

THE SOUTHEAST MORRIS COUNTY
MUNICIPAL UTILITIES AUTHORITY
COUNTY OF MORRIS
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020

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



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January 21, 2022

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, 2020 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
Page 2
January 21, 2022

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.

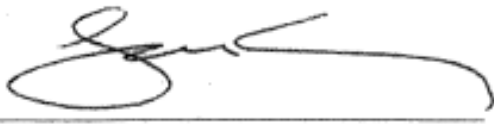
OTHER INFORMATION:

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.

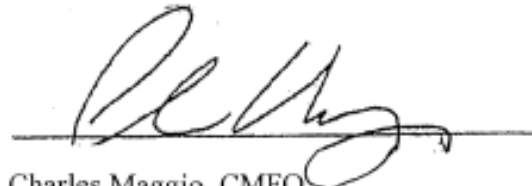
ACKNOWLEDGEMENTS:

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,

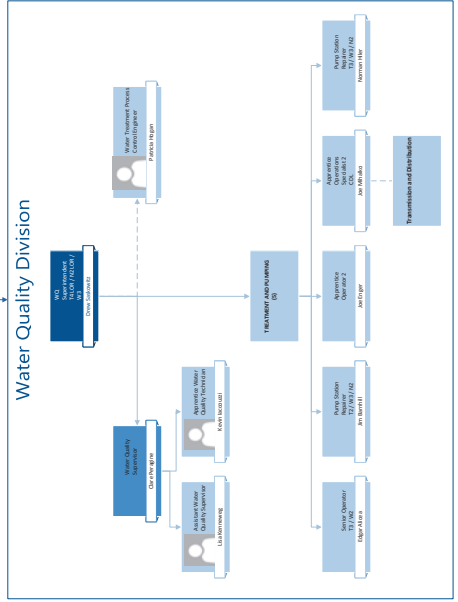
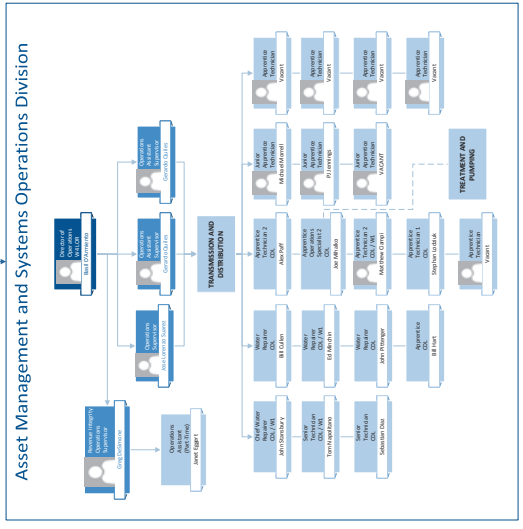
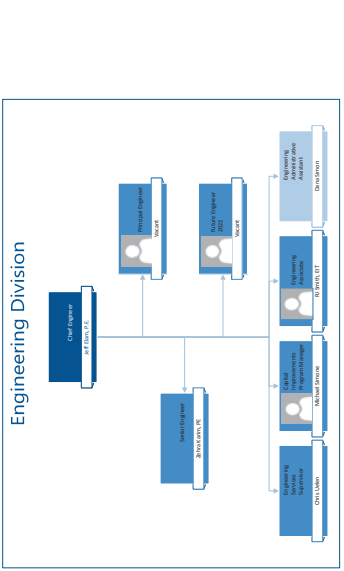
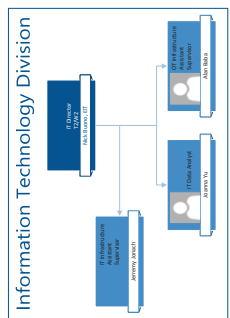
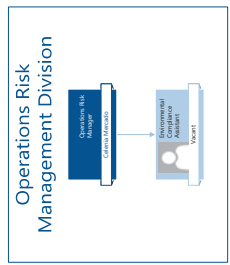
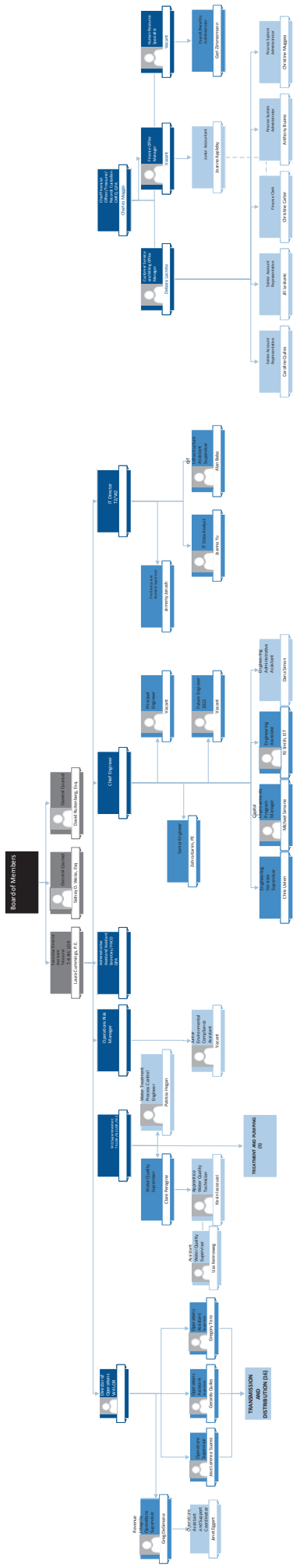


Laura Cummings, P.E.
Executive Director / Assistant Treasurer



Charles Maggio, CMFO
Chief Financial Officer / Treasurer

The Southeast Morris County Municipal Utilities Authority



THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
ROSTER OF OFFICIALS
DECEMBER 31, 2020

Commissioners

Position

Saverio C. Iannaccone

Chairman

Donald Kissil

Vice Chairman

Ralph R. Rotando

Secretary

Dennis Baldassari

Board Member

Michael Chumer, PhD.

Board Member

Max Huber

Board Member

Adolf Schimpf, PhD.

Board Member

Patricia Webster

Board Member

Other Officials

Laura Cummings, P.E.

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

ATTORNEY

Sidney D. Weiss, Esquire
19 Saddle Road
Cedar Knolls, New Jersey 07927

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 Financial Statements

We have audited the accompanying financial statements of The Southeast Morris County Municipal Utilities Authority, (the "Authority") for the year ended December 31, 2020, and the related notes to the financial statements which comprise the Authority's basic financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

The Honorable Chairman and Members
of The Southeast Morris County
Municipal Utilities Authority
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Basis for 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, 2020 is based on the June 30, 2019 Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* report. We were unable to obtain the June 30, 2020 GASB No. 75 report as it has not been released by the Division of Pensions and Benefits, Department of the Treasury, State of New Jersey, as of the date of this report. Due to the State's delay in the release of this information, the amount by which this omission would affect the net OPEB liability and the related deferred inflows and outflows of resources, net position and expenses of the Authority cannot be determined.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the *Basis for Qualified Opinion* paragraph, the financial statements referred to above, present fairly, in all material respects, the financial position of the Authority as of December 31, 2020, 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.

Other Matters

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The supplementary information schedule and the other information, such as the introductory section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Honorable Chairman and Members
of The Southeast Morris County
Municipal Utilities Authority
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The supplementary information schedule 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2022 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 the Authority's internal control over financial reporting and compliance.

Mount Arlington, New Jersey
January 21, 2022

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 MANAGEMENT DISCUSSION AND ANALYSIS

This section presents management's analysis of the Authority's financial condition and activities for the year ended December 31, 2020. 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 2020:

- 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 2020 budget, operating revenues were up by \$2,169,544 and expenses were below budget by \$1,736,245 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 energy costs, fuel, traffic control and street repairs.
- Overall operating revenue for 2020 was higher by 9.13% when compared to 2019.
- Revenues from water charges were \$16,672,814; this represents an increase of \$1,245,396 from 2019.
- Revenues from connection fees were \$1,884,387; this represents an increase of \$383,599 from 2019.
- Overall operating expenses for 2020 were higher by 16.88% when compared to 2019.
- Cash and cash equivalents and investments have increased by \$2,796,561 from 2019.
- Total expenses for capital projects and other capital assets, net of refunds, were \$2,547,449.

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.

**THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS**

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 6.50%. 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, 2020	Dec. 31, 2019	Increase/ (Decrease) from 2019	Percentage Increase/ (Decrease)
Current Assets	\$ 33,429,038	\$ 29,469,522	\$ 3,959,516	
Capital Assets, Net	79,140,169	75,913,737	3,226,432	
Total Assets	<u>112,569,207</u>	<u>105,383,259</u>	<u>7,185,948</u>	6.82%
Deferred Outflows of Resources	<u>2,971,521</u>	<u>2,311,742</u>	<u>659,779</u>	28.54%
Current Liabilities	15,097,238	12,061,084	3,036,154	
Long-Term Liabilities	<u>16,199,318</u>	<u>16,083,639</u>	<u>115,679</u>	
Total Liabilities	<u>31,296,556</u>	<u>28,144,723</u>	<u>3,151,833</u>	11.20%
Deferred Inflows of Resources	<u>10,237,766</u>	<u>10,062,436</u>	<u>175,330</u>	1.74%
Net Position:				
Net Investment in Capital Assets	78,579,213	75,350,921	3,228,292	
Restricted	4,528,995	4,259,090	269,905	
Unrestricted/(Deficit)	<u>(9,101,802)</u>	<u>(10,122,169)</u>	<u>1,020,367</u>	
Total Net Position	<u>\$ 74,006,406</u>	<u>\$ 69,487,842</u>	<u>\$ 4,518,564</u>	6.50%

**THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS**

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 \$4,518,564. 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**

	2020	2019	Increase/ (Decrease) from 2019	Percentage Increase/ (Decrease)
Operating Revenue	\$ 18,765,386	\$ 17,195,511	\$ 1,569,875	
Nonoperating Revenue	94,166	275,209	(181,043)	
Total Revenue	<u>18,859,552</u>	<u>17,470,720</u>	<u>1,388,832</u>	7.95%
Operating Expenses	12,328,955	10,784,375	1,544,580	
Depreciation	2,041,816	2,042,655	(839)	
Nonoperating Expenses	28,140	28,229	(89)	
Total Expenses	<u>14,398,911</u>	<u>12,855,259</u>	<u>1,543,652</u>	12.01%
Other Items	57,923	214,143	(156,220)	-72.95%
Change in Net Position	4,518,564	4,829,604	(311,040)	-6.44%
Beginning Net Position	<u>69,487,842</u>	<u>64,658,238</u>	<u>4,829,604</u>	7.47%
Ending Net Position	<u>\$ 74,006,406</u>	<u>\$ 69,487,842</u>	<u>\$ 4,518,564</u>	6.50%

Operating Revenues: The \$1,569,875 increase in operating revenues compared to 2019 is primarily due to a \$1,245,396 increase in metered sales as a result of commercial and residential rate increases and a \$383,599 increase 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 \$1,544,580 from 2019 which is due to an increase in accruals pursuant to GASB 68 for employee benefits of \$352,509 as a result of changes in net pension liabilities outside of the Authority’s control, an increase of \$47,803 in salaries and wages and an increase in other expenses of \$1,144,268. Nonoperating expenses decreased by \$89. Annual depreciation decreased by \$839. The Authority closely monitors its budget and spending throughout the year in order to control its operations.

**THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS**

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 2020 was \$329,028 above the 2020 projected amount.
- Connection fees were \$1,884,387 above the 2020 budgeted amount.
- Miscellaneous revenue was \$44,893, an increase of \$5,940 from 2019 and an excess of \$19,893 as compared to the 2020 budget.
- Interest income for the Authority was \$94,166, a decrease of \$181,043 from 2019 and a deficit of \$5,834 as compared to the 2020 budget.
- The Authority paid its actuarially calculated pension payment of \$384,821 in 2020.
- Operating expenses were less than budgeted in 2020 because budgeting projections were based on a low precipitation year where 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.

**THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS**

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.

CAPITAL ASSETS

At December 31, 2020, the Authority had \$79,140,169 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, 2020. These changes are presented in detail in Note 2 to the financial statements.

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

	Dec. 31, 2020	Dec. 31, 2019	Increase/ (Decrease) from 2019	Percentage Increase/ (Decrease)
Land	\$ 4,045,860	\$ 4,045,860		
Plant, Equipment and Vehicles	95,483,977	93,970,685	\$ 1,513,292	
Construction in Progress	19,297,469	15,542,513	3,754,956	
Total	118,827,306	113,559,058	5,268,248	4.64%
Less: Accumulated Depreciation	39,687,137	37,645,321	2,041,816	5.42%
Capital Assets, Net of Accumulated Depreciation	<u>\$ 79,140,169</u>	<u>\$ 75,913,737</u>	<u>\$ 3,226,432</u>	4.25%

During the year, the Authority's change in Construction in Progress included \$5,217,039 of additions and \$51,209 of change order adjustments; offset by \$1,513,292 of transfers to Plant, Equipment and Vehicles for fully completed projects. Annual depreciation expense was \$2,041,816 for the current year.

Based on the 2006 Master Plan and revised in 2012 and the current budget report, the Authority's 2021 capital budget requires an investment of \$6,154,683, including the following:

Engineering	\$ 1,031,379
Information Technology	332,500
Facilities Improvements	580,804
Meters and Services	255,000
Transmission and Distribution Improvements	3,050,000
Treatment and Pumping Improvements	745,000
Vehicles	70,000
Equipment	90,000
	<u>\$ 6,154,683</u>

**THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS**

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 \$16,199,318 in long term liabilities – an increase of \$115,679 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**

	<u>Dec. 31, 2020</u>	<u>Dec. 31, 2019</u>	<u>Increase/ (Decrease) from 2019</u>	<u>Percentage Increase/ (Decrease)</u>
Loan - Town of Morristown	\$ 560,956	\$ 562,816	\$ (1,860)	-0.33%
Net Pension Liability	7,213,936	7,105,748	108,188	1.52%
Net OPEB Liability	8,236,824	8,236,824		0.00%
Other Long-Term Liabilities	<u>187,602</u>	<u>178,251</u>	<u>9,351</u>	5.25%
	<u><u>\$ 16,199,318</u></u>	<u><u>\$ 16,083,639</u></u>	<u><u>\$ 115,679</u></u>	0.72%

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The Authority’s 2021 budget revenues were projected as \$17,862,486, assuming conservative sales based on the assumption of high precipitation, or low usage, and no connection fees. The 2021 total budgetary expenses are projected as \$17,688,300, requiring a contribution from the net position of \$174,186 in order to balance the budget. The 1 operating budget was created utilizing a zero-based budget approach together with management’s thorough review of expenses for each Division. The proposed 2021 rate increases of 7.5% for commercial rates, 8.5% for residential rates and a 8.5% rate increase for all other charges were incorporated into all revenue projections. The revenue projections remained consistent with the recommendations of the 2016 COSS where it was concluded that customer class rates needed realignment.

**THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The 2021 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 2016 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 6.82% was observed from 2020 to 2021.
- Metered sales are estimated to be \$1,010,131 more than those estimated for 2020 as a result of projected rate increases.
- Expenses for PVWC and MCMUA increased by 3% and 4%, respectively, above the 2020 rates.
- An increase in the labor budget for the addition of 6 staff members, succession planning positions, increase in overtime to respond to increased workloads for main repairs, capital projects, promotions and compensation changes equivalent to an additional \$451,000 in 2021.
- 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.
- NJ State Health Benefits Program for retired employees budget increased by \$130,000 due to increased staffing and projected increases in premiums.
- Depreciation and amortization for 2021 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, 2020

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 29,246,042
Change Fund	700
	700

Total Cash and Cash Equivalents	29,246,742
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Water Charges Receivable	1,966,211
Other Accounts Receivable	2,063,907
Inventory	152,178
	152,178

Total Current Assets	33,429,038
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Noncurrent Assets:

Depreciable Capital Assets	55,796,840
Land	4,045,860
Construction in Progress	19,297,469
	19,297,469

Total Capital Assets	79,140,169
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Total Noncurrent Assets	79,140,169
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TOTAL ASSETS	112,569,207
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions	1,526,960
Deferred Outflows Related to OPEB	960,627
Authority Contribution Subsequent to the Measurement Date - Pensions	483,934
	483,934

Total Deferred Outflows of Resources	2,971,521
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THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF NET POSITION
DECEMBER 31, 2020
(Continued)

LIABILITIES

Current Liabilities:

Accounts Payable	\$ 2,430,153
Contracts Payable	12,439,045
Payroll Deductions Payable	34,426
Accrued Wages Payable	193,614
	15,097,238

Total Current Liabilities

15,097,238

Noncurrent Liabilities:

Net Pension Liability	7,213,936
Net OPEB Liability	8,236,824
Compensated Absences Payable	187,602
Loan Payable - Due to Town of Morristown - Due Within One Year	1,952
Loan Payable - Due to Town of Morristown - Due Beyond One Year	559,004
	16,199,318

Total Noncurrent Liabilities

16,199,318

Total Liabilities

31,296,556

DEFERRED INFLOWS OF RESOURCES:

Deferred Inflows Related to Pensions	3,413,813
Deferred Inflows Related to OPEB	6,823,953
	10,237,766

Total Deferred Inflows of Resources

10,237,766

NET POSITION

Net Investment in Capital Assets	78,579,213
Restricted	4,528,995
Unrestricted/(Deficit)	(9,101,802)
	74,006,406

Total Net Position

\$ 74,006,406

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 YEAR ENDED DECEMBER 31, 2020

Operating Revenue:		
Water Charges		\$ 16,672,814
Water Connection Fees		1,884,387
Other		44,893
Miscellaneous:		
Wet Cut Application Fees	\$ 4,042	
Tap Application Fees	24,927	
Main Extension Inspection Fees	38	
Fines/Penalties	10,522	
Leases/Rents	123,763	
Total Miscellaneous		163,292
Total Operating Revenue		18,765,386
Operating Expenses:		
Operating Appropriations		12,328,955
Depreciation		2,041,816
Total Operating Expenses		14,370,771
Operating Income		4,394,615
Nonoperating Revenue/(Expenses):		
Interest Income		94,166
Interest Expense - Loans		(28,140)
Total Nonoperating Revenue/(Expenses)		66,026
Change in Net Position Before Other Items		4,460,641
Other Items:		
Cancellation of Prior Year Accounts Receivable		(275,380)
Cancellation of Prior Year Accounts Payable		333,303
Total Other Items		57,923
Change in Net Position		4,518,564
Net Position, Beginning of Year		69,487,842
Net Position, End of Year		\$ 74,006,406

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, 2020

19

Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 17,321,141
Cash Paid to Suppliers and Employees	(12,041,297)
	<hr/>
Net Cash Provided by Operating Activities	5,279,844
	<hr/>
Cash Flows from Capital and Related Financing Activities:	
Construction in Progress	(2,547,449)
Principal Paid on Bonds and Loans	(1,860)
Interest Expense	(28,140)
	<hr/>
Net Cash Used for Capital and Related Financing Activities	(2,577,449)
	<hr/>
Cash Flows from Investing Activities:	
Interest on Investments	94,166
	<hr/>
Net Cash Provided by Investing Activities	94,166
	<hr/>
Net Increase in Cash and Cash Equivalents	2,796,561
	<hr/>
Cash and Cash Equivalents - Beginning of Year	26,450,181
	<hr/>
Cash and Cash Equivalents - End of Year	\$ 29,246,742
	<hr/> <hr/>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income	\$ 4,394,615
Adjustments to Reconcile Operating Income to Net	
Cash Provided by Operating Activities:	
Depreciation	2,041,816
Changes in Net Position:	
(Increase) in Water Charges Receivable	(380,610)
(Increase) in Other Accounts Receivable	(1,063,635)
Decrease in Inventory	5,910
Increase in Accounts Payable	605,472
(Decrease) in Payroll Deductions Payable	(12,738)
(Decrease) in Accrued Wages Payable	(44,413)
Increase in Accrued Compensated Absences Payable	9,351
(Increase) in Deferred Outflows Related to Pensions	(559,442)
Decrease in Deferred Outflows Related to OPEB	
Increase in Deferred Inflows Related to Pensions	175,330
Increase in Deferred Inflows Related to OPEB	
Increase in Net Pension Liability	108,188
Increase in Net OPEB Liability	
	<hr/>
Net Cash Provided by Operating Activities	\$ 5,279,844
	<hr/> <hr/>

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, 2020

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, 2020
 (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, 2020
(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, 2020 was \$187,602, 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, 2020.

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 and OPEB at December 31, 2020.

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, 2020
(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 \$9,101,802 which is primarily due to changes in deferred inflows related to pensions and OPEB, net pension liability and net OPEB liability; net of changes in deferred outflows related to pensions and OPEB. This deficit does not indicate that the Authority is in financial difficulties. This deficit 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, 2020
(Continued)

Note 2 - Capital Assets

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

	<u>Dec. 31, 2019</u>	<u>Increases</u>	<u>(Decreases)/ Adjustments</u>	<u>Transfers</u>	<u>Dec. 31, 2020</u>
Capital Assets Being Depreciated:					
Plant	\$ 67,069,296			\$ 1,067,636	\$68,136,932
Vehicles	1,135,706			124,416	1,260,122
Machinery and Equipment	25,765,683			321,240	26,086,923
Total Capital Assets Being Depreciated	<u>93,970,685</u>			<u>1,513,292</u>	<u>95,483,977</u>
Capital Assets not Being Depreciated:					
Land	4,045,860				4,045,860
Construction in Progress	15,542,513	\$ 5,217,039	\$ 51,209	(1,513,292)	19,297,469
Total Capital Assets not Being Depreciated	<u>19,588,373</u>	<u>5,217,039</u>	<u>51,209</u>	<u>(1,513,292)</u>	<u>23,343,329</u>
Total Capital Assets	113,559,058	5,217,039	51,209		118,827,306
Accumulated Depreciation	<u>(37,645,321)</u>	<u>(2,041,816)</u>			<u>(39,687,137)</u>
Capital Assets (Net)	<u>\$ 75,913,737</u>	<u>\$ 3,175,223</u>	<u>\$ 51,209</u>	<u>\$ - 0 -</u>	<u>\$79,140,169</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, 2020, the Authority has \$12,439,045 in active construction projects.

Note 3 - Operating Leases

The Authority has commitments to lease copying equipment under an operating lease which expires in July 2020. Total operating lease payments made during the year ended December 31, 2020 were \$6,651. Future lease payments are as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 6,924
2022	6,924
2023	1,731
	<u>\$ 15,579</u>

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
(Continued)

Note 4 - Long-Term Liabilities

During the year ended December 31, 2020, the following changes occurred in the long-term liabilities reported in the financial statements:

	Balance Dec. 31, 2019	Accrued	Retired	Balance Dec. 31, 2020
Loan - Town of Morristown	\$ 562,816		\$ 1,860	\$ 560,956
Net Pension Liability	7,105,748	\$ 108,188.00		7,213,936
Net OPEB Liability	8,236,824			8,236,824
Compensated Absences Payable	178,251	48,009	38,658	187,602
	<u>\$ 16,083,639</u>	<u>\$ 156,197</u>	<u>\$ 40,518</u>	<u>\$ 16,199,318</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, 2020 is \$1,952 and the long-term portion is \$559,004. Interest expense on the annual payment due to the Town of Morristown was \$28,140 and \$28,229 for 2020 and 2019, respectively, at an assumed interest rate of 5%.

Bonds Authorized But Not Issued

As of December 31, 2020, the Authority has no bonds authorized but not issued.

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, 2020 is \$-0- and the long term portion is \$7,213,936. 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, 2020 was calculated to be \$8,236,824. See Note 13 for further information on OPEB.

Compensated Absences Payable

The liability for compensated absences is recorded in the current and long-term liabilities. The compensated absences balance is \$187,602, none of which represents a current liability; therefore, the entire balance is reported as a long-term liability.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
(Continued)

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.

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%.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
(Continued)

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

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
- (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.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
(Continued)

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

As of December 31, 2020, 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	\$ 18,869,863	\$ 5,214,798	\$ 5,161,381	\$ 29,246,742

The carrying amount of the Authority's cash and cash equivalents at December 31, 2020, was \$29,246,742, and the bank balance was \$30,170,752. The Authority did not hold any investments during the year ended December 31, 2020. The \$5,161,381 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.

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:

Year	Authority/ Employee Contributions	Interest Earned	Amount Reimbursed	Ending Balance
2018	\$ 6,468	\$ - 0 -	\$ 9,449	\$ 112,752
2019	6,537	- 0 -	- 0 -	119,289
2020	7,013	- 0 -	19,382	106,920

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
(Continued)

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, 2020.

Note 8 - Accounts Payable, Contracts Payable and Accrued Expenses

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

	<u>2020</u>	<u>2019</u>
Vendors	\$ 14,385,264	\$ 11,392,296
Pensions - Authority Contribution Subsequent to the Measurement Date	483,934	383,597
Payroll Deductions Payable	34,426	47,164
Accrued Wages Payable	<u>193,614</u>	<u>238,027</u>
Total	<u>\$ 15,097,238</u>	<u>\$ 12,061,084</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.

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.

Note 11 - Service Contract

On January 20, 1977, the Authority entered into 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 SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
(Continued)

Note 11 - Service Contract (Cont'd)

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.

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

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
(Continued)

Note 12 - Pension Plans (Cont'd)

Benefits Provided (Cont'd)

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. 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 \$384,821 for 2020.

The employee contribution rate was 7.50% effective July 1, 2018.

Pension Liabilities and Pension Expense

At June 30, 2020, the Authority's liability was \$7,213,936 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019 which was rolled forward to June 30, 2020. 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, 2020, the Authority's proportion was 0.0442%, which was an increase of 0.0048% from its proportion measured as of June 30, 2019.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
(Continued)

Note 12 - Pension Plans (Cont'd)

Pension Liabilities and Pension Expense (Cont'd)

For the year ended December 31, 2020, the Authority recognized actual pension expense in the amount of \$222,410.

At June 30, 2020, 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	2016	5.57	\$ 234,028	
	2017	5.48		\$ 682,858
	2018	5.63		669,931
	2019	5.21		532,021
	2020	5.16		1,135,733
				<u>234,028</u>
Changes in Proportion	2016	5.57	43,514	
	2017	5.48		166,398
	2018	5.63		21,327
	2019	5.21		180,033
	2020	5.16		871,486
				<u>915,000</u>
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	2016	5.00	(88,277)	
	2017	5.00	(81,871)	
	2018	5.00	19,813	
	2019	5.00	396,913	
				<u>246,578</u>
Difference Between Expected and Actual Experience	2016	5.57	7,102	
	2017	5.48	20,308	
	2018	5.63		25,512
	2019	5.21	40,668	
	2020	5.16	63,276	
				<u>131,354</u>
Authority Contribution Subsequent to the Measurement Date	2020	1.00	483,934	
			<u>\$ 2,010,894</u>	<u>\$ 3,413,813</u>

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
(Continued)

Note 12 - Pension Plans (Cont'd)

Pension Liabilities and Pension Expense (Cont'd)

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

June 30,	Total
2021	\$ (905,216)
2022	(825,283)
2023	(471,628)
2024	(190,718)
2025	(41,250)
	\$ (2,434,095)

Actuarial Assumptions

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

Inflation Rate	2.75%
Salary Increases:	
Through 2026	2.00 – 6.00% based on years of service
Thereafter	3.00 – 7.00% based on years of service
Investment Rate of Return	7.00%

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-2020.

The actuarial assumptions used in the July 1, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2014 to June 30, 2018.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
(Continued)

Note 12 - Pension Plans (Cont'd)

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, 2020) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the Board of Trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS' target asset allocation as of June 30, 2020 are summarized in the following table:

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

Discount Rate

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

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
 (Continued)

Note 12 - Pension Plans (Cont'd)

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, 2020 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, 2020		
	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	\$ 9,061,025	\$ 7,213,936	\$ 5,617,090

Pension Plan Fiduciary Net Position

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

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, 2020 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) Comprehensive Annual Financial Report (CAFR), 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.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
(Continued)

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

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

Benefits Provided

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 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.

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, 2018 through June 30, 2019. 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.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
(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

The total OPEB liability as of June 30, 2019 was determined by an actuarial valuation as of June 30, 2018, which was rolled forward to June 30, 2019.

At June 30, 2019, the Authority had a liability of \$8,236,824 for its proportionate share of the net OPEB liability. At June 30, 2019, the Authority's proportion was 0.061%, which was a decrease of 0.002% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the Authority's OPEB benefit as determined by the State of New Jersey Division of Pensions and Benefits was \$(196,165). The Authority's actual post retirement payments in 2020 for 22 retired employees and 15 spouses were \$247,134.

At June 30, 2019, the Authority had deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferral Year	Amortization Period in Years	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Assumptions	2017	8.04		\$ 986,416
	2018	8.14		1,061,448
	2019	8.05		871,083
			<u> </u>	<u>2,918,947</u>
Changes in Proportion	2017	8.04		1,105,043
	2018	8.14	\$ 953,842	
	2019	8.05		391,195
			<u>953,842</u>	<u>1,496,238</u>
Net Difference Between Projected and Actual Investment Earnings on OPEB Investments	2017	5.00	1,064	
	2018	5.00	2,579	
	2019	5.00	3,142	
			<u>6,785</u>	
Difference Between Expected and Actual Experience	2018	8.14		1,663,275
	2019	8.05		745,493
				<u>2,408,768</u>
			<u>\$ 960,627</u>	<u>\$ 6,823,953</u>

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
(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
2020	\$ (866,607)
2021	(866,608)
2022	(867,140)
2023	(868,000)
2024	(868,785)
Thereafter	(983,790)
	\$(5,320,930)

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 8.05, 8.14 and 8.04 years for the 2019, 2018 and 2017 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.

Inflation Rate	2.50%
Salary Increases*:	
Public Employees' Retirement System (PERS)	
Initial fiscal year applied	
Rate through 2026	2.00% - 6.00%
Rate Thereafter	3.00% to 7.00%

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

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
 (Continued)

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

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

Actuarial Assumptions and Other Inputs (Cont'd)

Mortality:

PERS Pub-2010 General classification headcount weighted mortality with fully generational mortality improvement projections from the central year using Scale MP-2019

Actuarial assumptions used in the June 30, 2018 valuation were based on the results of the PERS experience study prepared for July 1, 2014 – June 30, 2018.

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

Health Care Trend Assumptions

For pre-Medicare medical benefits, the trend rate is initially 5.7% and decreases to a 4.5% long term trend rate after eight years. For post 65 medical benefits, the actual fully-insured Medicare Advantage trend rate for fiscal year 2020 is reflected. The assumed post-65 medical trend is 4.5% for all future years. For prescription drug benefits, the initial trend rate is 7.5% and decreases to a 4.5% long term rate after eight years.

Discount Rate

The discount rate for June 30, 2019 was 3.50%. The discount rate for June 30, 2018 was 3.87%. 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, 2019, 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:

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2020
(Continued)

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

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

Sensitivity of the Net OPEB Liability Attributable to the Authority to Changes in the Discount Rate
(Cont'd)

	June 30, 2020		
	1% Decrease (2.50%)	Current Discount Rate (3.50%)	1% Increase (4.50%)
Authority's proportionate share of the Net OPEB Liability	\$ 9,523,864	\$ 8,236,824	\$ 7,190,934

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, 2019, 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, 2020		
	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Authority's proportionate share of the Net OPEB Liability	\$ 6,950,864	\$ 8,236,824	\$ 9,877,282

Note 14 – Subsequent Event

The COVID-19 outbreak in the United States and specifically in New Jersey continues to have an impact on the Authority's operations and finances. Public access to the Authority's office continues to be restricted. Though the impact on the Authority's finances cannot be reasonably estimated at this date, the following is likely to continue through at least mid-year 2021: Interest on investments continue to be negatively impacted compared to years previous to 2020.

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 SIX YEARS

	Year Ending June 30,					
	2015	2016	2017	2018	2019	2020
Authority's Proportion of the Net Pension Liability	0.0416135588%	0.0437543056%	0.0409283017%	0.0407258872%	0.0394358853%	0.0442372314%
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
Authority's Covered Employee Payroll	\$ 2,850,329	\$ 2,969,533	\$ 2,663,260	\$ 2,627,287	\$ 2,960,312	\$ 3,501,247
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%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	47.93%	40.14%	48.10%	53.60%	56.27%	58.32%

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 SIX YEARS

	Year Ending					
	2015	2016	2017	2018	2019	2020
Contractually Required Contribution	\$ 371,689	\$ 357,765	\$ 389,738	\$ 382,083	\$ 418,794	\$ 384,821
Contributions in relation to the Contractually Required Contribution	(371,689)	(357,765)	(389,738)	(382,083)	(418,794)	(384,821)
Contribution Deficiency (Excess)	\$ - 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
Contributions as a Percentage of Covered Employee Payroll	12.39%	13.07%	14.95%	13.72%	12.72%	11.04%

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 TWO YEARS

	<u>Year Ending June 30,</u>	
	<u>2018</u>	<u>2019</u>
Authority's proportion of the net OPEB liability	0.062764%	0.060806%
Authority's proportionate share of the net OPEB liability	\$ 9,832,996	\$ 8,236,824
Authority's covered employee payroll	\$ 2,627,287	\$ 2,960,312
Authority's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	374.26%	278.24%
Plan fiduciary net position as a percentage of the total OPEB liability	1.97%	1.98%

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 TWO YEARS
UNAUDITED

	Year Ending	
	2018	2019
Contractually required contribution	\$ 481,321	\$ 266,642
Contributions in relation to the contractually required contribution	<u>(481,321)</u>	<u>(266,642)</u>
Contribution deficiency/(excess)	<u>\$ -0-</u>	<u>\$ -0-</u>
Authority's covered employee payroll	\$ 2,783,919	\$ 3,293,350
Contributions as a percentage of covered employee payroll	17.29%	8.10%

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, 2020
(UNAUDITED)

A. PUBLIC EMPLOYEES’ RETIREMENT SYSTEM

Benefit Changes

There were none.

Changes of Assumptions

The discount rate changed from 6.28% as of June 30, 2019 to 7.00% as of June 30, 2020.

In the July 1, 2018 actuarial valuation the mortality improvement was based on Scale MP-2019 while in the July 1, 2019 actuarial valuation the mortality improvement was based on Scale MP-2020.

B. STATE HEALTH BENEFIT LOCAL GOVERNMENT RETIRED EMPLOYEES PLAN

Benefit Changes

There were none.

Changes of Actuarial Assumptions

The discount rate for June 30, 2019 was 3.50%. The discount rate for June 30, 2018 was 3.87%.

Salary Increases, Mortality and Health Care Trend Assumptions – June 30, 2017 Actuarial Valuation:

Salary Increases*:

Through 2026	1.65% - 8.98%
Thereafter	2.65% to 9.98%

*- Salary increases are based on the defined benefit plan that the member is enrolled in and his or her age.

Preretirement mortality rates were based on the RP-2006 Headcount-Weighted Healthy Employee Male/Female Mortality Table with fully generational mortality improvement projections from the central year using the MP-2017 scale. Postretirement mortality rates were based on the RP-2006 Headcount-Weighted Health Annuitant Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale. Disability mortality was based on the RP-2006 Headcount-Weighted Disabled Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale.

Certain actuarial assumptions used in the June 30, 2017 valuation were based on the results of the pension plans’ experience studies for which the members are eligible for coverage under this Plan – the Police and Firemen Retirement System (PFRS) and the Public Employees’ Retirement System (PERS). The PFRS and PERS experience studies were prepared for the periods July 1, 2010 to June 30, 2013 and July 1, 2011 – June 30, 2014, respectively.

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED DECEMBER 31, 2020
(UNAUDITED)

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

Changes of Actuarial Assumptions (Cont'd)

For pre-Medicare preferred provider organization (PPO) and health maintenance organization (HMO) medical benefits, the trend rate is initially is 5.8% and decreases to a 5.0% long term trend rate after eight years. For self-insured post 65 PPO and HMO medical benefits, the trend rate is 4.5%. For prescription drug benefits, the initial trend rate is 8.0% decreasing to a 5.0% long term rate after seven years. The Medicare Advantage trend rate is 4.5% and will continue in all future years.

Salary Increases, Mortality and Health Care Trend Assumptions – July 1, 2018 Actuarial Valuation:

Salary Increases*:

Public Employees' Retirement System (PERS)

Initial fiscal year applied

Rate through 2026	2.00% - 6.00%
Rate thereafter	3.00% to 7.00%

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

PERS Pub-2010 General classification headcount weighted mortality with fully generational mortality improvement projections from the central year using Scale MP-2019

Actuarial assumptions used in the July 1, 2018 valuation were based on the results of the PERS experience study prepared for the period July 1, 2014 – June 30, 2018.

For pre-Medicare medical benefits, the trend rate is initially is 5.7% and decreases to a 4.5% long term trend rate after eight years. For post 65 medical benefits, the actual fully-insured Medicare Advantage trend rate for fiscal year 2020 is reflected. The assumed post-65 medical trend is 4.5% for all future years. For prescription drug benefits, the initial trend rate is 7.5% and decreases to a 4.5% long term rate after eight years.

SUPPLEMENTARY INFORMATION

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUE AND EXPENSES COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2020
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2019

	2020 Budget	Budget After Modification	2020 Actual	Excess or (Deficit)	2019 Actual
Operating Revenue:					
Water Charges:					
Unmetered Sales	\$ 7,897	\$ 7,897	\$ 7,368	\$ (529)	\$ 10,245
Metered Sales	14,766,575	14,766,575	15,095,603	329,028	13,855,891
Bulk Service Invoices	61,297	61,297	54,722	(6,575)	78,857
Fire Protection	862,427	862,427	889,483	27,056	822,615
Contract Operations	687,646	687,646	625,638	(62,008)	659,810
Water Connection Fees			1,884,387	1,884,387	1,500,788
Other	25,000	25,000	44,893	19,893	38,953
Wet Cut Application Fees	3,000	3,000	4,042	1,042	10,034
Tap Application Fees	8,000	8,000	24,927	16,927	27,380
Main Extension Inspection Fees			38	38	1,932
Fines/Penalty Charges	70,000	70,000	10,522	(59,478)	68,507
Leases/Rents	104,000	104,000	123,763	19,763	120,499
Total Operating Revenue	16,595,842	16,595,842	18,765,386	2,169,544	17,195,511
Nonoperating Revenue:					
Interest on Investments and Deposits	100,000	100,000	94,166	(5,834)	275,209
Total Nonoperating Revenue	100,000	100,000	94,166	(5,834)	275,209
Total Revenue	16,695,842	16,695,842	18,859,552	2,163,710	17,470,720
Expenses:					
Operating Expenses:					
Administration Expenses:					
Salaries and Wages:					
General Administration	(508,200)	(490,629)	(454,872)	35,757	(401,870)
IT Administration	(320,500)	(320,500)	(284,911)	35,589	(226,798)
Financial Operations	(660,300)	(660,300)	(660,293)	7	(667,900)
Administration Division	(479,800)	(479,800)	(466,097)	13,703	(470,622)
Employee Benefits:					
Dental Benefits	(32,800)	(32,800)	(26,497)	6,303	(25,321)
Vision Benefits	(2,000)	(2,000)	(1,496)	504	(1,468)
Medical Benefits	(1,096,900)	(1,014,800)	(953,884)	60,916	(544,752)
Social Security Tax	(334,600)	(334,600)	(290,914)	43,686	(287,281)
Public Employees' Retirement System	(416,800)	(386,800)	(109,504)	277,296	(173,790)
Accumulated Sick Time	(38,200)	(13,200)	(2,826)	10,374	
Other Expenses:					
General Administration	(446,700)	(641,371)	(561,519)	79,852	(381,860)
IT Administration	(391,200)	(462,450)	(365,069)	97,381	(318,428)
Financial Operations	(128,200)	(98,200)	(66,323)	31,877	(175,437)
Customer Service and Collection	(118,500)	(75,500)	(38,029)	37,471	(65,237)

THE SOUTHEAST MORRIS COUNTY MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF REVENUE AND EXPENSES COMPARED TO BUDGET
YEAR ENDED DECEMBER 31, 2020
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED DECEMBER 31, 2019
(Continued)

	2020 Budget	Budget After Modification	2020 Actual	Excess or (Deficit)	2019 Actual
Expenses: (Cont'd):					
Operating Expenses: (Cont'd)					
Cost of Providing Services:					
Salaries and Wages:					
Transmission and Distribution	\$ (1,239,900)	\$ (1,239,900)	\$ (1,123,501)	\$ 116,399	\$ (1,150,067)
Treatment and Pumping Division	(480,200)	(480,200)	(453,519)	26,681	(468,091)
Water Quality	(260,500)	(275,500)	(235,018)	40,482	(266,438)
Health, Safety and Security	(128,800)	(138,800)	(138,143)	657	(116,765)
Other Expenses:					
Administration Division	(3,770,700)	(3,580,200)	(3,402,713)	177,487	(2,725,839)
Transmission and Distribution	(1,029,500)	(1,035,735)	(741,422)	294,313	(758,792)
Treatment and Pumping Division	(706,600)	(713,100)	(584,130)	128,970	(453,780)
Water Quality	(302,300)	(289,800)	(205,351)	84,449	(266,263)
Services and Meter Division	(34,100)	(34,100)	(12,437)	21,663	(3,998)
Field Support/Construction Division	(5,000)	(9,015)	(8,965)	50	
Health, Safety and Security	(214,200)	(234,200)	(219,571)	14,629	(168,962)
Insurance and Taxes	(918,700)	(1,021,700)	(921,951)	99,749	(664,616)
Total Operating Expenses	<u>(14,065,200)</u>	<u>(14,065,200)</u>	<u>(12,328,955)</u>	<u>1,736,245</u>	<u>(10,784,375)</u>
Debt Service:					
Loan Principal	(1,860)	(1,860)	(1,860)		(1,771)
Loan Interest	(28,140)	(28,140)	(28,140)		(28,229)
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>(2,041,816)</u>	<u>422,184</u>	<u>(2,042,655)</u>
Anticipated Surplus	(136,642)	(136,642)	*	136,642	*
Total Costs Funded by Operating Revenue	<u>(16,695,842)</u>	<u>(16,695,842)</u>	<u>(14,400,771)</u>	<u>2,295,071</u>	<u>(12,857,030)</u>
Operating Excess/(Deficit)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 4,458,781</u>	<u>\$ 4,458,781</u>	<u>\$ 4,613,690</u>

* The anticipated surplus was not realized.

PART III
GOVERNMENT AUDITING STANDARDS SECTION

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, 2020, and the related notes to the financial statements, which comprise the Authority’s basic financial statements, and have issued our report thereon dated January 21, 2022. That report included a qualified opinion on the financial statements as the Authority’s net postemployment benefits other than pensions (“OPEB”) liability and related deferred outflows and inflows of resources as of June 30, 2020 Governmental Accounting Standards Board (“GASB”) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, report was not available from the Division of Pensions and Benefits, Department of the Treasury, State of New Jersey, as of the date of this report. The June 30, 2019 net OPEB liability and related deferred outflows and inflows were included in the financial statements at December 31, 2020. The amount by which the omission of the June 30, 2020 information would affect the net OPEB liability and related deferred outflows and inflows, the net position and expenses of the Authority as of December 31, 2020 could not be determined.

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.

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 may exist that have not been identified.

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

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
January 21, 2022

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, 2020

Summary of Auditors' Results:

- The Independent Auditors' Report expresses a qualified opinion on the financial statements of the Authority. That report included a qualified opinion on the financial statements as the Authority's net postemployment benefits other than pensions ("OPEB") liability and related deferred outflows and inflows of resources as of June 30, 2020 Governmental Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, report was not available from the Division of Pensions and Benefits, Department of the Treasury, State of New Jersey, as of the date of this report. The June 30, 2019 net OPEB liability and related deferred outflows and inflows were included in the financial statements at December 31, 2020. The amount by which the omission of the June 30, 2020 information would affect the net OPEB liability and related deferred inflows and outflows, the net position and expenses of the Authority as of December 31, 2020 could not be 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, 2020

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, 2015 through June 30, 2020, 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 \$40,000 for a contracting unit with a qualified purchasing agent. 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, accrued wages 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 all adjusting journal entries with the Chief Financial Officer to which he concurred.

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 understanding the financial software and generating accurate supporting records and will begin to 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. This activity was clearly identified in the Authority's records. The Chief Financial Officer will ensure that returned checks and refunds are not posted as additional billings in the general ledger. They will be posted as debits, or reductions, to the specific revenue account. Therefore, we are not making a formal audit recommendation.

Suggestions to Management

Capital Assets

The capital asset inventory has been updated annually with additions and deletions, and inventory control numbers have been assigned to all assets in the inventory report. However, inventory control tags have not been created or affixed to all moveable assets. We suggest that the Authority review the existing capital asset inventory and ensure that all moveable capital assets bear an inventory control (number) tag. The Authority should evaluate the need to purchase a software program to electronically maintain the inventory and tagging system or establish a comparable way of tracking moveable assets.

Effect on Internal Controls due to COVID-19

With the increased ability for certain work functions to be done remotely and the increased use of electronic payments and processes, it is suggested that the Authority routinely reviews the internal controls in place especially with respect to security of passwords as well as access rights to accounting software and bank information including bank wire transfers and the timely back-up of records.

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

Suggestions to Management (Cont'd)

Payroll

It is suggested that the Authority consult with its attorney to ensure that its negotiated labor contracts, individual employee agreements and employee policies, as applicable, are in accordance with New Jersey statutes regarding unused sick and vacation leave.

Status of Prior Year Recommendations

The prior year recommendation regarding the activity in the general ledger agreeing to subsidiary ledgers has not been resolved and is included as a current year recommendation.

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.

* * * * *