READINGTON-LEBANON SEWERAGE AUTHORITY

COUNTY OF HUNTERDON

December 31, 2022

BKC
Certified Public Accountants, PC

READINGTON-LEBANON SEWERAGE AUTHORITY

For the Year Ended December 31, 2022

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READINGTON-LEBANON SEWERAGE AUTHORITY
Roster of Officials
Year Ended December 31, 2022

Members of the Authority	Title
Dr. Vincent Schaible	Chairman
Richard Burton	Vice Chairman
Jonathan Heller	Secretary/Treasurer
Edward Cichone	Member
Ronald Monaco	Member

Administration and Professionals of the Authority	Title
Jill A. Plesnarski	Administrator
R3M Engineers	Engineer
Edward Buzak	Attorney

Certified Public Accountants, PC
www.bkc-cpa.com

Independent Auditors' Report

Honorable Chairman and Members of
Readington-Lebanon Sewerage Authority
Whitehouse, Hunterdon County, New Jersey

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities of Readington-Lebanon Sewerage Authority, in the County of Hunterdon, State of New Jersey, as of and for the years ended December 31, 2022 and 2021 and the related Notes to the Financial Statements, which collectively comprise Readington-Lebanon Sewerage Authority's Basic Financial Statements as listed in the Table of Contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Readington-Lebanon Sewerage Authority, as of December 31, 2022 and December 31, 2021, and the respective changes in financial position thereof and for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with accounting standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Readington-Lebanon Sewerage Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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.

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34 East Avenue, Woodstown, NJ 08098 ▪ (856) 769-0707 ▪ Fax (856) 769-4657 ▪ info@bkc-cpa.com

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.

- Identify and assess risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Readington-Lebanon Sewerage Authority's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by Management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Readington-Lebanon Sewerage Authority's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, and Schedule of Budgetary Comparison Information, Schedules Related to Accounting and Reporting for Pensions, and Schedules Related to Accounting and Reporting for Other Postemployment Employee Benefits listed in the Table of Contents, be presented to supplement the basic financial statements. Such information is the responsibility of Management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it an essential part of the financial reporting for placing the basic financial statements in an appropriated operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with the auditing standards generally accepted in the United States of America, which consisted of inquires of Management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basis 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

Management is responsible for the other information included in the annual report. The other information comprises the Roster of Officials and Schedule of Changes in Restricted Net Position. Our opinions on the basic financial statements do not cover the other information and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by Government Auditing Standards

In accordance with the *Government Auditing Standards*, we have also issued our report dated October 16, 2023, on our consideration of the Readington-Lebanon Sewerage Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on 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 Readington-Lebanon Sewerage Authority's internal controls over financial reporting and compliance.

BKC, CPAs, PC

BKC, CPAs, PC

October 16, 2023
Flemington, New Jersey

Readington-Lebanon Sewerage Authority

Old Route 28, PO Box 136
Whitehouse, NJ 08888

Vincent Schaible
Chairman

Richard Burton
Vice-Chairman

Jonathan Heller
Secretary-Treasurer

Jill A. Plesnarski
Administrator

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Management's Discussion and Analysis (MD&A)

This section of the Readington-Lebanon Sewerage Authority (the Authority) annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year ending December 31, 2022. Please read it in conjunction with the Authority's condensed financial statements (Exhibits A and B), which follow this section.

Financial Highlights

1. The Authority's total assets increased 0.56% over the course of this year's operations as a result of operating revenues exceeding operating expenditures.
2. Deferred outflows of resources decreased compared to the prior year. This was attributable to the changes in assumptions and proportion, in addition to the difference between actual and expected experience of the pension plan.
3. Current liabilities decreased by 6.61% compared to the prior year. This is the result of a decrease in the accounts payable.
4. During the year, the Authority's operating revenues increased by 3.49%. Operating revenues were realized as budgeted by the Authority.
5. Operating expenses increased by 10.34%. This is attributable to an increase in pension benefits and UV module expenses.
6. Net position increased by 1.78%. Net investment in capital assets decreased by 2.61% as increases in capital expenditures were offset by depreciation expense. Restricted net position increased by 7.63% as a result of an increase in capital reserves. Unrestricted net position increased by 32.84% as a result of operating revenues and exceeding operating expenditures.

Overview of Annual Financial Report

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

Overview of Annual Financial Report (continued)

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

The Statements of Revenues, Expenses and Changes in Net Position presents the results of the Authority's activities over the course of the fiscal year and information as to how the net position changed during the year.

The Statements of Cash Flow presents changes in cash and cash equivalents resulting from operational, financing and investing activities. These statements present cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The Notes to the Financial Statements provide disclosures and other information that is essential to a full understanding of material data provided in the statements. Supplementary information comparing the budget to actual revenues and expenses as well as changes in restricted accounts is provided.

Financial Analysis

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

Availability of Financial Report

This report is prepared in compliance with State mandates and will be made available to residents, taxpayers and any interested person or entity upon request at the Authority's office located at 1A Old Highway 28, Whitehouse, NJ 08888.

Readington-Lebanon Sewerage Authority

READINGTON-LEBANON SEWERAGE AUTHORITY
Management's Discussion and Analysis
Condensed Financial Statements

Condensed Statement of Net Position — Exhibit A

	December 31, 2022	December 31, 2021	Increase (Decrease)
Assets			
Current assets			
Unrestricted assets	$ 4,083,759	$ 3,855,199	$ 228,560
Restricted assets	2,566,550	2,384,529	182,021
Capital assets, net	11,570,605	11,880,424	(309,819)
Total current assets	18,220,914	18,120,152	100,762
Deferred outflows of resources			
Deferred amount on pension liability	226,413	227,129	(716)
Deferred amount on other postemployment benefits liability	390,449	432,742	(42,293)
Total deferred outflows of resources	616,862	659,871	(43,009)
Total assets and deferred outflows of resources	$ 18,837,776	$ 18,780,023	$ 57,753
Liabilities			
Current liabilities	$ 123,563	$ 132,309	$ (8,746)
Non-current liabilities	2,061,005	1,961,658	99,347
Total liabilities	2,184,568	2,093,967	90,601
Deferred inflows of resources			
Deferred amount on pension liability	156,155	515,239	(359,084)
Deferred amount on other postemployment benefits liability	724,253	674,556	49,697
Total deferred inflows of resources	880,408	1,189,795	(309,387)
Net position			
Net investment in capital assets	11,570,605	11,880,424	(309,819)
Restricted	2,566,550	2,384,529	182,021
Unrestricted	1,635,645	1,231,308	404,337
Total net position	15,772,800	15,496,261	276,539
Total liabilities, deferred inflows of resources and net position	$ 18,837,776	$ 18,780,023	$ 57,753

See independent auditors' report.

Condensed Statement of Revenues, Expenses and Changes in Net Position — Exhibit B

	For the Year Ended December 31, 2022	2021	Increase (Decrease)
Operating revenues	$ 1,767,290	$ 1,707,644	$ 59,646
Operating expenses	1,524,010	1,381,172	142,838
Operating income	243,280	326,472	(83,192)
Non-operating revenues (expenses)			
Interest income	33,259	853	32,406
Loss on disposal of capital assets	-	(382)	382
Total non-operating revenues (expenses)	33,259	471	32,788
Increase in net position	276,539	326,943	(50,404)
Net position - beginning of year	15,496,261	15,169,318	326,943
Net position - end of year	$ 15,772,800	$ 15,496,261	$ 276,539

READINGTON-LEBANON SEWERAGE AUTHORITY
Statements of Net Position
December 31,

	2022	2021
Assets		
Current assets		
Unrestricted		
Cash and cash equivalents	$ 4,083,759	$ 3,855,199
Restricted		
Cash and cash equivalents	2,566,550	2,384,529
Total current assets	6,650,309	6,239,728
Capital assets		
Capital assets not being depreciated	364,005	262,767
Capital assets being depreciated	21,389,641	21,389,641
Less: accumulated depreciation	(10,183,041)	(9,771,984)
Net capital assets	11,570,605	11,880,424
Total assets	18,220,914	18,120,152
Deferred outflows of resources		
Deferred amount on pension liability	226,413	227,129
Deferred amount on other postemployment benefits liability	390,449	432,742
Total deferred outflows of resources	616,862	659,871
Total assets and deferred outflows of resources	$ 18,837,776	$ 18,780,023

See accompanying notes to the financial statements.

READINGTON-LEBANON SEWERAGE AUTHORITY
Statements of Net Position (continued)
December 31,

	2022	2021
Liabilities		
Current liabilities		
Accounts payable	$ 80,371	$ 90,576
Payroll taxes and withholdings payable	11,106	8,388
Accrued vacation pay	32,086	33,345
Total current liabilities	123,563	132,309
Non-current liabilities (payable from unrestricted assets)		
Net pension liability	997,070	767,913
Net other postemployment benefits liability	1,063,935	1,193,745
Total non-current liabilities	2,061,005	1,961,658
Total liabilities	2,184,568	2,093,967
Deferred inflows of resources		
Deferred amount on pension liability	156,155	515,239
Deferred amount on other postemployment benefits liability	724,253	674,556
Total deferred inflows of resources	880,408	1,189,795
Net position		
Net investment in capital assets	11,570,605	11,880,424
Restricted	2,566,550	2,384,529
Unrestricted	1,635,645	1,231,308
Total net position	15,772,800	15,496,261
Total liabilities, deferred inflows of resources, and net position	$ 18,837,776	$ 18,780,023

See accompanying notes to the financial statements.

READINGTON-LEBANON SEWERAGE AUTHORITY
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31,

	2022	2021
Operating revenues		
User charges	$ 1,730,600	$ 1,691,700
Interest income	36,690	15,944
Total operating revenues	1,767,290	1,707,644
Operating expenses		
Cost of providing services	669,830	617,858
Administrative and general	443,123	355,379
Depreciation	411,057	407,935
Total operating expenses	1,524,010	1,381,172
Operating income	243,280	326,472
Non-operating revenues (expenses)		
Interest income	33,259	853
Loss on disposal of capital assets	-	(382)
Total non-operating revenues (expenses)	33,259	471
Change in net position	276,539	326,943
Net position, beginning	15,496,261	15,169,318
Net position, ending	$ 15,772,800	$ 15,496,261

See accompanying notes to the financial statements.

READINGTON-LEBANON SEWERAGE AUTHORITY
Statements of Cash Flows
For the Years Ended December 31,

	2022	2021
Cash flows from operating activities		
Cash received from customers	$ 1,730,600	$ 1,691,700
Other operating cash receipts	36,690	15,944
Cash payments to suppliers and employees	(1,288,730)	(1,162,816)
Net cash provided by (used for) operating activities	478,560	544,828
Cash flow from capital and related financing activities		
Purchase of capital assets	(101,238)	(158,139)
Interest income	33,259	853
Net cash provided by (used for) capital and related financing activities	(67,979)	(157,286)
Net increase (decrease) in cash and cash equivalents	410,581	387,542
Cash and cash equivalents, beginning	6,239,728	5,852,186
Cash and cash equivalents, ending	$ 6,650,309	$ 6,239,728
Reconciliation of balance sheet		
Unrestricted cash and cash equivalents	$ 4,083,759	$ 3,855,199
Restricted cash and cash equivalents	2,566,550	2,384,529
Total cash and cash equivalents	$ 6,650,309	$ 6,239,728

See accompanying notes to the financial statements.

READINGTON-LEBANON SEWERAGE AUTHORITY
Statements of Cash Flows (continued)
For the Years Ended December 31,

	2022	2021
Reconciliation of income (loss) from operations to net cash provided by (used for) operating activities		
Operating income (loss)	$ 243,280	$ 326,472
Adjustments to reconcile income (loss) from operations to net cash provided by (used for) operating activities		
Depreciation	411,057	407,935
Change in assets and liabilities		
Increase (decrease) in accounts payable	(10,205)	28,412
Increase (decrease) in accrued vacation pay	(1,259)	(722)
Increase (decrease) in deferred inflow of resources	(309,387)	(35,179)
(Increase) decrease in deferred outflow of resources	43,009	(52,403)
Increase (decrease) in net pension liability	229,157	(120,597)
Increase (decrease) in net other postemployment benefits liability	(129,810)	(11,908)
Increase (decrease) in payroll taxes and withholdings payable	2,718	2,818
Net cash provided by (used for) operating activities	$ 478,560	$ 544,828

See accompanying notes to the financial statements.

Note 1 - Summary of significant accounting policies

The financial statements of the Readington-Lebanon Sewerage Authority (the Authority) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to Governmental Units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Authority's accounting policies are described below.

Reporting entity

The Authority was created to construct and operate a wastewater treatment system to serve Readington Township, Lebanon Borough, and the State of New Jersey for the Round Valley recreational area.

The Authority consists of six appointed officials and is responsible for the fiscal control of the operations of the sewer system. The various funds used by the Authority to control assets are authorized in the Bond Resolution adopted on August 8, 1984. The Bond Resolution restricts various transactions and requires certain transfers be made between funds. The Bond Resolution is on file in the Authority's office.

Basis of presentation - fund accounting

The operations of the Authority are recorded in a proprietary fund type. Proprietary funds are used to account for activities that are financed and operated in a manner similar to business enterprises and the intention is that costs (expenses, including depreciation) of providing services to the general public on a continuing basis are to be financed or recovered primarily through user charges.

Basis of accounting

The Authority's financial statements are presented on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

The accrual basis of accounting is used for measuring financial position and operating results of proprietary fund types. Under this method of accounting, revenues are recorded in the accounting period in which they are earned, and expenses are recorded as incurred.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, liabilities and deferred inflow or outflow of resources associated with the operations are included on the Statements of Net Position. The net position (i.e., total assets net of total liabilities) is segregated into invested capital assets, restricted and unrestricted components.

Note 1 - Summary of significant accounting policies (continued)

Use of estimates

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

Budget and budgetary accounting

At least 60 days prior to the Authority's year-end (December 31), the Authority must file its operating budget with the Director of the Division of Local Government Services for approval. Within 45 days after receipt of the Authority's budget, the Director shall either approve or notify the Authority of the reasons for non-approval of the budget and to state the conditions upon which the approval will be granted. After approval, the Authority will formally adopt the budget. The budget is prepared based on the accounting principles and practices as prescribed by the Division of Local Government Services.

Income taxes

The Authority, under existing statute, is exempt from Federal and State income taxes. Accordingly, no provision for income taxes has been made in the financial statements.

Restricted assets

The Authority has restricted the below summarized accounts which may only be utilized for the purposes indicated:

Account	Use for which Restricted
Reserve for capital improvements	Construction and/or reconstruction of assets

Net position

Net position represents the difference between the summation of assets and deferred outflows of resources, and the summation of liabilities and deferred inflows of resources. In the government-wide financial statements, net position is classified into the following three components:

- *Net investment in Capital Assets* - This component represents capital assets, less accumulated depreciation, and net of outstanding balances of borrowings used for the acquisition, construction, or improvement of those assets.

- *Restricted* - Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

- *Unrestricted* - Net position is reported as unrestricted when it does not meet the criteria of the other two components of net position.

Note 1 - Summary of significant accounting policies (continued)

Capital assets

Capital assets are recorded as expenditures at the time of purchase and the related assets are capitalized at cost, which includes direct construction costs and other expenditures related to construction. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets as follows:

Building and improvements	25 - 75 years
Sewer mains and interceptors	75 years
Other equipment	5 - 15 years
Pumps and dewatering equipment	75 years
Vehicles	5 years

Deferred outflows/inflows of resources

In addition to assets, the Statements of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Authority has one item that qualifies for reporting in this category, deferred amount on pension activity. In addition to liabilities, the Statements of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category, deferred amount on pension activity.

Note 2 - Deposits, cash equivalents, and investments

Cash and cash equivalents include petty cash, change funds, cash and certificates of deposit in banks, and cash with the New Jersey Cash Management Fund.

New Jersey Governmental Units are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or in the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of investments which may be purchased by New Jersey Governmental Units. In addition, other state statutes permit investments in obligations issued by local authorities and other state agencies. The State of New Jersey does not place any limit on the amount that the Authority may invest with any one issuer.

New Jersey Governmental Units are limited as to the types of investments and types of financial institutions they may invest in. New Jersey Statute 18A:20-37 provides a list of permissible investments that may be purchased by New Jersey Governmental Units.

Note 2 - Deposits, cash equivalents, and investments (continued)

N.J.S.A. 17:9-41 e.t. seq. establishes the requirements for the security of deposits of Governmental Units. The statute requires that no Governmental Unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include savings and loan institutions, banks (both state and national banks) and saving banks the deposits of which are federally insured.

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a policy for custodial credit risk. New Jersey statutes require cash be deposited only in New Jersey based banking institutions that participate in the New Jersey Governmental Unit Deposit Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. Under the act, the first $250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the Authority in excess of FDIC insured amounts are protected by GUDPA.

However, GUDPA does not protect intermingled trust funds, employee salary withholdings, or funds that may pass to the Authority relative to the happening of a future condition.

Deposits with the New Jersey Cash Management Fund are not subject to custodial credit risk as defined above. The New Jersey Cash Management Fund is governed by regulations of the State Investment Council, who prescribe standards designed to ensure the quality of investments in order to minimize risk to the Fund participants.

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

	2022	2021
Deposits insured by the FDIC	$ 750,000	$ 750,000
Deposits insured by the GUDPA	1,804,593	1,704,164
Deposits with New Jersey Cash Management Fund	4,096,481	3,789,344
Total bank balances	$ 6,651,074	$ 6,243,508

The Authority's carrying (Statements of Net Position) amounts were $6,650,309 and $6,239,728 for December 31, 2022 and 2021, respectively.

Note 3 - Authority revenues

Sewer charges are based on an amount approved annually by the governing body and is based on the prior year sewer flows. The billing for the approved amount is allocated to three entities: Township of Readington, the Borough of Lebanon, and State of New Jersey for a recreation area. Bills are payable in monthly installments.

Note 4 - Pension plans

Public employees' retirement systems (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 PERS, please refer to Division's financial report which can be found at www.state.nj.us/treasury/pensions/annual-reports.shtml.

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

The following represents the membership Tiers for PERS:

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

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

Note 4 - Pension plans

Public employees' retirement systems (PERS)

Allocation methodology and reconciliation to financial statements

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, requires participating employers in PERS to recognize their proportionate share of the collective net pension liability, collective deferred outflows of resources, collective deferred inflows of resources and collective pension expense. The employer allocation percentages presented in the Schedule of Employer Allocations and applied to amounts presented in the Schedule of Pension Amounts by Employer, are based on the ratio of the contributions of an individual employer to the total contributions to PERS during the measurement period July 1, 2021 through June 30, 2022. Employer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the Schedule of Pension Amounts by Employer may result in immaterial differences. Contributions from employers are recognized when due, based on statutory requirements.

Although the Division administers one cost-sharing, multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarial determined contribution rate by group. Following this method, the disclosure of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each individual employer of the State and local groups of the plan.

To facilitate the separate (sub) actuarial valuations, the Division maintains separate accounts to identify additions, deductions, and fiduciary net position applicable to each group. The allocation percentages presented for each group in the Schedule of Employer Allocations are applied to amounts presented in the Schedules of Pension Amounts by Employer. The allocation percentages for each group as of June 30, 2022, are based on the ratio of each employer's contributions to total employer contributions of the group for the State fiscal year ended June 30, 2022.

Contributions

The contribution policy for PERS is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the state. The state's pension contribution is based on an actuarially determined amount, which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for non-contributory group insurance benefits is based on actual claims paid. For State fiscal year 2022, the state's pension contribution was less than the actuarial determined amount.

Note 4 - Pension plans (continued)

Public employees' retirement systems (PERS) (continued)

Contributions (continued)

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

The contribution rate was 7.50% of base salary effective July 1, 2019.

Two-year trend information for PERS:

	Annual Contribution	
Year Funded	Authority	Employee
2022	$ 75,914	$ 37,614
2021	59,604	44,730

Collective net pension liability and actuarial information

The components of the Authority's allocable share of the net pension liability for PERS as of December 31, 2022 and 2021 are as follows:

	2022	2021
Net pension liability	$ 997,070	$ 767,913
Proportionate share	0.0066068857%	0.0064138221%
Plan fiduciary net position as a percentage of the total pension liability	62.91%	70.33%

Note 4 - Pension plans (continued)
Public employees' retirement systems (PERS) (continued)
Collective net pension liability and actuarial information (continued)
Actuarial assumptions

The collective total pension liability for the June 30, 2022 measurement date was determined by an actuarial valuation as of July 1, 2021, which was rolled forward to June 30, 2022. This actuarial valuation used the following actuarial assumptions:

Inflation rate	
Price	2.75%
Wage	3.25%
Salary increases (based on years of service)	2.75% - 6.55%
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 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2010 Non-Safety Disabled Retiree mortality table with a 127.7% adjustment for males and 117.2% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2021.

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

Long-term expected rate of return

In accordance with state statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2022) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions and Benefits, the Board of Trustees, and the Actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2022 are summarized in the following table:

Note 4 - Pensions (continued)
Public employee's retirement system (continued)
Collective net pension liability and actuarial information (continued)
Long-term expected rate of return (continued)

Asset Class	Target Allocations	Long-Term Expected Rate of Return
U.S. equity	27.00%	8.12%
Non-U.S. developed markets equity	13.50%	8.38%
Emerging markets equity	5.50%	10.33%
Private equity	13.00%	11.80%
Real estate	8.00%	11.19%
Real assets	3.00%	7.60%
High yield	4.00%	4.95%
Private credit	8.00%	8.10%
Investment grade credit	7.00%	3.38%
Cash equivalents	4.00%	1.75%
U.S. Treasuries	4.00%	1.75%
Risk mitigation strategies	3.00%	4.91%

Discount rate

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2022. 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 will be based on 100% of actuarially determined contributions for the local employers. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all projected benefit payments to determine the total pension liability.

Sensitivity of the collective net pension liability to changes in the discount rate

The following presents the Authority's proportionate share of the collective net pension liability of as of December 31, 2022 and 2021 calculated using the discount rate as disclosed above, as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1% point lower or 1% point higher than the current rate:

Authority's proportionate share of the net pension liability	2022
At current discount rate (7.00%)	$ 997,070
At a 1% lower rate (6.00%)	1,291,791
At a 1% higher rate (8.00%)	761,881

Authority's proportionate share of the net pension liability	2021
At current discount rate (7.00%)	$ 767,913
At a 1% lower rate (6.00%)	1,045,742
At a 1% higher rate (8.00%)	532,136

Note 4 - Pensions (continued)
Public employee's retirement system (continued)
Collective net pension liability and actuarial information (continued)
Collective deferred outflows of resources and deferred inflows of resources

At December 31, 2022 and 2021, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	7,196	$ 6,346	$ 12,111	$ 5,497
Changes of assumptions	3,089	149,301	3,999	273,382
Net difference between projected and actual earnings on pension plan investments	41,268	-	-	202,288
Changes in proportion and differences between Authority contributions and proportionate share of contributions	174,860	508	211,019	34,072
Total	$ 226,413	$ 156,155	$ 227,129	$ 515,239

The following presents a summary of changes in the collective deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the year ended December 31, 2022 and 2021:

December 31, 2022	Beginning Balance	Net Change in Activity	Ending Balance
Deferred outflows of resources			
Differences between expected and actual experience	$ 12,111	$ (4,915)	$ 7,196
Changes of assumptions	3,999	(910)	3,089
Differences between projected and actual investment earnings on pension plan investments	-	41,268	41,268
Deferred inflows of resources			
Differences between expected and actual experience	(5,497)	(849)	(6,346)
Changes of assumptions	(273,382)	124,081	(149,301)
Differences between projected and actual investment earnings on pension plan investments	(202,288)	202,288	-
Net changes in deferred outflows (inflows) of resources	$ (465,057)	$ 360,963	$ (104,094)

Note 4 - Pension plans (continued)
Public employees' retirement systems (PERS) (continued)
Collective net pension liability and actuarial information (continued)
Collective deferred outflows of resources and deferred inflows of resources (continued)

December 31, 2021	Beginning Balance	Net Change in Activity	Ending Balance
Deferred outflows of resources			
Differences between expected and actual experience	$ 16,178	$ (4,067)	$ 12,111
Changes of assumptions	28,824	(24,825)	3,999
Differences between projected and actual investment earnings on pension plan investments	30,370	(30,370)	-
Deferred inflows of resources			
Differences between expected and actual experience	(3,142)	(2,355)	(5,497)
Changes of assumptions	(372,028)	98,646	(273,382)
Differences between projected and actual investment earnings on pension plan investments	-	(202,288)	(202,288)
Net changes in deferred outflows (inflows) of resources	$ (299,798)	$ (165,259)	$ (465,057)

Deferred outflows of resources and deferred inflows of resources related to pensions (excluding employer specific amounts, deferrals from the Authority's contributions subsequent to the measurement date, and deferrals from change on proportion) will occur in future periods for the year ending December 31, 2022 and 2021 are as follows:

	2022
2023	$ (85,528)
2024	(43,573)
2025	(21,250)
2026	46,359
2027	(102)
Total	$ (104,094)

	2021
2022	$ (181,194)
2023	(129,372)
2024	(88,210)
2025	(66,307)
2026	26
Total	$ (465,057)

Note 4 - Pension plans (continued)
Public employees' retirement systems (PERS) (continued)
Collective net pension liability and actuarial information (continued)
Collective deferred outflows of resources and deferred inflows of resources (continued)
Pension expense

The components of allocable pension expense, which exclude pension expense related to specific liabilities of individual employers, for the Authority for the year ended December 31, 2022 and 2021 are as follows:

	2022	2021
Service cost	$ 48,060	$ 45,222
Interest on total pension liability	192,757	177,709
Benefit changes	559	-
Member contributions	(40,080)	(36,792)
Administrative expense	861	643
Expected investment return net of investment expense	(128,671)	(96,951)
Pension expense related to specific liabilities of individual employers	(690)	(453)
Recognition of deferred inflows/outflows of resources		
Amortization of expected versus actual experience	2,282	4,979
Amortization of assumption changes or inputs	(144,087)	(134,893)
Amortization of projected versus actual investment earnings on pension plan investments (benefit)	(3,200)	(64,330)
Pension expense (benefit)	$ (72,209)	$ (104,866)

Note 5 - Capital assets

A summary of changes in capital assets and accumulated depreciation is as follows:

December 31, 2022	Beginning Balance	Additions	Disposals	Ending Balance
Land	$ 231,628	$ -	$ -	$ 231,628
Construction in progress	31,139	101,238	-	132,377
Plant	16,058,931	-	-	16,058,931
Building	3,342,487	-	-	3,342,487
Building improvements	1,106,954	-	-	1,106,954
Vehicles	57,890	-	-	57,890
Operating equipment	823,379	-	-	823,379
Total capital assets	21,652,408	101,238	-	21,753,646
Accumulated depreciation	(9,771,984)	(411,057)	-	(10,183,041)
Capital assets, net	$ 11,880,424	$ (309,819)	$ -	$ 11,570,605

Note 5 - Capital assets (continued)

December 31, 2021	Beginning Balance	Additions	Disposals	Ending Balance
Land	$ 231,628	$ -	$ -	$ 231,628
Construction in progress	31,139	-	-	31,139
Plant	16,058,931	-	-	16,058,931
Building	3,342,487	-	-	3,342,487
Building improvements	1,043,853	63,101	-	1,106,954
Vehicles	57,890	-	-	57,890
Operating equipment	737,142	95,038	8,801	823,379
Total capital assets	21,503,070	158,139	8,801	21,652,408
Accumulated depreciation	(9,372,468)	(407,935)	(8,419)	(9,771,984)
Capital assets, net	$ 12,130,602	$ (249,796)	$ 382	$ 11,880,424

Note 6 - Long-term liabilities

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

December 31, 2022	Beginning Balance	Additions	Reductions	Ending Balance
PERS net pension liability	$ 767,913	$ 229,157	$ -	$ 997,070
Net OPEB liability	1,193,745	-	129,810	1,063,935
Total liability	$ 1,961,658	$ 229,157	$ 129,810	$ 2,061,005

December 31, 2021	Beginning Balance	Additions	Reductions	Ending Balance
PERS net pension liability	$ 888,510	$ -	$ 120,597	$ 767,913
Net OPEB liability	1,205,653	-	11,908	1,193,745
Total liability	$ 2,094,163	$ -	$ 132,505	$ 1,961,658

Note 7 - Accrued vacation payable

The Authority has allowed unused vacation time to be accumulated to a maximum of 120 days per employee. Up to one half of accumulated sick days may be paid upon disability or retirement or compensating time-off may be taken. If present employees were eligible for this benefit at December 31, 2022 and 2021, the liability to the Authority would be approximately $32,086 and $33,345, respectively.

Note 8 - <u>Postretirement benefits</u>

Plan description - The Authority contributes to the State Health Benefit Local Government Retired Employees Plan (the Plan), a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan administered by the State of New Jersey Division of Pensions and Benefits. It covers employees of local government employers that have adopted a resolution to participate in the Plan. The Plan meets the definition of an equivalent arrangement as defined in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions* (GASB Statement No. 75); therefore, assets are accumulated to pay associated benefits. For additional information, please refer to the Division) financial report, which can be found at https://www.state.nj.us/treasury/pensions/financial-reports.shtml.

The Plan provides medical and prescription drug to retirees and their covered dependents. Under the provisions of Chapter 88, P.L 1974 and Chapter 48, P.L. 1999, local government employers electing to provide postretirement medical coverage to their employees must file a resolution with the Division. Under Chapter 88, local employers elect to provide benefit coverage based on the eligibility rules and regulations promulgated by the State Health Benefits Commission. Chapter 48 allows local employers to establish their own age and service eligibility for employer paid health benefits coverage for retired employees. Under Chapter 48, the employer may assume the cost of postretirement medical coverage for employees and their dependents who: 1) retired on a disability pension; or 2) retired with 25 or more years of service credit in a 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 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’s agreement.

The Authority has adopted a resolution to participate in the Plan.

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

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.

Note 8 - Post-retirement benefits (continued)

Contributions to pay for the health premiums of participating retirees in the SHBP are billed to the Authority monthly. Premiums are funded entirely by the Authority and are based on the type of coverage selected by the employee. The Authority's contributions to the SHBP for post-retirement benefits for the years ended December 31, 2022 and 2021 were $20,919 and $18,111, which equaled the required benefit contribution for each year. There were two retired participants eligible at December 31, 2022 and 2021.

Allocation methodology

GASB Statement No. 75 requires participating employers to recognize their proportionate share of the collective net OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective OPEB expense. The nonspecial funding situation's net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense are allocated to employers based on the ratio of the Plan members of an individual employer to the total members of the Plan's nonspecial funding situation during the measurement period July 1, 2021 through June 30, 2022.

Components of net OPEB liability

The Authority's proportionate share of the net OPEB liability of the participating employers in the SHBP as of December 31, 2022 and 2021 were as follows:

	2022	2021
Net OPEB liability	$ 1,063,935	$ 1,193,745
Proportionate share	0.0065880%	0.006632%
Plan fiduciary net position as a percentage of the total OPEB liability	(0.36%)	0.28%

The net OPEB liability as of December 31, 2022 was determined by an actuarial valuation as of June 30, 2021, which was rolled forward to June 30, 2022. The actuarial assumptions vary for each plan member depending on the pension plan the member is enrolled in. The actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Salary increases (based on years of service)	
PERS	
Rate for all future years	2.75% to 6.55%

Note 8 - Post-retirement benefits (continued)

Mortality:

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

Actuarial assumptions used in the July 1, 2021 valuation were based on the results of the PERS experience studies prepared for July 1, 2018 to June 30, 2021 and July 1, 2014 to June 30, 2018, respectively

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

Discount rate

The discount rate for June 30, 2021 and 2020 was 3.54% and 3.50%, respectively. This represents the Municipal Bond return rate as chosen by the state. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. As the long-term rate of return is less than the Municipal Bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the Municipal Bond rate.

Sensitivity of net OPEB liability to changes in the discount rate

The following presents the collective net OPEB liability of the participating employers as of December 31, 2022 and 2021, calculated using the discount rate as disclosed above as well as what the collective net OPEB liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	2022	2021
At current discount rate (3.54% and 2.16%)	$ 1,063,935	$ 1,193,745
At a 1% lower rate (2.54% and 1.16%)	1,233,315	1,404,809
At a 1% higher rate (4.54% and 3.16%)	927,653	1,026,473

Sensitivity of net OPEB liability to changes in the healthcare trend rate

The following presents the net OPEB liability as of December 31, 2022 and 2021, respectively, calculated using the healthcare trend rate as disclosed above as well as what the net OPEB liability would be if it was calculated using a healthcare trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	2022	2021
Healthcare cost trend rate	$ 1,063,935	$ 1,193,745
At a 1% lower rate (1% decrease)	902,568	995,986
At a 1% higher rate (1% increase)	1,270,601	1,451,797

Note 8 - Post-retirement benefits (continued)

Collective deferred outflows of resources and deferred inflows of resources

At December 31, 2022 and 2021, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2022		2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 54,943	$ 197,208	$ 26,786	$ 249,749
Changes of assumptions	141,987	363,101	171,724	211,009
Net difference between projected and actual earnings on OPEB plan investments	280	-	571	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	193,239	163,944	233,661	213,798
Total	$ 390,449	$ 724,253	$ 432,742	$ 674,556

The following presents a summary of changes in the collective deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) for the year ended December 31, 2022 and 2021:

December 31, 2022	Beginning Balance	Net Change in Activity	Ending Balance
Deferred outflows of resources			
Differences between expected and actual experience	$ 26,786	$ 28,157	$ 54,943
Changes of assumptions	171,724	(29,737)	141,987
Differences between projected and actual investment earnings on OPEB plan investments	571	(291)	280
Deferred inflows of resources			
Differences between expected and actual experience	(249,749)	52,541	(197,208)
Changes of assumptions	(211,009)	(152,092)	(363,101)
Net changes in deferred outflows (inflows) of resources	$ (261,677)	$ (101,422)	$ (363,099)

Note 8 - Postretirement benefits (continued)

Sensitivity of net OPEB liability to changes in the healthcare trend rate (continued)

Year ended December 31, 2022,		
2023	$	(96,408)
2024		(96,493)
2025		(76,199)
2026		(34,031)
2027		(7,630)
2028 - 2029		(52,338)
Total	$	(363,099)

December 31, 2021		Beginning Balance		Net Change in Activity		Ending Balance
Deferred outflows of resources						
Differences between projected and actual investment earnings on OPEB plan investments	$	31,756	$	(4,970)	$	26,786
Changes of assumptions		180,328		(8,604)		171,724
Differences between projected and actual investment earnings on OPEB plan investments		766		(195)		571
Deferred inflows of resources						
Differences between expected and actual experience		(224,515)		(25,234)		(249,749)
Changes of assumptions		(268,119)		57,110		(211,009)
Net changes in deferred outflows (inflows) of resources	$	(279,784)	$	18,107	$	(261,677)

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

Year ended December 31, 2021,		
2022	$	(71,278)
2023		(71,371)
2024		(71,457)
2025		(51,028)
2026		(8,578)
Thereafter		12,035
Total	$	(261,677)

The year of deferral for the differences between projected and actual investment earnings on OPEB plan investments was 2021 and 2022 and the amortization period was 5 years for each year. The year of deferral for the change of assumptions was 2021 and 2022 and the amortization period was 7.82 years and 7.82 years, respectively.

Note 8 - Postretirement benefits (continued)

Sensitivity of net OPEB liability to changes in the healthcare trend rate (continued)

Changes in proportion

The previous amounts do not include employer specific deferred outflows of resources and deferred inflow of resources related to the changes in proportion. These amounts should be recognized (amortized) by each employer over the average remaining service lives of all plan members, which is 7.82 years for the 2021 amounts and 7.82 years for 2022.

OPEB (benefit) expense

The components of allocable OPEB (benefit) expense, which exclude OPEB (benefit) expense related to specific liabilities of individual employers, for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Service cost	$ 52,482	$ 56,110
Interest on total OPEB liability	26,442	27,446
Expected investment return	6	(158)
Administrative expense	813	752
Changes in benefit terms	26,515	135
Current period recognition (amortization) of deferred inflows/outflows of resources		
Difference between expected and actual experience	(41,532)	(46,660)
Changes of assumptions	(55,048)	(24,889)
Differences between projected and actual investment earnings on OPEB plan investments	266	330
Total OPEB (benefit) expense	$ 9,944	$ 13,066

Note 9 - 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.

Property and Liability Insurance - Risks of losses from worker's compensation, property, automobile, liability, and public official's liability are covered by insurance with New Jersey Utilities Authorities Joint Insurance Fund, plus separate policies for employee bonds and official's liability. Significant losses are covered by commercial insurance and there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current or the three prior years.

Note 10 - Deferred compensation plan

The Authority has a deferred compensation plan available to all full-time employees who wish to participate. The Plan is fully funded by employee contributions and is administered by Lincoln National Insurance Company.

Note 11 - Recent accounting pronouncements not yet effective

The following is of recent accounting pronouncements which are not yet effective as of the year-end date of this report.

In June 2022, GASB issued Statement No. 101, *Compensated Absences*. This statement is effective for reporting periods beginning after December 15, 2023. The Authority is evaluating the effect of the pronouncement on financial reporting.

In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement is effective for reporting periods beginning after June 15, 2022. The Authority is evaluating the effect of the pronouncement on financial reporting.

Note 12 - Subsequent events

The Authority's Management has evaluated subsequent events through October 16, 2023, which is the date the financial statements were available to be issued and no additional items were noted for disclosure.

READINGTON-LEBANON SEWERAGE AUTHORITY
Schedule of the Authority's Proportionate Share of the Other Postemployment Employee Benefits Liability
Last Seven Years

	Years Ending December 31,						
	2022	2021	2020	2019	2018	2017	2016
Authority's proportionate share of the other postemployment employee benefits liability (asset) - percentage	0.006588%	0.006632%	0.006718%	0.005365%	0.005794%	0.005719%	0.007373%
Authority's proportionate share of the other postemployment employee benefits liability (asset) - value	$ 1,063,935	$ 1,193,745	$ 1,205,653	$ 726,747	$ 907,724	$ 1,167,579	$ 1,601,229
State's proportionate share of the other postemployment employee benefits liability (asset) associated with the Authority	(3,865)	3,335	11,076	14,655	18,221	12,196	11,088
Total	$ 1,060,070	$ 1,197,080	$ 1,216,729	$ 741,402	$ 925,945	$ 1,179,775	$ 1,612,317
Authority's covered employee payroll other postemployment	$ 501,520	$ 486,919	$ 473,792	$ 399,270	$ 379,100	$ 364,010	$ 359,684
Authority's proportionate share of the employee liability (asset) as a percentage of its covered employee payroll	47.14%	40.79%	39.30%	54.94%	41.76%	31.18%	22.46%
Plan fiduciary net position as a percentage of the total other post employment employee benefits liability	-0.36%	0.28%	0.91%	1.98%	1.97%	1.03%	0.69%

Note: Information prior to 2016 is not available.

READINGTON-LEBANON SEWERAGE AUTHORITY
Schedule of Authority's Contributions for Other Postemployment Benefits
Last Seven Years
Unaudited

	Years Ending December 31,						
	2022	2021	2020	2019	2018	2017	2016
Contractually required contributions	$ 20,919	$ 18,111	$ 20,423	$ 22,101	$ 37,743	$ 42,027	$ 56,205
Contributions in relation to the contractually required contribution	20,919	18,111	20,423	22,101	37,743	42,027	56,205
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Authority's covered employee payroll	$ 501,520	$ 486,919	$ 473,792	$ 399,270	$ 379,100	$ 364,010	$ 359,684
Contributions as a percentage of covered employee payroll	4.17%	3.72%	4.31%	5.54%	9.96%	11.55%	15.63%

Note: Information prior to 2016 is not available.

See independent auditor's report.

READINGTON-LEBANON SEWERAGE AUTHORITY
Notes to the Required Supplementary Information
(Unaudited)
December 31, 2022

Note 1 - <u>Changes in benefit term assumptions - pension</u>
There were no changes in benefit terms.

Note 2 - <u>Changes in assumptions - pension</u>
The discount rate used to measure the total pension liability was 7.00% as of the June 30, 2022 Plan measurement date and 7.00% as of the June 30, 2021 Plan measurement date. The single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and 7.00% and municipal bond rates of 3.54% and 3.50% for the respective Plan measurement dates of June 30, 2022 and June 30, 2021.

Note 3 - <u>Changes in assumptions - other postretirement employee benefits</u>
The other postretirement employee benefits discount rate increased from 2.16% in State fiscal year 2021 to 3.54% in State fiscal year 2022. The inflation rate was 2.50% for State fiscal year 2020 and 2021.

Note 4 - <u>Changes in healthcare trend assumptions - other postretirement employee benefits</u>
For pre-Medicare Preferred Provider Organization (PPO) and Health Maintenance Organization (HMO) medical benefits, the trend rate is initially 6.25% and decreases to a 4.5% long-term trend rate after seven years. For post-65 PPO benefits, the trend rate is initially (1.89%) and increases to a 4.5% long-term trend rate. For HMO medical benefits, the trend rate is (1.99%) and increases to a 4.5% long-term trend rate. For prescription drug benefits, the initial trend rate is 8.0% decreasing to a 4.5% long-term trend rate after seven years.

Note 5 - <u>Changes in benefit term assumptions - other postretirement employee benefits</u>
There was a decrease in liability from June 30, 2021 to June 30, 2022 due to updates to the Chapter 48 provision.

Note 6 - <u>Change in plan members covered - other postretirement employee benefits</u>
There were 7 plan members covered in 2021 and in 2022 there were 7 plan members covered.

READINGTON-LEBANON SEWERAGE AUTHORITY
Schedule of Changes in Restricted Net Position
For the Year Ended December 31, 2022

	Net Position	
	Capital Improvement Fund	Total Net Position
Balance at beginning of year	$ 2,384,529	$ 2,384,529
Additions		
Budget transfer	250,000	250,000
Interest income	33,259	33,259
Total additions	283,259	283,259
Deductions		
Capital expenditures	101,238	101,238
Balance at end of year	$ 2,566,550	$ 2,566,550

See independent auditors' report.

READINGTON-LEBANON SEWERAGE AUTHORITY
Schedule of Budgetary Comparison Information
For the Years Ended,

	December 31, 2022		December 31, 2021	
	Unaudited Budget	Actual	Unaudited Budget	Actual
Revenues				
Net position appropriated	$ 125,000	$ 125,000	$ 125,000	$ 125,000
Operating revenues				
User charges and fees				
Readington Township	1,251,397	1,251,397	1,198,400	1,198,400
Lebanon Borough	440,611	440,611	454,222	454,222
Round Valley - State of NJ	38,592	38,592	39,078	39,078
Interest income	-	36,690	-	15,944
Total operating revenues	1,730,600	1,767,290	1,691,700	1,707,644
Non-operating revenues				
Interest income	-	33,259	-	853
Total non-operating revenues	-	33,259	-	853
Total revenues	$ 1,855,600	$ 1,925,549	$ 1,816,700	$ 1,833,497
Expenses				
Administrative and general				
Salaries and wages	$ 233,100	$ 251,602	$ 226,800	$ 244,503
PERS and other employee benefits	116,340	154,742	114,129	135,970
Pension expense (benefit) - GASB 68	-	(64,823)	-	(95,529)
Other postemployment benefits - GASB 75	-	(1,891)	-	(28,353)
Legal fees	8,000	390	7,000	6,420
Engineering fees	20,000	13,218	20,000	12,400
Auditing and accounting fees	17,000	17,000	16,700	16,700
Medical services	1,000	-	1,000	-
Trustee fees	1,000	-	1,000	-
Insurance	41,000	36,900	37,000	33,548
Workers compensation insurance	4,500	6,166	8,000	3,717
Education, seminars, conferences	5,000	817	5,000	980
Travel expenses and meals	5,000	170	7,000	334

See independent auditors' report.

READINGTON-LEBANON SEWERAGE AUTHORITY
Schedule of Budgetary Comparison Information (continued)
For the Years Ended,

	December 31, 2022		December 31, 2021	
	Budget	Actual	Budget	Actual
Expenses (continued)				
Administrative and general (continued)				
Dues and memberships	$ 5,500	$ 4,101	$ 5,000	$ 3,937
Office supplies and expenses	12,000	9,177	12,000	11,958
Public advertisements	1,500	544	1,500	265
Permits and licenses	15,000	15,010	15,000	8,529
Total administrative and general	485,940	443,123	477,129	355,379
Cost of providing services				
Salaries and wages	321,900	269,619	313,200	262,969
PERS and other employee benefits	160,660	47,924	157,871	45,619
Pension expense (benefit) - GASB 68	-	(64,388)	-	(94,713)
Other postemployment benefits - GASB 75	-	(35,929)	-	(1,492)
Communications	19,500	19,330	18,500	17,793
Utilities	159,000	110,759	157,000	106,115
Chemicals	57,000	40,928	56,000	33,179
Sludge disposal	165,000	98,472	162,500	112,578
Fuel	5,000	1,690	5,000	825
Uniforms	1,500	514	1,500	464
Laboratory	6,500	4,384	6,000	5,495
Outside lab service	27,500	28,445	26,000	25,824
Safety equipment	6,000	165	6,000	1,144
Maintenance outside services	42,000	22,383	40,000	31,087
Plant maintenance	36,000	85,152	35,000	20,738
Lawn care	19,000	15,366	19,000	14,601
Janitorial service	3,000	2,160	3,000	2,160
Instrument and meter calibration	2,600	1,547	2,500	1,310
Vehicle maintenance	5,000	1,015	5,000	557
Equipment replacement	54,000	15,658	50,000	26,271
Contingencies	20,000	340	20,000	1,150
Plant security	8,500	4,296	5,500	4,184
Total cost of providing services	1,119,660	669,830	1,089,571	617,858
Reserves and capital outlay				
Capital acquisition	250,000	250,000	250,000	250,000
Total expenses	$ 1,855,600	$ 1,362,953	$ 1,816,700	$ 1,223,237

See independent auditors' report.

BKC
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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*

Honorable Chairman and Members of the
Readington-Lebanon Sewerage Authority
Whitehouse, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities of the Readington-Lebanon Sewerage Authority, as of and for the year ended December 31, 2022 and 2021, and the related Notes to the Financial Statements, which collectively comprise Readington-Lebanon Sewerage Authority's basic financial statements, and have issued our report thereon dated October 16, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Readington-Lebanon Sewerage 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 Readington-Lebanon Sewerage Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Readington-Lebanon Sewerage Authority's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow Management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies in internal control presented in the accompanying Schedule of Findings and Responses to be significant deficiencies.

Compliance and Other Matters

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

Purpose of this Report

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

BKC, CPAs, PC

BKC, CPAs, PC

October 16, 2023
Flemington, New Jersey

READINGTON-LEBANON SEWERAGE AUTHORITY
Schedule of Findings and Responses

General Comments and Recommendations

No findings or recommendations have been developed as a result of this audit.

Status of Prior Year's Audit Findings/Recommendations

There were no prior year recommendations.

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We would be pleased to confer on questions that might arise with respect to any matters in this report.

We wish to express our appreciation for the assistance and courtesies rendered by the Authority officials and employees during the course of the examination.

BKC, CPAs, PC

BKC, CPAs, PC