

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
COUNTY OF SOMERSET
FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2022

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
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INTRODUCTORY SECTION



Bernards Township Sewerage Authority

March 25, 2023

The Honorable Chairman and Members
of the Bernards Township Sewerage Authority
Basking Ridge, NJ

Dear Authority Members:

The annual financial report of the Bernards Township Sewerage Authority (the “Authority”) for the year ended November 30, 2022, 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* and comments and recommendations. The introductory section includes this transmittal letter, the Authority's organizational chart and a list of principal officials. The financial section includes the financial statements as well as the auditors' report thereon. 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 Authority was created in accordance with the State Municipal Utilities Authorities Law (P.L. 1957, Chap. 183), by ordinance of the Township of Bernards on May 22, 1956.

Pursuant to the provisions of the law, the Authority is authorized to acquire, construct, maintain, operate or improve works for the collection, treatment, purification or disposal of sewerage or other wastes.

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

GENERAL TRENDS AND SIGNIFICANT EVENTS

During 2022, the Authority experienced the following:

- Cyber Security – In 2022, the Authority began a project to provide a new backup communications system for the pump stations' connection to the SCADA system.
- Pump Stations and Collection System – A third phase I&I investigation contract bid in 2022 utilizing CCTV inspection was completed. A \$1.1 million construction contract was ongoing to address the defects found in the CCTV work. The contract includes lining 4 miles of sewer mains.
- The East Oak Force Main Phase III project was bid and rejected in February 2022.
- A consultant was hired to design the main pipe header replacement and also the kirk key system project at the plant.
- The Authority awarded a new solar renewable energy certificate contract with Constellation Energy LLC.
- The Authority budgeted for cyber security and general collection system repairs.

The Honorable Chairman and Members
of the Bernards Township Sewerage Authority
Page 2
March 25, 2023

CASH MANAGEMENT: The investment policy of the Authority is guided in large part by state statute as detailed in "Notes to the Financial Statements", Note 6. 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, public officials liability, automobile liability and comprehensive/collision, hazard and theft insurance on property, contents, and fidelity bonds.

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., was selected by the Authority. The auditors' report on the financial statements is included in the financial section of this report. The auditors' report related specifically to *Government Auditing Standards* is included in the *Government Auditing Standards* section of this report.

ACKNOWLEDGEMENTS:

We would like to express our appreciation to the members of the Bernards Township Sewerage Authority for their concern in providing fiscal accountability to the citizens of Bernards Township 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,

A handwritten signature in blue ink, appearing to read "Thomas Timko".

Thomas Timko
Authority Director

**BERNARDS TOWNSHIP SEWERAGE AUTHORITY
ROSTER OF OFFICIALS
NOVEMBER 30, 2022**

Board Members

Kevin Orr	Chairman
John Crane	Vice Chairman
Andrew McNally	Board Member
Janice Fields	Board Member
Jennifer Asay	Board Member

CONSULTANTS AND ADVISORS

AUDIT FIRM

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

ATTORNEY

John P. Belardo, Esq.
McElroy, Deutsch, Mulvaney & Carpenter, LLP
1300 Mt. Kemble Avenue
Morristown, NJ 07962-2075

ENGINEER

Buchart Horn
2 Eves Drive, Suite 110
Marlton, NJ 08053

FINANCIAL SECTION

Independent Auditors' Report

The Honorable Chairman and Members
of the Bernards Township
Sewerage Authority
Basking Ridge, New Jersey

Report on the Audit of the Financial Statements

Qualified Opinion

We have audited the accompanying financial statements of the business-type activities of the Bernards Township Sewerage Authority (the "Authority"), a component unit of the Township of Bernards, as of and for the year ended November 30, 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion section of our report, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of November 30, 2022, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State and New Jersey 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 Authority and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Matter Giving Rise to Qualified Opinion

The Authority's net pension liability and the related deferred outflows and inflows of resources reported in the financial statements at November 30, 2022 is based on the June 30, 2021 Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions*, report for the State of New Jersey Public Employees' Retirement System ("PERS"), from the Division of Pensions and Benefits, Department of the Treasury, State of New Jersey (the "State"). We were unable to obtain the June 30, 2022 GASB No. 68 report as it has not been released by the State as of the date of this report. The amount by which this omission would affect the net pension liability and the related deferred inflows and outflows of resources, net position and expenses of the Authority has not been determined.

Emphasis of Matter

As discussed in Note 14 to the financial statements, the Authority implemented GASB Statement No. 87, *Leases*, during the fiscal year ended November 30, 2022. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

The Schedule of Authority's Proportionate Share of the Net Pension Liability does not contain the Authority's proportionate share of net pension liability as of June 30, 2022 as the related GASB No. 68 report for PERS has not been released by the State as of the date of this report. This required supplementary information is required to be presented to supplement the basic financial statements in accordance with accounting principles generally accepted in the United States of America. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information statement and schedule are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information statement and schedule are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2023 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

Mount Arlington, New Jersey
March 25, 2023

Nisivoccia LLP
NISIVOCCIA LLP

Man C Lee

Man C. Lee
Certified Public Accountant
Registered Municipal Accountant #562

MANAGEMENT DISCUSSION AND ANALYSIS

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

Financial Highlights

Management believes the Authority's financial position is strong. The Authority is well within its stringent financial policies and guidelines set by the Board and management. The following are key highlights:

- The Authority has no outstanding debt.
- Operating revenues were \$6,605,040, an increase of \$991,302 compared to 2021 mainly due to an increase in connection fees.
- Non-operating revenue was \$384,867, an increase of \$114,180 compared to 2021 primarily due to an increase in interest income as a result of increased interest rates.

Overview of the Financial Statements

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 revenue, expenses, and changes in net position; a statement of cash flows and notes to the financial statements.

The ***statement of net position*** presents the financial position of the Authority on a full accrual historical cost basis. The statement of net position presents information on all of the Authority's assets and liabilities, as well as deferred inflows and outflows, 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 revenue, 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. Rate setting policies use different methods of cost recovery not fully provided for by generally accepted accounting principles. 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, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

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

Financial Conditions

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

The Authority's total net position increased from the prior year by \$2,682,708. The analysis below focuses on the Authority's net position (Table I) and changes in net position (Table II) during the year.

Table I
Condensed Statement of Net Position

	November 30,		Increase/ (Decrease)	Percentage of
	2022	(Restated) 2021	From 2021	Increase/ (Decrease)
Current and Other Assets	\$ 21,988,048	\$ 19,671,703	\$ 2,316,345	
Noncurrent Assets	26,041,820	26,717,333	(675,513)	
Total Assets	48,029,868	46,389,036	1,640,832	3.54 %
Deferred Outflows of Resources	202,996	367,622	(164,626)	(44.78) %
Current Liabilities	1,423,921	2,031,506	(607,585)	
Non-Current Liabilities	1,326,544	1,878,503	(551,959)	
Total Liabilities	2,750,465	3,910,009	(1,159,544)	(29.66) %
Deferred Inflows of Resources	1,203,935	1,250,893	(46,958)	-3.75 %
Investment in Capital Assets	25,881,468	26,426,264	(544,796)	
Unrestricted	18,396,996	15,169,492	3,227,504	
Total Net Position	\$ 44,278,464	\$ 41,595,756	\$ 2,682,708	6.45 %

Total net position increased 6.45%. This was primarily a result of a decrease in operating expenses and actual revenue realized exceeding operating expenses.

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.

Table II
Condensed Statement of Revenue, Expenses and Changes in Net Position

	November 30,		Increase/ (Decrease)	Percentage of
	2022	2021	From 2021	Increase/ (Decrease)
<u>Revenue</u>				
Operating Revenue	\$ 6,605,040	\$ 5,613,738	\$ 991,302	
Nonoperating Revenue	384,867	270,687	114,180	
Total Revenue	6,989,907	5,884,425	1,105,482	18.79 %
<u>Expenses</u>				
Operating Appropriations	3,052,080	3,393,384	(341,304)	
Depreciation	1,178,168	1,123,752	54,416	
Nonoperating Expense	247,265		247,265	
Total Expenses	4,477,513	4,517,136	(39,623)	(0.88) %
<u>Other Items</u>				
Cancellation of Prior Year				
Accounts Payable	175,875	271,972	(96,097)	
Disposal of Capital Assets	(5,561)		(5,561)	
Total Other Items	170,314	271,972	(101,658)	(37.38) %
Change in Net Position	2,682,708	1,639,261	1,043,447	
Beginning Net Position	41,595,756	39,956,495	1,639,261	
Ending Net Position	\$ 44,278,464	\$ 41,595,756	\$ 2,682,708	6.45 %

Results of Operations

Operating Revenue: Revenue from operations falls into two main categories: sewer charges and sewer connection fees. Sewer operating revenue increased 17.66% compared to 2021.

Budgetary Highlights: No budget amendments were made to the Authority's 2022 original adopted budget.

Nonoperating Revenue: The Authority's nonoperating revenue increased 42.18% from 2021 primarily due to an increase in interest income.

Expenses: Operating expenses for the sewer system decreased \$341,304 or 10.06% from 2021, depreciation expense increased \$54,416 or 4.84%, and nonoperating expense increased \$247,265 or 100%.

Capital Assets: As of November 30, 2022, the Authority had \$25.88 million invested in capital assets, including land, construction in progress and sewage collection systems including pumping stations. The amount represents a decrease of \$544,796 over the prior year. The Authority has awarded a contract for the Annin Road CCTV project.

The following table summarizes the Authority's capital assets, net of accumulated depreciation and changes therein, for the year ended November 30, 2022. These changes are presented in detail in Note 3 to the financial statements.

Table III
Capital Assets, Net of Accumulated Depreciation

	November 30,		Increase/ (Decrease)	Percentage of
	2022	2021	From 2021	Increase/ (Decrease)
Land	\$ 44,000	\$ 44,000		
Construction in Progress	2,371,364	3,014,448	\$ (643,084)	
Land Improvements	942,235	942,235		
Buildings/Treatment Plant	24,833,391	24,828,491	4,900	
Transmission Facilities	14,162,065	13,360,281	801,784	
Equipment/Vehicles	6,618,305	6,158,790	459,515	
Total	48,971,360	48,348,245	623,115	1.29 %
Less:				
Accumulated Depreciation	23,089,892	21,921,981	1,167,911	5.33 %
Capital Assets, Net of Depreciation	<u>\$ 25,881,468</u>	<u>\$ 26,426,264</u>	<u>\$ (544,796)</u>	(2.06) %

Cash Flow Activity: Cash and cash equivalents increased by \$2,144,198, or 11.02% from the previous year. This was primarily a result of a decrease in the liquidation of accounts payable and contracts payable. The Authority maintains a healthy cash balance to meet future emergencies and capital requirements.

Long-Term Debt: At year end, the Authority continued to be debt free.

Final Comments: Infrastructure improvements, as well as vehicle and equipment replacement continue to be a priority of the Authority. Upgrades to the sewerage system are planned as the system ages.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
STATEMENT OF NET POSITION
NOVEMBER 30, 2022

ASSETS

Current Assets:

Unrestricted Assets:

Cash and Cash Equivalents	\$ 21,486,672
Investments	29,483
Sewer Charges Receivable	53,142
Lease Receivable	130,717
Other Receivable	173,426
Total Unrestricted Assets	<u>21,873,440</u>

Restricted Assets:

Developers Escrow:

Cash and Cash Equivalents	114,608
Total Restricted Assets	<u>114,608</u>

Total Current Assets	<u>21,988,048</u>
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Noncurrent Assets:

Lease Receivable	160,352
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Capital Assets, Net:

Sites (Land) and Construction in Progress	2,415,364
Depreciable Land Improvements, Buildings/Treatment Plant, Transmission Facilities and Equipment/Vehicles	<u>23,466,104</u>

Total Capital Assets	<u>25,881,468</u>
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Total Noncurrent Assets	<u>26,041,820</u>
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TOTAL ASSETS	<u>48,029,868</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows Related to Pensions	67,455
Contribution Subsequent to the Measurement Date - Pensions	<u>135,541</u>

TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>202,996</u>
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BERNARDS TOWNSHIP SEWERAGE AUTHORITY
STATEMENT OF NET POSITION
NOVEMBER 30, 2022
(Continued)

LIABILITIES

Current Liabilities Payable from Unrestricted Assets:

Accounts Payable	\$ 750,468
Contracts Payable	545,772
Unearned Service Charges	13,073
Total Current Liabilities Payable from Unrestricted Assets	<u>1,309,313</u>

Current Liabilities Payable from Restricted Assets:

Escrow Deposits Payable	114,608
Total Current Liabilities Payable from Restricted Assets	<u>114,608</u>
Total Current Liabilities	<u>1,423,921</u>

Non-Current Liabilities:

Net Pension Liability	1,253,237
Compensated Absences Payable	73,307
Total Non-Current Liabilities	<u>1,326,544</u>

TOTAL LIABILITIES	<u>2,750,465</u>
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DEFERRED INFLOWS OF RESOURCES:

Deferred Inflows Related to Pensions	912,866
Deferred Lease Resources	291,069
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>1,203,935</u>

NET POSITION

Investment in Capital Assets	25,881,468
Unrestricted	18,396,996
TOTAL NET POSITION	<u>\$ 44,278,464</u>

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

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED NOVEMBER 30, 2022

Operating Revenue:	
Sewer Charges	\$ 5,333,590
Connection Fees	948,386
Other Fees and Income	323,064
Total Operating Revenue	<u>6,605,040</u>
Operating Expenses:	
Operating Expenses	3,052,080
Depreciation	1,178,168
Total Operating Expenses	<u>4,230,248</u>
Operating Income	<u>2,374,792</u>
Nonoperating Revenue/(Expense):	
Interest Income	117,690
Investment Income	267,177
Other Expenses	(247,265)
Total Nonoperating Revenue/(Expense)	<u>137,602</u>
Change in Net Position Before Other Item	2,512,394
Other Item:	
Cancellation of Prior Year Accounts Payable	175,875
Disposal of Capital Assets	(5,561)
Total Other Item	<u>170,314</u>
Change in Net Position	2,682,708
Net Position, Beginning of Year	<u>41,595,756</u>
Net Position, End of Year	<u>\$ 44,278,464</u>

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

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED NOVEMBER 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Cash Received from Customers	\$ 6,453,204
Cash Paid to Suppliers and Employees	(3,798,016)
Net Cash Provided by Operating Activities	<u>2,655,188</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchase of Capital Assets	(398,220)
Other Expenses	(247,265)
Construction in Progress	(250,161)
Net Cash Used for Capital and Related Financing Activities	<u>(895,646)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on Investments	117,690
Proceeds from Sale of Solar Renewable Energy Certificates	266,966
Net Cash Provided by Investing Activities	<u>384,656</u>

Net Increase in Cash and Cash Equivalents 2,144,198

Cash and Cash Equivalents - Beginning of Year 19,457,082

Cash and Cash Equivalents - End of Year \$ 21,601,280

Reconciliation of Net Operating Income to Net Cash

Provided by Operating Activities:

Operating Income \$ 2,374,792

Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:

Depreciation 1,178,168

Changes in Net Position:

(Increase) in Sewer Charges Receivable (638)

Decrease in Lease Receivable 132,845

(Increase) in Other Receivables (173,426)

Decrease in Deferred Outflows Related to Pensions 176,275

(Increase) in Contribution Subsequent to the Measurement Date - Pensions (11,649)

Increase in Compensated Absences Payable 2,965

(Decrease) in Unearned Service Charges (4,805)

Increase in Escrow Deposits Payable 27,033

Increase in Accounts Payable 299,820

(Decrease) in Contracts Payable (744,310)

(Decrease) in Net Pension Liability (554,924)

Increase in Deferred Inflows Related to Pensions 85,887

(Decrease) in Deferred Lease Resources (132,845)

Total Adjustments 280,396

Net Cash Provided by Operating Activities \$ 2,655,188

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

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2022

Note 1 - Nature of Authority

The Authority was created in accordance with the State Municipal Utilities Authorities Law (P.L. 1957, Chap. 183), by ordinance of the Township of Bernards on May 22, 1956.

Pursuant to the provisions of the law, the Authority is authorized to acquire, construct, maintain, operate or improve works for the collection, treatment, purification or disposal of sewerage or other wastes.

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

Note 2: Summary of Significant Accounting Policies

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 and interest expense.

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, expenses incurred, and/or the change in net position 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 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 net of total liabilities) are segregated into "Investment in capital assets" 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. 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.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2022
(Continued)

Note 2: Summary of Significant Accounting Policies (Cont'd)

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

Reporting Entity (Cont'd)

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. The Authority is a component unit of the Township of Bernards under the provisions of GASB Codification Section 2100.

B. Grants

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

Grant related expenditures 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. The Authority did not receive any grant awards during the current fiscal year.

C. Inventories

The cost of inventories of supplies is recorded as an expense at the time individual items are purchased, since they are immaterial to the financial position and results of operations.

D. Cash and Cash Equivalents

Amounts include petty cash, change funds, or 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 hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level I 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.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2022
(Continued)

Note 2: Summary of Significant Accounting Policies (Cont'd)

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

The Authority accounts for compensated absences (e.g., unused vacation, sick leave) as directed by GASB. 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 earned the rights to the benefits.

The Authority's policies regarding sick time permit employees to accumulate earned but unused sick leave. The liability for these compensated absences is recorded as a non-current liability. The balance as of November 30, 2022 is \$73,307.

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.

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. 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 outflows and inflows of resources related to pensions at November 30, 2022.

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

The 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, if any. 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.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2022
(Continued)

Note 2: Summary of Significant Accounting Policies (Cont'd)

H. Net Position (Cont'd)

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 investment in capital assets or the restricted component of net position.

I. Designated Amounts

As of November 30, 2022, the Authority had not internally designated any funds.

J. Restricted Cash Account

The Authority has established a restricted escrow account to hold the cash portion of performance bonds required to be posted by developers whose work affects the Authority. The security portion of such deposits, together with interest earned on that portion, is refunded to the developer, once the work has been satisfactorily completed. At November 30, 2022, \$114,608 was restricted for this purpose.

K. Revenue Recognition

The majority of the Authority's customers are residential. However, there are several commercial customers who are charged a different usage rate. All customers are billed quarterly based on actual usage readings. Estimates based on prior usage are utilized where actual readings cannot be obtained. Adjustments for actual usage are applied to the following quarter's bill or to the first quarter for which an actual reading can be obtained. Revenue is recorded net of any discounts, assessments or abatements, if applicable.

L. 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.

M. 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.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2022
(Continued)

Note 2: Summary of Significant Accounting Policies (Cont'd)

N. Lease Receivables

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

Note 3: Capital Assets

Capital assets, balances and activity for the year ended November 30, 2022 were as follows:

	2021	Additions	(Decreases)/ Adjustment	Transfers	2022
Land	\$ 44,000				\$ 44,000
Construction in Progress	3,014,448	\$ 250,161	\$ (9,448)	\$ (883,797)	2,371,364
Land Improvements	942,235				942,235
Buildings/Treatment Plant	24,828,491	4,900			24,833,391
Transmission Facilities	13,360,281			801,784	14,162,065
Equipment/Vehicles	6,158,790	393,320	(15,818)	82,013	6,618,305
Total	48,348,245	648,381	(25,266)		48,971,360
Accumulated Depreciation	(21,921,981)	(1,178,168)	10,257		(23,089,892)
	<u>\$ 26,426,264</u>	<u>\$ (529,787)</u>	<u>\$ (15,009)</u>	<u>\$ -0-</u>	<u>\$ 25,881,468</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 were reviewed for impairment.

The Authority transferred \$883,797 of completed capital projects to depreciable capital assets during the year. As of November 30, 2022, the Authority has \$545,772 in active construction projects.

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

	Estimated Useful Life
Land Improvements	40 Years
Buildings/Treatment Plant	40 Years
Transmission Facilities	40 Years
Equipment/Vehicles	5 Years

Note 4: Long-Term Debt

As of November 30, 2022, the Authority had no outstanding bonds or notes issued or authorized but not issued debt.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2022
(Continued)

Note 4: Long-Term Debt (Cont'd)

Net Pension Liability

The Public Employee's Retirement System (PERS) net pension liability is recorded in the current and long-term liabilities. The current portion of the net pension liability at June 30, 2021 is \$-0- and the long term portion is \$1,253,237. See Note 5 for further information on the PERS.

Note 5: Pension

Substantially all of the Authority's employees participate in 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.

As of the date of this report, the June 30, 2022 GASB No. 68 report has not been released by the Division.

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:

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

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 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 50 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.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2022
(Continued)

Note 5: Pension (Cont'd)

Public Employees' Retirement System (PERS) (Cont'd)

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 \$123,892 for 2022.

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

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

At June 30 2021, the Authority's liability was \$1,253,237 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2020 which was rolled forward to June 30, 2021. 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, 2021, the Authority's proportion was 0.0106%, which was a decrease of 0.0005% from its proportion measured as of June 30, 2020.

For the year ended November 30, 2022, the Authority recognized actual pension benefit in the amount of \$168,871. At November 30, 2022, 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	2017	5.48		\$ 52,962
	2018	5.63		99,293
	2019	5.21		87,593
	2020	5.16		206,313
	2021	5.13	\$ 6,527	
			<u>6,527</u>	<u>446,161</u>

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2022
(Continued)

Note 5: Pension (Cont'd)

Public Employees' Retirement System (PERS) (Cont'd)

Pension Liabilities, Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions (Cont'd)

	Deferral Year	Amortization Period in Years	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Experience	2017	5.48	\$ 1,575	
	2018	5.63		\$ 3,781
	2019	5.21	6,696	
	2020	5.16	11,494	
	2021	5.13		5,191
			<u>19,765</u>	<u>8,972</u>
Changes in Proportion	2017	5.48	18,554	
	2018	5.63	1,840	
	2019	5.21	20,769	
	2020	5.16		38,222
	2021	5.13		89,375
			<u>41,163</u>	<u>127,597</u>
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	2018	5.00		9,790
	2019	5.00		(3,159)
	2020	5.00		(71,189)
	2021	5.00		394,694
			<u></u>	<u>330,136</u>
Contribution Made Subsequent to the Measurement Date				
	2022	1.00	135,541	
			<u>\$ 202,996</u>	<u>\$ 912,866</u>

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2022
(Continued)

Note 5: Pension (Cont'd)

Public Employees' Retirement System (PERS) (Cont'd)

Pension Liabilities, Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions(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:

<u>Year Ending</u> <u>June 30,</u>	<u>Total</u>
2022	\$ (295,710)
2023	(211,136)
2024	(143,959)
2025	(108,214)
2026	42
	<u>\$ (758,977)</u>

Actuarial Assumptions

The total pension liability for the June 30, 2021 measurement date was determined by an actuarial valuation as of July 1, 2020 which was rolled forward to June 30, 2021. This actuarial valuation used the following actuarial assumptions:

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

Pre-retirement mortality rates were based on the Pub-2010 General Below-Median Income Employee Mortality Table with an 82.2% adjustment for males and 101.4% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Post-retirement mortality rates were based on the Pub-2010 General Below-Median Income Healthy Retiree mortality table with a 91.4% adjustment for males and a 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2010 Non-Safety Disabled Retiree mortality table with a 127.7% adjustment for males and 117.2% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2021.

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

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2022
(Continued)

Note 5: Pension (Cont'd)

Public Employees' Retirement System (PERS) (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, 2021) 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, 2021 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%	8.09%
Non-U.S. Developed Market Equity	13.50%	8.71%
Emerging Markets Equity	5.50%	10.96%
Private Equity	13.00%	11.30%
Real Assets	3.00%	7.40%
Real Estate	8.00%	9.15%
High Yield	2.00%	3.75%
Private Credit	8.00%	7.60%
Investment Grade Credit	8.00%	1.68%
Cash Equivalents	4.00%	0.50%
U.S. Treasuries	5.00%	0.95%
Risk Mitigation Strategies	3.00%	3.35%

Discount Rate

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2021. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers and the nonemployer contributing entity will be based upon 100% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for the local employers. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all projected benefit payments in determining the total pension liability.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2022
(Continued)

Note 5: Pension (Cont'd)

Public Employees' Retirement System (PERS) (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, 2021 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, 2021		
	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Authority's proportionate share of the Net Pension Liability	\$ 1,707,599	\$ 1,253,237	\$ 868,929

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 6: Cash and Cash Equivalents and Investments

Cash and cash equivalents include petty cash, change funds, 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 investment.

Credit Risk – The Authority limits its investments to those authorized in its cash management plan which are those permitted under state statute as detailed on the following two pages.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2022
(Continued)

Note 6: Cash and Cash Equivalents and Investments (Cont'd)

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 NJ municipalities are permitted to invest their funds.

Deposits:

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation, 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 public funds on deposit, and

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 at least equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

Investments:

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

- (1) Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- (2) Government money market mutual funds;
- (3) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor;
- (4) Bonds or other obligations of the school district or bonds or other obligations of the local unit or units 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;

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2022
(Continued)

Note 6: Cash and Cash Equivalents and Investments (Cont'd)

Investments: (Cont'd)

- (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 of not more than 397 days from the date of purchase, issued by New Jersey school districts, municipalities, counties, and entities subject to the requirements of the "Local Authorities Fiscal Control Law," P.L. 1983, c. 313 (C.40A:5A-1 et seq.). ;
 - (b) the custody of collateral is transferred to a third party;
 - (c) the maturity of the agreement is not more than 30 days;
 - (d) the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c.236 (C.17:9-41); and
 - (e) a master repurchase agreement providing for the custody and security of collateral is executed.

As of November 30, 2022, cash and cash equivalents of the Bernards Township Sewerage Authority consisted of the following:

	Checking Accounts	Petty Cash	New Jersey Cash Management Fund	Money Market Account	Total
Unrestricted	\$ 9,081,433	\$ 300	\$ 7,732,849	\$ 4,672,090	\$ 21,486,672
Restricted - Escrow Deposit			114,608		114,608
	<u>\$ 9,081,433</u>	<u>\$ 300</u>	<u>\$ 7,847,457</u>	<u>\$ 4,672,090</u>	<u>\$ 21,601,280</u>

The carrying amount of the Bernards Township Sewerage Authority's cash and cash equivalents at year end was \$21,601,280 and the bank balance was \$22,142,973. The \$7,847,457 in the NJ Cash Management Fund is uninsured and unregistered.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2022
(Continued)

Note 6: Cash and Cash Equivalents and Investments (Cont'd)

Fair Value Measurement and Application

The Authority holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Authority's mission, the Authority determines that the disclosures related to these investments only need to be disaggregated by major type. The Authority chooses a narrative format for the fair value disclosures.

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. 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.

The Authority has the following recurring fair value measurement as of November 30, 2022:

Solar Renewable Energy Certificates (SREC) of \$29,483 are valued using quoted market prices (Level 1 inputs).

The quoted market prices were obtained from <http://www.njcleanenergy.com/> for the NJ SREC Trading Statistics Energy at the monthly weighted average price per SREC.

Note 7: Risk Management

The Authority is exposed to various risks of loss related 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 benefit plan.

The Authority is currently a member of the New Jersey Utilities Authorities Joint Insurance Fund (the "Fund"). The Fund provides their members with Liability, Property and Workers' Compensation Insurance. The Fund is a risk-sharing public entity risk pool that is both an insured and self administered group of governmental entities established for the purpose of providing low-cost insurance coverage for their respective members in order to keep expenses at a minimum. Each member appoints an official to represent their respective entity for the purpose of creating a governing body from which officers for the Funds are elected.

The following coverages are offered by the Fund to its members:

- a) Workers' Compensation and Employers Liability
- b) Liability Other Than Motor Vehicles
- c) Property Damage Other Than Motor Vehicles
- d) Motor Vehicle
- e) Environmental

As a member of the Fund, the Authority could be subject to supplemental assessments in the event of deficiencies. If the assets of the Fund were to be exhausted, members would become responsible for their respective shares of the Fund's liabilities.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2022
(Continued)

Note 7: Risk Management (Cont'd)

The Fund can declare and distribute dividends to members upon approval of the State of New Jersey Department of Banking and Insurance. These distributions are divided amongst the members in the same ratio as their individual assessment relates to the total assessment of the membership body.

Selected, summarized financial information for the Fund as of December 31, 2022 was not available as of the date of this report. Selected summarized financial information as of December 31, 2021 is as follows:

Total Assets	\$ 14,244,427
Net Position	\$ 4,909,683
Total Revenue	\$ 12,016,688
Total Expenses	\$ 12,493,594
Change in Net Position	\$ (476,906)
Members Dividend	\$ -0-

Financial statements for the Fund are available at the office of the Fund's Executive Director:

New Jersey Utility Authorities Joint Insurance Fund
PERMA Risk Management Services
9 Campus Drive, Suite 216
Parsippany, New Jersey 07054
(201) 881-7632

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. Due to the shared service arrangement with the Township of Bernards relative to the provision of accounting services, the Authority's share of withholdings is maintained in the Township's unemployment trust account. Authority contributions for the years 2022, 2021 and 2020 were \$0, \$0 and \$0. The Authority has had no claims in the past three years.

Note 8: Deferred Compensation

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. The plan, which is administered by ICMA Retirement Corporation, permits participants to defer a portion of their salary until future years. Amounts deferred under the plan are not available to employees until termination, retirement, death or unforeseeable emergency.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2022
(Continued)

Note 9: Accounts and Contracts Payable

Accounts and contracts payable were as follows:

	Operating	Contributions Subsequent to the Measurement Date	Total
Due to State of New Jersey		\$ 135,541	\$ 135,541
Vendors	\$ 750,468		750,468
Contracts Payable	545,772		545,772
	<u>\$ 1,296,240</u>	<u>\$ 135,541</u>	<u>\$ 1,431,781</u>

Note 10: Related Party Transactions

The Township of Bernards provides certain administrative and accounting services to the Authority by means of a shared services agreement. During the year ended November 30, 2022, the Authority budgeted and paid \$502,029 to the Township of Bernards.

Note 11: 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, operations, financial condition or competitive position of the Authority. The Authority believes that their current practices and procedures comply with applicable regulations. The Authority's policy is to accrue environmental and related costs of a noncapital 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 12: Contingencies

The Authority is periodically involved in various lawsuits in the normal course business, including claims for property damage, personal injury, and various contract disputes. The Authority vigorously contests these lawsuits and believes the ultimate resolution would not have an adverse effect on their financial position.

Note 13: Lease Receivables

The Authority entered into three lease agreements for the lease of the Authority's cell towers with different wireless carriers. The terms of the leases are for 5 years each, which expire on January 2024 and 2025. Annual principal and interest payments range from \$36,750 to \$63,151.

	Original Amount	Restated Outstanding Nov. 30, 2021	Additions	Decrease	Outstanding Nov. 30, 2022
Cell Tower Leases; interest at 3%	<u>\$ 659,497</u>	<u>\$ 423,914</u>	<u>\$ -0-</u>	<u>\$ 132,845</u>	<u>\$ 291,069</u>

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED NOVEMBER 30, 2022
(Continued)

Note 13: Lease Receivables (Cont'd)

Future maturities are as follows:

<u>Fiscal Year Ending Nov. 30,</u>	<u>Principal</u>	<u>Interest</u>
2023	\$ 130,717	\$ 15,304
2024	128,651	19,388
2025	31,701	5,049
	<u>\$ 291,069</u>	<u>\$ 39,741</u>

Note 14: Prior Period Adjustment

The Authority made a prior year adjustment in the financial statements to record a lease receivable and a related deferred inflow of resources as of November 30, 2021 as a result of implementing GASB Statement No. 87, *Leases*.

	<u>Balance at Nov. 30, 2021 as Previously Reported</u>	<u>Retroactive Adjustments</u>	<u>Balance at Nov. 30, 2021 as Restated</u>
<u>Statement of Net Position</u>			
Assets:			
Lease Receivable	\$ -0-	\$ 423,914	\$ 423,914
Total Asset	45,965,122	423,914	46,389,036
Deferred Inflows of Resources:			
Deferred Lease Resources	-0-	423,914	423,914
Total Deferred Inflows of Resources	826,979	423,914	1,250,893

BERNARDS TOWNSHIP
SEWERAGE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST EIGHT YEARS

	Year Ending November 30,							
	2015	2016	2017	2018	2019	2020	2021	2022
Authority's proportion of the net pension liability	0.0104514201%	0.0107973207%	0.0101493077%	0.0111490473%	0.0113652084%	0.0110879883%	0.0105789671%	0.0105789671% *
Authority's proportionate share of the net pension liability	\$ 1,956,792	\$ 2,423,782	\$ 3,005,934	\$ 2,195,192	\$ 2,047,838	\$ 1,808,161	\$ 1,253,237	\$ 1,253,237 *
Authority's covered employee payroll	\$ 758,823	\$ 755,128	\$ 731,822	\$ 804,944	\$ 762,701	\$ 717,483	\$ 744,212	\$ 711,139
Authority's proportionate share of the net pension liability as a percentage of its covered employee payroll	259.74%	320.98%	410.75%	272.71%	268.50%	252.01%	168.40%	176.23%
Plan fiduciary net position as a percentage of the total pension liability	47.93%	40.14%	48.10%	53.60%	56.27%	58.32%	58.32%	58.32% *

* Utilized the June 30, 2021 GASB 68 report as the NJ Division of Pension has not released the June 30, 2022 report as of the date of this report.

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the year ended November 30, 2015.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION SCHEDULES
SCHEDULE OF AUTHORITY CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST EIGHT YEARS

	Year Ending November 30,							
	2015	2016	2017	2018	2019	2020	2021	2022
Contractually required contribution	\$ 86,160	\$ 92,828	\$ 90,165	\$ 103,492	\$ 111,063	\$ 110,683	\$ 121,297	\$ 123,892
Contributions in relation to the contractually required contribution	(86,160)	(92,828)	(90,165)	(103,492)	(111,063)	(110,683)	(121,297)	(123,892)
Contribution deficiency/(excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Authority's covered employee payroll	\$ 748,128	\$ 759,454	\$ 758,213	\$ 781,071	\$ 754,520	\$ 713,301	\$ 762,827	\$ 705,886
Contributions as a percentage of covered employee payroll	11.52%	12.22%	11.89%	13.25%	14.72%	15.52%	15.90%	17.55%

Note: This schedule does not contain ten years of information as GASB No. 68 was implemented during the year ended November 30, 2015.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED NOVEMBER 30, 2022

A. PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Benefit Changes

There were none.

Changes of Assumptions

In the July 1, 2019 actuarial valuation the mortality improvement was based on Scale MP-2020 while in the July 1, 2020 actuarial valuation the mortality improvement was based on Scale MP-2021.

BERNARDS TOWNSHIP
SEWERAGE AUTHORITY
SUPPLEMENTARY INFORMATION

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF REVENUE, EXPENSES AND CHANGES IN NET POSITION
RESTRICTED AND UNRESTRICTED FUNDS
YEAR ENDED NOVEMBER 30, 2022

	Unrestricted	Investment in Capital Assets	Memo Total 2022
Operating Revenue:			
Sewer Charges	\$ 5,333,590		\$ 5,333,590
Connection Fees	948,386		948,386
Other Fees and Income	323,064		323,064
Total Operating Revenue	<u>6,605,040</u>		<u>6,605,040</u>
Operating Expenses:			
Operating Appropriations	3,052,080		3,052,080
Depreciation	1,178,168		1,178,168
Total Operating Expenses	<u>4,230,248</u>		<u>4,230,248</u>
Operating Income	<u>2,374,792</u>		<u>2,374,792</u>
Nonoperating Revenue:			
Interest Earned on Investments	117,690		117,690
Investment Income	267,177		267,177
Total Nonoperating Revenue	<u>384,867</u>		<u>384,867</u>
Change in Net Position (Before Transfers and Other Items)	<u>2,759,659</u>		<u>2,759,659</u>
Transfers and Other Items:			
Capital Outlay	(895,646)	\$ 648,381	(247,265)
Disposal of Capital Assets		(5,561)	(5,561)
Prior Year Accounts Payable Cancelled	175,875		175,875
Prior Year Contracts Payable Cancelled	9,448	(9,448)	
Depreciation	1,178,168	(1,178,168)	
Change in Net Position (After Transfers and Other items)	<u>3,227,504</u>	<u>(544,796)</u>	<u>2,682,708</u>
Net Position, December 1	<u>15,169,492</u>	<u>26,426,264</u>	<u>41,595,756</u>
Net Position, November 30	<u>\$ 18,396,996</u>	<u>\$ 25,881,468</u>	<u>\$ 44,278,464</u>

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF REVENUE AND EXPENSES
COMPARED TO BUDGET
YEAR ENDED NOVEMBER 30, 2022
(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED NOVEMBER 30, 2021)

	2022 Final Budget	2022 Actual	Excess or (Deficit)	2021 Actual
Revenue:				
Fund Balance Anticipated	\$ 976	\$ 976	\$ -0-	\$ 20,457
Operating Revenues:				
Sewer Charges	5,403,460	5,333,590	(69,870)	5,368,470
Connection Fees	140,000	948,386	808,386	165,782
Other Fees and Income	200,000	323,064	123,064	79,486
Total Operating Revenues	5,743,460	6,605,040	861,580	5,613,738
Nonoperating Revenue:				
Interest on Investments	13,000	117,690	104,690	11,777
Investment Income		267,177	267,177	258,910
Total Nonoperating Revenue	13,000	384,867	371,867	270,687
Total Revenue	\$ 5,757,436	\$ 6,990,883	\$ 1,233,447	\$ 5,904,882
Budgeted Appropriations:				
Administration:				
Other Expenses	\$ 918,829	\$ 910,380	\$ 8,449	\$ 878,253
Total Administration	918,829	910,380	8,449	878,253
Cost of Providing Service:				
Salaries & Wages	917,121	772,752	144,369	866,282
Fringe Benefits	505,486	118,946	386,540	410,113
Other Expenses	1,341,000	1,250,002	90,998	1,238,736
Total Cost of Providing Service	2,763,607	2,141,700	621,907	2,515,131
Non-Operating Appropriations:				
Capital Outlay	2,075,000	895,646	1,179,354	1,784,077
Total Non-Operating Appropriations	2,075,000	895,646	1,179,354	1,784,077
Total Appropriations	\$ 5,757,436	\$ 3,947,726	\$ 1,809,710	\$ 5,177,461
Capital Outlay:				
Non-Capitalized Expense		247,265		
Capitalized Expense		648,381		
		\$ 895,646		

BERNARDS TOWNSHIP
SEWERAGE AUTHORITY

GOVERNMENT AUDITING STANDARDS SECTION

YEAR ENDED NOVEMBER 30, 2022

Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

Independent Auditors' Report

The Honorable Chairman and Members
of the Bernards Township Sewerage
Authority
Basking Ridge, New Jersey

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 Bernards Township Sewerage Authority (the "Authority"), a component unit of the Township of Bernards, as of and for the year ended November 30, 2022, and the related notes to the financial statements, which comprise the Authority's basic financial statements, and have issued our report thereon dated March 25, 2023. That report included a qualified opinion on the financial statements as the Authority's net pension liability and the related deferred outflows and inflows of resources reported in the financial statements at November 30, 2022 is based on the June 30, 2021 Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions*, report for the State of New Jersey Public Employees' Retirement System ("PERS"), from the Division of Pensions and Benefits, Department of the Treasury, State of New Jersey (the "State"). We were unable to obtain the June 30, 2022 GASB No. 68 report as it has not been released by the State as of the date of this report. The amount by which this omission would affect the net pension liability and the related deferred inflows and outflows of resources, net position, and expenses of the Authority has not been determined.

Report on Internal Control Over Financial Reporting

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

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

The Honorable Chairman and Members
of the Bernards Township Sewerage
Authority
Page 2

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

Report 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
March 25, 2023

Nisivoccia LLP
NISIVOCCIA LLP

Man C Lee

Man C. Lee
Certified Public Accountant
Registered Municipal Accountant #562

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED NOVEMBER 30, 2022

Summary of Auditors' Results:

- The Independent Auditors' Report expresses a qualified opinion on the financial statements of the Authority as the Authority's net pension liability and the related deferred outflows and inflows of resources reported in the financial statements at November 30, 2022 is based on the June 30, 2021 Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions*, report for the State of New Jersey Public Employees' Retirement System ("PERS"), from the Division of Pensions and Benefits, Department of the Treasury, State of New Jersey (the "State"). We were unable to obtain the June 30, 2022 GASB No. 68 report as it has not been released by the State as of the date of this report. The amount by which this omission would affect the net pension liability and the related deferred inflows and outflows of resources, net position, and expenses of the Authority has not been determined.
- There were no material weaknesses or significant deficiencies disclosed during the audit of the financial statements as reported in the *Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*.
- No instances of noncompliance material to the financial statements of the Authority which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

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

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

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED NOVEMBER 30, 2022

Status of Prior Year Audit Findings:

There were no prior year audit findings.

COMMENTS AND RECOMMENDATIONS

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required Advertisement for Bids

N.J.S.A. 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. 1971, C.198 (N.J.S.A. 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 (N.J.S.A. 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 (N.J.S.A. 40A:11-2), 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.A. 40A: 11-4 states: "Every contract awarded by the contracting agent for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded only by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other law. The governing body of a contracting unit may, by resolution approved by a majority of the governing body and subject to subsections b. and c. of this section, disqualify a bidder who would otherwise be determined to be the lowest responsible bidder, if the governing body finds that it has had prior negative experience with the bidder."

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

The governing body of the Authority has the responsibility of determining whether the expenditures in any category will exceed the bid threshold within the fiscal year. Where questions arise as to whether any contract or agreement might result in violation of the statute, the Authority Attorney's opinion should be sought before a commitment is made.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
COMMENTS AND RECOMMENDATIONS
(Continued)

Contracts and Agreements Required Advertisement for Bids (Cont'd)

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed. None were noted.

Management Suggestion

Governmental Accounting Standards Board (GASB) Statements

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Arrangements*, is effective for the year ended December 31, 2023. This statement addresses issues related to public-private and public-public partnership agreements (PPP's). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time. This statement also provides guidance for accounting and financial reporting for availability payment arrangements (APA's). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset or a period of time.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITA's), is effective for the year ended December 31, 2023. A SBITA is a contract that conveys control of the right to use another party's (a SBITA vendor) information technology software, alone or in combination with tangible capital assets as specified in the related contract for a period of time. It is likely that a SBITA software or similar spreadsheets will need to be utilized to perform the various calculations necessary to implement this standard.

Status of Prior Year's Findings/Recommendations

There were no prior year audit recommendations.

BERNARDS TOWNSHIP SEWERAGE AUTHORITY
SUMMARY OF RECOMMENDATIONS

There are no recommendations.

* * * * *