YEARS

	Year Ending								
	2015	2016	2017	2018	2019	2020	2021	2022	2023
Contractually Required Contribution	\$ 371,689	\$ 357,765	\$ 389,738	\$ 382,083	\$ 418,794	\$ 384,821	\$ 498,335	\$ 573,166	\$ 647,832
Contributions in relation to the Contractually Required Contribution	(371,689)	(357,765)	(389,738)	(382,083)	(418,794)	(384,821)	(498,335)	(573,166)	(647,832)
Contribution Deficiency (Excess)	\$ - 0 -	\$ - 0 -	\$ - 0 -	\$ - 0 -	\$ - 0 -	\$ - 0 -	\$ - 0 -	\$ - 0 -	\$ - 0 -
Authority's Covered Employee Payroll	\$ 2,999,003	\$ 2,737,185	\$ 2,607,302	\$ 2,783,919	\$ 3,293,350	\$ 3,485,265	\$ 3,601,580	\$ 3,857,971	\$ 4,191,415
Contributions as a Percentage of Covered Employee Payroll	12.39%	13.07%	14.95%	13.72%	12.72%	11.04%	13.84%	14.86%	15.46%

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the year ended December 31, 2015.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF AUTHORITY'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
STATE HEALTH BENEFIT LOCAL GOVERNMENT RETIRED EMPLOYEES PLAN
LAST FIVE YEARS

	Year Ending June 30,				
	2018	2019	2020	2021	2022
Authority's Proportion of the Net OPEB Liability	0.062764%	0.060806%	0.069098%	0.077689%	0.073409%
Authority's Proportionate Share of the Net OPEB Liability	\$ 9,832,996	\$ 8,236,824	\$ 12,400,751	\$ 13,983,850	\$ 11,855,257
Authority's Covered Employee Payroll	\$ 2,627,287	\$ 2,960,312	\$ 3,501,247	\$ 3,436,862	\$ 3,737,478
Authority's Proportion of the Net OPEB Liability as a percentage of its covered employee payroll	374.26%	278.24%	354.18%	406.88%	317.20%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	1.97%	1.98%	0.91%	0.28%	-0.36%

Note: This schedule does not contain ten years of information as GASB No. 75 was implemented during the year ended December 31, 2018.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF AUTHORITY CONTRIBUTIONS
STATE HEALTH BENEFIT LOCAL GOVERNMENT RETIRED EMPLOYEES PLAN
LAST SIX YEARS

	Year Ending					
	2018	2019	2020	2021	2022	2023
Contractually Required Contribution	\$ 481,321	\$ 266,642	\$ 247,134	\$ 273,886	\$ 276,950	\$ 293,179
Contributions in relation to the Contractually Required Contribution	(481,321)	(266,642)	(247,134)	(273,886)	(276,950)	(293,179)
Contribution Deficiency/(Excess)	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>	<u>\$ - 0 -</u>
Authority's Covered Employee Payroll	\$ 2,783,919	\$ 3,293,350	\$ 3,485,265	\$ 3,601,580	\$ 3,857,971	\$ 4,191,415
Contributions as a percentage of Covered Employee Payroll	17.29%	8.10%	7.09%	7.60%	7.18%	6.99%

Note: This schedule does not contain ten years of information as GASB No. 75 was implemented during the year ended December 31, 2018.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2023

A. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Benefit Changes

There were none.

Changes of Assumptions

In the July 1, 2021 actuarial valuation the salary increases were 2.75% – 6.55% based on years of service while in the July 1, 2020 actuarial valuation the salary increases were 2.00%-6.00% through 2026 and 3.00-7.00% thereafter based on years of service.

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

B. STATE HEALTH BENEFIT LOCAL GOVERNMENT RETIRED EMPLOYEES PLAN

Benefit Changes

There were none.

Changes of Assumptions

The discount rate for June 30, 2022 was 3.54 %. The discount rate for June 30, 2021 was 2.16%.

The salary increases for PERS were 2.00% - 6.00% through 2026 and 3.00% - 7.00% for thereafter in the valuation as of June 30, 2020. The salary increases for PERS were 2.75% - 6.55% in the valuation as of July 1, 2021.

Health Care Trend Assumptions – July 1, 2021 Actuarial Valuation:

For pre-Medicare medical benefits, the trend rate is 6.25% for fiscal year 2023 and decreases to a 4.50% long term trend rate in 2033 and later. For PPO post 65 medical benefits, the trend rate is -1.89% in fiscal year 2023 and increases to a 4.50% trend rate starting with fiscal year 2033 and later. For HMO Post 65 medical benefits, the trend rate is -1.99% in fiscal year 2023 and increases to a 4.50% trend rate starting with fiscal year 2033 and later. For prescription drug benefits, the trend rate is 8.00% for fiscal year 2023 and decreases to a 4.50% trend rate in 2030 and later.

Health Care Trend Assumptions – June 30, 2020 Actuarial Valuation:

For pre-Medicare medical benefits, the trend rate is initially 5.65% for fiscal year 2021 and decreases to 4.5% long term trend rate after seven years. For PPO post 65 medical benefits, the trend rate is initially 13.08% and decreases to a 4.5% long term trend rate starting with fiscal year 2032 and later. For HMO Post 65 medical benefits, the trend rate is initially 13.76% and decreases to 4.5% long term trend rate starting with fiscal year 2032 and later. For prescription drug benefits, the initial trend rate is 6.75% for fiscal year 2021 and decreases to a 4.5% long term rate after seven years.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2023
(Continued)

B. STATE HEALTH BENEFIT LOCAL GOVERNMENT RETIRED EMPLOYEES PLAN (Cont'd)

Health Care Trend Assumptions – June 30, 2020 Actuarial Valuation: (Cont'd)

Actuarial assumptions used in the June 30, 2020 valuation were based on the results of the PERS experience study prepared for July 1, 2013 to June 30, 2018.

Health Care Trend Assumptions

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

SUPPLEMENTARY INFORMATION

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUE AND EXPENSES COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2023
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2022

	2023 Budget	Budget After Modification	2023 Actual	Excess or (Deficit)	2022 Actual
Operating Revenue:					
Contribution from Unrestricted Net Position	\$ 515,860	\$ 515,860	*	\$ (515,860)	
Water Charges:					
Unmetered Sales	10,320	10,320	\$ 7,098	(3,222)	\$ 7,005
Metered Sales	19,174,873	19,174,873	19,933,634	758,761	18,326,768
Bulk Service Invoices	27,314	27,314	36,234	8,920	32,400
Fire Protection	1,127,060	1,127,060	1,183,155	56,095	1,095,715
Contract Operations	38,273	38,273	38,917	644	337,814
Water Connection Fees			937,076	937,076	1,266,314
Other	25,000	25,000	225,431	200,431	108,397
Wet Cut Application Fees	3,000	3,000	7,835	4,835	9,164
Tap Application Fees	8,000	8,000	25,706	17,706	29,707
Main Extension Inspection Fees			2,907	2,907	
Fines/Penalty Charges	50,000	50,000	17,001	(32,999)	2,682
Leases/Rents	104,000	104,000	143,375	39,375	131,953
Total Operating Revenue	20,567,840	20,567,840	22,558,369	1,990,529	21,347,919
Nonoperating Revenue:					
Federal Emergency Management Grant					327,997
Interest on Investments and Deposits	60,000	60,000	583,523	523,523	105,974
Total Nonoperating Revenue	60,000	60,000	583,523	523,523	433,971
Total Revenue	21,143,700	21,143,700	23,141,892	1,998,192	21,781,890
Expenses:					
Operating Expenses:					
Administration Expenses:					
Salaries and Wages:					
General Administration	(431,700)	(431,700)	(367,806)	63,894	(363,812)
IT Administration	(608,600)	(608,600)	(608,579)	21	(371,059)
Financial Operations	(806,300)	(806,300)	(805,475)	825	(803,101)
Human Resources	(256,800)	(256,800)	(256,772)	28	(197,010)
Administration Division	(542,900)	(542,900)	(542,048)	852	(308,933)
Engineering	(402,900)	(402,900)	(19,939)	382,961	
Employee Benefits:					
Dental Benefits	(36,300)	(36,300)	(31,114)	5,186	(27,164)
Vision Benefits	(2,700)	(2,700)	(2,585)	115	(1,737)
Medical Benefits	(1,656,000)	(1,611,168)	(1,326,605)	284,563	(1,384,863)
Social Security Tax	(490,200)	(490,200)	(2,670)	487,530	(342,160)
Public Employees' Retirement System	(603,000)	(647,832)	(354,476)	293,356	1,341,583
Accumulated Sick Time	(32,900)	(32,900)	(19,451)	13,449	

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUE AND EXPENSES COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2023
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2022
(Continued)

	2023 Budget	Budget After Modification	2023 Actual	Excess or (Deficit)	2022 Actual
Expenses: (Cont'd):					
Operating Expenses: (Cont'd)					
Administration Expenses: (Cont'd)					
Other Expenses:					
General Administration	\$ (414,000)	(414,000)	\$ (329,947)	\$ 84,053	\$ (385,198)
IT Administration	(534,500)	(534,500)	(476,253)	58,247	(380,215)
Financial Operations	(129,400)	(129,400)	(99,479)	29,921	(82,947)
Human Resources	(193,700)	(193,700)	(28,475)	165,225	(26,159)
Customer Service and Collection	(120,200)	(120,200)	(116,750)	3,450	(109,973)
Cost of Providing Services:					
Salaries and Wages:					
Transmission and Distribution	(1,320,200)	(1,320,200)	(987,832)	332,368	(1,189,431)
Treatment and Pumping Division	(595,900)	(595,900)	(518,161)	77,739	(524,621)
Water Quality	(673,900)	(673,900)	(465,547)	208,353	(330,276)
Health, Safety and Security	(169,300)	(169,300)	(110,580)	58,720	(223,557)
Other Expenses:					
Administration Division	(447,600)	(447,600)	(386,220)	61,380	(293,767)
Engineering	(35,600)	(35,600)	(6,446)	29,154	
Transmission and Distribution	(893,700)	(893,700)	(638,776)	254,924	(713,401)
Treatment and Pumping Division	(5,225,500)	(5,225,500)	(4,776,949)	448,551	(4,092,604)
Water Quality	(345,000)	(345,000)	(206,524)	138,476	(220,163)
Services and Meter Division	(50,900)	(50,900)	(11,553)	39,347	(8,154)
Field Support/Construction Division	(30,000)	(30,000)	(23,052)	6,948	(13,280)
Health, Safety and Security	(353,400)	(353,400)	(244,762)	108,638	(269,682)
Insurance and Taxes	(1,246,600)	(1,246,600)	(811,321)	435,279	(760,618)
Total Operating Expenses	<u>(18,649,700)</u>	<u>(18,649,700)</u>	<u>(14,576,147)</u>	<u>4,073,553</u>	<u>(12,082,302)</u>
Debt Service:					
Loan Principal	(2,152)	(2,152)	(2,152)		(2,050)
Loan Interest	(27,848)	(27,848)	(27,848)		(27,950)
Total Debt Service Expenses	<u>(30,000)</u>	<u>(30,000)</u>	<u>(30,000)</u>		<u>(30,000)</u>
Depreciation Expense	<u>(2,464,000)</u>	<u>(2,464,000)</u>	<u>(3,353,437)</u>	<u>(889,437)</u>	<u>(770,231)</u>
Total Costs Funded by Operating Revenue	<u>(21,143,700)</u>	<u>(21,143,700)</u>	<u>(17,959,584)</u>	<u>3,184,116</u>	<u>(12,882,533)</u>
Operating Excess/(Deficit)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 5,182,308</u>	<u>\$ 5,182,308</u>	<u>\$ 8,899,357</u>

* The anticipated surplus was not needed for current year operations and was therefore not realized.

PART III
GOVERNMENT AUDITING STANDARDS SECTION

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

Independent Auditors' Report

The Honorable Chairman and Members
of The Southeast Morris County
Municipal Utilities Authority
Cedar Knolls, NJ

We have audited, in accordance with auditing standards generally accepted in the United States of America, 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, the financial statements of The Southeast Morris County Municipal Utilities Authority (the “Authority”) as of and for the year ended December 31, 2023, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements, and have issued our report thereon dated July 11, 2024. That report included a qualified opinion on the financial statements as the Authority’s net postemployment benefits other than pensions (“OPEB”) liability and the related deferred outflows and inflows of resources reported in the financial statements at December 31, 2023 are based on the June 30, 2022 Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, report for the State of New Jersey State Health Benefits Local Government Retired Employees Plan (“SHBP”), from the Division of Pensions and Benefits, Department of the Treasury, State of New Jersey (the “State”). We were unable to obtain the June 30, 2023 GASB No. 75 report as it has not been released by the State as of the date of this report. The amount by which this omission would affect the OPEB liability and the related deferred inflows and outflows of resources, net position and expenses of the Authority has not been determined.

Report on Internal Control Over Financial Reporting

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

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

The Honorable Chairman and Members
of The Southeast Morris County
Municipal Utilities Authority
Page 2

Our consideration of the 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

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

Purpose of this Report

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

Mount Arlington, New Jersey
July 11, 2024

Nisivoccia, LLP
NISIVOCCIA LLP

Kathryn L. Mantell

Kathryn L. Mantell
Registered Municipal Accountant No. 447
Certified Public Accountant

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED DECEMBER 31, 2023

Summary of Auditors' Results:

- The Independent Auditors' Report expresses a qualified opinion on the financial statements of the Authority as the Authority's net postemployment benefits other than pensions ("OPEB") liability and the related deferred outflows and inflows of resources reported in the financial statements at December 31, 2023 are based on the June 30, 2022 Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, report for the State of New Jersey State Health Benefits Local Government Retired Employees Plan ("SHBP"), from the Division of Pensions and Benefits, Department of the Treasury, State of New Jersey (the "State"). We were unable to obtain the June 30, 2023 GASB No. 75 report as it has not been released by the State as of the date of this report. The amount by which this omission would affect the OPEB liability and the related deferred inflows and outflows of resources, net position and expenses of the Authority has not been determined.
- There were no material weaknesses or significant deficiencies disclosed during the audit of the financial statements as reported in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
- No instances of noncompliance material to the financial statements of the Authority which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

Findings Relating to the Financial Statements which are required to be Reported in Accordance with Generally Accepted Government Auditing Standards:

- The audit did not disclose any findings required to be reported under Generally Accepted Government Auditing Standards.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED DECEMBER 31, 2023

Status of Prior Year Audit Findings:

There were no prior year audit findings.

PART IV
COMMENTS AND RECOMMENDATIONS SECTION

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required to be Advertised Per N.J.S. 40A:11-4 et seq.

N.J.S. 40A:11-3 states:

a. " When the cost or price of any contract awarded by the contracting agent in the aggregate does not exceed in a contract year the total sum of \$17,500, 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, except that the governing body of any contracting unit may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations. If the purchasing agent is qualified pursuant to subsection b. of section 9 of P.L. 1071, c.198 (C.40A:11-9), the governing body of the contracting unit may establish that the bid threshold may be up to \$25,000. Such authorization may be granted for each contract or by a general delegation of the power to negotiate and award such contracts pursuant to this section.

b. 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 subparagraph (i) of paragraph (a) of subsection (1) of section 5 of P.L. 1971, c.198 (C.40A: 11-5) may be awarded for a period not exceeding 12 consecutive months. The Division of Local Government Services shall adopt and promulgate rules and regulations concerning the methods of accounting for all contracts that do not coincide with the contracting unit's fiscal year.

c. The Governor, in consultation with the Department of the Treasury, shall, no later than March 1 of every fifth year beginning in the fifth year after the year in which P.L.1999, c.440 takes effect, adjust the threshold amount and the higher threshold amount which the governing body is permitted to establish, as set forth in subsection a. of this section, or the threshold amount resulting from any adjustment under this subsection, in direct proportion to the rise or fall of the index rate as that term is defined in section 2 of P.L.1971, c.198 (C.40A11-2), and shall round the adjustment to the nearest \$1,000. The Governor shall, no later than June 1 of every fifth year, notify each governing body of the adjustment. The adjustment shall become effective on July 1 of the year in which it is made."

N.J.S. 40A: 11-4 states: "Every contract awarded by the contracting agent for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other law. The governing body of a contracting unit may, by resolution approved by a majority of the governing body and subject to subsections b. and c. of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the governing body finds that it has had prior negative experience with the bidder."

Effective July 1, 2020 and thereafter, the bid thresholds in accordance with N.J.S.A. 40A:11-3 are \$17,500 for a contracting unit without a qualified purchasing agent and \$44,000 for a contracting unit with a qualified purchasing agent.

The minutes indicated that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services", per N.J.S. 40A:11-5.

Inasmuch as the system of records did 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. None were noted.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
COMMENTS AND RECOMMENDATIONS
(Continued)

Financial Reporting

Our audit procedures revealed that the Authority's general ledger did not agree with the subsidiary ledgers (detailed reports) for several different balance sheet items, such as other accounts receivable, accounts payable, payroll deductions payable, and current year expenditures. The Chief Financial Officer communicated with the Authority's financial software company and was able to generate subsidiary ledger reports that agreed with the general ledger. Upon audit, numerous journal entries were required to adjust the general ledger balances to the actual ending balances. We reviewed and received concurrence from the Chief Financial Officer for all adjusting journal entries.

Recommendation

It is recommended that the Chief Financial Officer review the ending general ledger balances periodically and make any necessary journal entries to adjust balances to supporting ledgers, schedules, and amounts.

Management's Response

The Chief Financial Officer has made great strides in managing the financial software and generating accurate supporting records and will focus on adjusting balances to supporting ledgers, schedules, and amounts.

Water Billing/Accounts Receivable

During our testing of water charges receivable, we determined that collections were not being adjusted correctly for consumer returned checks and refunds. Returned checks and refunds were reflected as additional billings; therefore, billings and cash receipts were overstated.

Recommendation

It is recommended that returned checks and refunds are not posted as additional billings in the general ledger.

Management's Response

The Chief Financial Officer will ensure that returned checks and refunds are not posted as additional billings in the general ledger.

Suggestion to Management

Governmental Accounting Standards Board (GASB) Statements

GASB Statement No. 101, *Compensated Absences*, is effective for the year ended December 31, 2024. This statement requires that the liability for compensated absences to be calculated for 1 – leave that has not been used and 2 – leave that has been used but not yet paid. The liability should be recognized for leave that has not been used if (a) – the leave is attributable to services already rendered, (b) the leave accumulates and (c) the leave is more likely than not to be used for time off or otherwise paid. In estimating the leave that is more likely than not to be used or otherwise paid or settled, a government should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in the liability for compensated absences. The Statement directs that for leave that has not been used the calculation should generally use an employee's pay rate as of the date of the financial statements.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
COMMENTS AND RECOMMENDATIONS
(Continued)

Status of Prior Year Recommendations

The prior year recommendations regarding the activity in the general ledger agreeing to subsidiary ledgers, and returned checks and refunds not being posted as additional billings in the general ledger have not been resolved and are included as current year recommendations.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SUMMARY OF RECOMMENDATIONS

It is recommended that:

1. The Chief Financial Officer review the ending general ledger balances periodically and make any necessary journal entries to adjust balances to supporting ledgers, schedules, and amounts.
2. Returned checks and refunds are not posted as additional billings in the general ledger.

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