



OCEAN COUNTY UTILITIES AUTHORITY

HELPING TO PRESERVE THE WATER RESOURCES OF OCEAN AND SOUTHERN MONMOUTH COUNTIES...

**OCEAN COUNTY UTILITIES AUTHORITY
Financial Statements
December 31, 2021 and 2020
With Independent Auditor's Reports**

Ocean County Utilities Authority
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December 31, 2021 and 2020

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners,
Ocean County Utilities Authority:

Report on the Financial Statements

Opinion

We have audited the financial statements of Ocean County Utilities Authority (the "Authority"), a component unit of the County of Ocean, as of and for the years ended December 31, 2021 and 2020, and the related notes to financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2021 and 2020 and the respective changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS") 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 audit opinions.

Responsibilities of Management for the Financial Statements

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

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 Responsibility 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 opinion. 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 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, 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 identified in the table of contents as Schedules 1 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board ("GASB"), 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 this 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. Schedules 6 and 7 and the schedule of expenditures of state financial assistance, as required by the audit requirements of the State of New Jersey, Department of Treasury, Office of Management and Budget, Policy Circular Letter 15-08-OMB ("NJ Circular Letter 15-08-OMB"), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of state financial assistance is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of expenditures of state financial assistance is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Schedules 6 and 7 have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises Schedule 8 but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the 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 January 24, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Withum Smith & Brown, PC".

January 24, 2023



OCEAN COUNTY UTILITIES AUTHORITY

HELPING TO PRESERVE THE WATER RESOURCES OF OCEAN AND SOUTHERN MONMOUTH COUNTIES...

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)



OCEAN COUNTY UTILITIES AUTHORITY

HELPING TO PRESERVE THE WATER RESOURCES OF OCEAN AND SOUTHERN MONMOUTH COUNTIES...

This section presents management's analysis of the Ocean County Utilities Authority's (the "Authority") financial condition and activities for the year ended December 31, 2021. Management's Discussion and Analysis ("MD&A") serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplementary information.

Authority Overview

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

The skilled and dedicated men and women at the Authority accomplish this by effectively collecting and treating wastewater from our service areas' thirty-six participants and then recycling safe, clean water back into the natural ecosystem.

Our philosophy is to never lose sight of those who we are committed to serve: residents, businesses, public institutions and the millions of seasonal visitors to the many attractions located within our service region.

All of the plans, improvements and system changes are made to ensure that we continue to meet or surpass all mandated federal and state regulations and standards, and to operate the Authority at as low a cost to our customers as possible.

Summary of Organization and Business

The Authority, a public body corporate and politic of the State of New Jersey was created pursuant to a resolution adopted by the Board of Chosen Freeholders of Ocean County on July 8, 1970, and the Sewerage Authorities Law, constituting Chapter 38 of the Pamphlet Laws of 1946 of the State as amended (the "Original Act"). On December 6, 1978, the Ocean County Sewerage Authority was reorganized as the Ocean County Utilities Authority pursuant to the Act.

The Authority has the statutory power to acquire, to construct, to maintain and to operate sewerage facilities for the relief of waters in, bordering or entering the areas with the territorial boundaries of the County from pollution or threatened pollution and for the improvement of conditions affecting the public health.

Pursuant to the provisions of the Act, the Authority presently consists of twelve Commissioners, eleven of whom are appointed by the Board of Chosen Freeholders of Ocean County and one of whom is appointed by the Board of Chosen Freeholders of Monmouth County. All members of the Authority are appointed to five-year terms. The Authority is administered by an Executive Director appointed by the members and directly responsible to them. The Authority has approximately 260 employees who are organized into four activities: Finance and Administration, Engineering and Construction, Operations and Maintenance, and Technical Services.

The Authority's Service Area includes portions of the Atlantic Coastal Drainage Basin in Ocean County, the Metedeconk River Drainage Basin, which is located in Ocean and Monmouth Counties and the Manasquan River Drainage Basin, which is located in Monmouth County. The Authority currently has Service Contracts with 36 contracting customers, including 19 municipalities, 14 municipal authorities, 2 private corporations and the Department of the Navy for the Naval Air Warfare Center at Lakehurst.

The System encompasses trunk and interceptor sewer lines, metering stations, pump stations and three treatment plants. The Northern Service Area treatment facility ("NWPCF") commenced initial operations in September 1976, the Southern Service Area treatment facility ("SWPCF") commenced initial operations in August 1977, and the Central Service Area treatment facility ("CWPCF") was the last to come on-line, commencing initial operations in December 1979. The Authority's three regional treatment facilities provide secondary treatment and disinfection of the wastewater collected in the service areas. The treatment processes at each of the plants are essentially the same. The primary treatment process consists of influent pumping, screening to remove large objects, aerated grit chambers for grit removal, and primary settling to remove suspended and organic matter. The secondary treatment for biological reduction of pollutants includes diffused air aeration and final settling. Disinfection is provided with the effluent conveyed through outfall lines equipped with diffuser systems to the Atlantic Ocean. In addition, the Authority has constructed septage-receiving facilities at the Central Treatment Facility to allow for septage treatment as a result of a 1980 State law prohibiting certain landfills from receiving septage.

In 1997, The Authority completed construction and testing of a new centralized sludge drying facility located at the CWPCF in Bayville. The system utilizes Andritz, Inc. rotary drum sludge dryers fueled by natural gas to produce a final pelletized product that is approved for use as fertilizer and is marketed under the product name Oceangro. In accordance with the provisions of the New Jersey Wastewater Treatment Public-Private Contracting Act, N.J.S.A. 58:27-1.9 et seq., the Authority entered into a contract with Andritz, Inc. to operate the facility. The current contract has been extended to December 31, 2022.

The County of Ocean has agreed, pursuant to the County Agreement dated September 15, 1971 ("Deficiency Advance Contract"), to pay the Authority amounts ("Deficiency Advances"), if any, equal to any excess of the Authority's expenses (including debt service) over its receipts. In the opinion of Bond Counsel to the Authority, the obligation of the County to make Deficiency Advances is a valid and binding general obligation of the County.

Hurricane Sandy

In 2012, the Authority was affected by Hurricane Sandy's storm surge as it hit the New Jersey coastline. The storm primarily impacted the Authority's collection and conveyance systems. The three treatment plants remained relatively unscathed. Damages were sustained to 27 pump stations, 23 metering chamber facilities and 16 cathodic protection stations. The three ocean outfalls were inspected via marine divers and no damage was reported. Within one week following the storm, the Authority was able to restore adequate sewerage services to each participant in the regional system affected by the storm. Long-term mitigation projects have been completed to strengthen facilities with the goal of reducing or eliminating future losses from similar storm events.

GASB 68 - Accounting and Financial Reporting for Pensions

During the fiscal year ended December 31, 2015, the Authority was required to adopt GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*, relative to its participation in the Public Employees Retirement System (PERS).

Historically, the Authority has recorded its contributions to the plan as expenses in the year these contributions were required by the State of New Jersey Division of Pensions and Benefits. With the adoption of GASB 68, the Authority is required to record a liability in its financial statements for its proportionate share of the PERS plan liability and expenses. The Authority's December 31, 2021 net pension liability decreased to \$27,793,084, deferred outflows of resources decreased to \$1,528,569, and deferred inflows of resources increased to \$19,704,592. All employers who participate in the PERS are being required to record a proportionate share of the June 30, 2021 and 2020 net pension liability in their respective financial statements which total \$11,972,782,878 and \$16,435,616,426, respectively. Management intends to fund this liability through annual required contributions determined by the actuary, and it is unlikely that this liability would be callable in full.

GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pension

In June 2015, the Governmental Accounting Standards Board issued GASB Statement No. 75, *Accounting and Financial Reporting of Postemployment Benefits Other Than Pension* (“OPEB”), which was effective for fiscal years beginning after June 12, 2017. Similar to GASB Statement No. 68, the Authority is required to record a liability in its financial statements for its proportionate share of the OPEB plan liability and expenses. As a result of implementing this statement during fiscal year ended December 31, 2018, the beginning unrestricted net position decreased by \$93,299,548.

Historically, the Authority has recorded its OPEB payment as an expense in the year these contributions were paid to the State of New Jersey Division of Pensions and Benefits. With the adoption of GASB 75, the Authority is required to record a liability in its financial statements for its proportionate share of the OPEB liability and expenses. The Authority’s December 31, 2021 net OPEB liability increased to \$86,232,779, deferred outflows of resources increased to \$23,768,038, and deferred inflows of resources increased to \$31,516,813. Management intends to fund this liability through annual required contributions determined by the actuary, and it is unlikely that this liability would be callable in full.

Financial Highlights

Management believes the Authority’s financial condition is strong. The stringent financial policies and guidelines set by the Board of Commissioners and Management, with the adoption of the Cash Management and Investment Policy and the Seven-Year Capital Improvement Plan in particular, add to the financial strength of the Authority. The following are key financial highlights for 2021 and 2020:

- For fiscal years 2021 and 2020, the Authority treated 18.689 and 18.408 billion gallons of wastewater, respectively.
- User charges and fees revenues and product sales were \$77.91 million, an increase from 2020 in the amount of \$1.021 million or 1.3% more.
- Operating expenses excluding depreciation decreased approximately \$5.632 million or 11.7% from 2020. The bulk of this decrease was attributable to the change in the actuarial calculated value of the Authority’s proportionate share of the PERS net pension liability.
- Operating income after depreciation for the year 2021 was approximately \$17.96 million.
- Total net position increased by \$15.685 million from 2020.

The Authority budgets on the cash basis and does not fund depreciation. The Authority’s 2021 operating revenues exceeded operating expenses. The Authority appropriated \$11.298 million to its capital budget from operations during 2021.

Audit Assurance

The unmodified opinion of our independent external auditors, WithumSmith+Brown, PC is included in this report.

Financial Analysis

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

Comments regarding budget-to-actual variances and year-to-year variances are included in each section by the name of the statement or account.

Condensed Statements of Net Position

	December 31		
	2021	2020	2019
Assets and deferred outflows of resources			
Current assets	\$ 24,887,094	\$ 24,056,669	\$ 28,280,603
Non-current assets	52,630,128	52,227,512	51,323,999
Restricted assets	26,655,191	27,660,201	25,763,162
Capital assets	265,919,376	266,884,111	263,370,939
Deferred outflows of resources	26,179,932	29,972,308	12,958,319
Total assets and deferred outflows of resources	<u>\$ 396,271,721</u>	<u>\$ 400,800,801</u>	<u>\$ 381,697,022</u>
Liabilities and deferred inflows of resources			
Current liabilities	\$ 26,039,447	\$ 24,190,709	\$ 25,039,353
Non-current liabilities	203,939,669	225,988,472	218,406,210
Deferred inflows of resources	51,221,405	51,235,673	53,624,945
Total liabilities and deferred inflows of resources	<u>281,200,521</u>	<u>301,414,854</u>	<u>297,070,508</u>
Net position			
Net investment in capital assets	168,170,579	157,453,755	146,577,265
Restricted	12,890,850	12,893,431	12,902,219
Unrestricted	(65,990,229)	(70,961,239)	(74,852,970)
Total net position	<u>115,071,200</u>	<u>99,385,947</u>	<u>84,626,514</u>
Total liabilities, deferred inflows, and net position	<u>\$ 396,271,721</u>	<u>\$ 400,800,801</u>	<u>\$ 381,697,022</u>

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	December 31		
	2021	2020	2019
Operating revenues			
Charges for services	\$ 77,524,521	\$ 76,478,991	\$ 76,826,592
Product sales	383,983	408,148	392,172
Total operating revenues	<u>77,908,504</u>	<u>76,887,139</u>	<u>77,218,764</u>
Operating expenses			
Operations and maintenance	37,300,277	43,174,436	40,640,648
Depreciation	17,230,204	16,930,883	24,813,701
Administration and general	<u>5,421,447</u>	<u>5,178,910</u>	<u>4,809,358</u>
Total operating expenses	<u>59,951,928</u>	<u>65,284,229</u>	<u>70,263,707</u>
Operating income	17,956,576	11,602,910	6,955,057
Non operating revenues (expenses)	<u>(2,271,323)</u>	<u>3,156,523</u>	<u>3,727,516</u>
Changes in net position	15,685,253	14,759,433	10,682,573
Net position - beginning of year	<u>99,385,947</u>	<u>84,626,514</u>	<u>73,943,941</u>
Total net position - end of year	<u>\$ 115,071,200</u>	<u>\$ 99,385,947</u>	<u>\$ 84,626,514</u>

Other Selected Information

	Year		
	2021	2020	2019
Selected data for analysis			
Employees at year-end	267	263	258
Sewer customers at year-end	37	37	37
Septage haulers at year-end	21	19	24
Fertilizer customers at year-end	60	64	61
Annual sewage flow in million gallons	18,689	18,408	18,537
User rates			
Sewer use per million gallons	\$ 4,039	\$ 4,039	\$ 4,039
Septage disposal per thousand gallons	68.30	68.30	68.30
Graywater disposal per thousand gallons	31.72	31.72	31.72
BOD surcharge per pound	0.41	0.41	0.42
Suspended solids surcharge per pound	0.39	0.39	0.40
Ratio of operating revenue to			
Operating expenses including depreciation	1.30	1.18	1.08
Operating expenses exclusive of depreciation	1.82	1.59	1.66
Total assets	0.21	0.21	0.21
Total net position	0.68	0.77	0.91
Debt related ratios			
Equity to long-term debt	1.11	0.86	0.67
Current ratio	0.96	0.99	1.56
Operating ratio	0.55	0.63	0.60
Debt service coverage	1.76	1.70	1.98
General fund to operating expenses	1.23	1.07	1.38

Results of Operations

Operating Revenues: Revenues from operations fall into two general categories: charges for services and product sales. Charges for services include sewer use income, septage, application fees, sales of plans and specifications, scrap metal sales, assessments and miscellaneous income. Product sales are sales of fertilizer produced by converting sludge generated from the treatment process at all three facilities into fertilizer pellets. This organic fertilizer product is registered with the N. J. Department of Agriculture and is marketed under the name "Oceangro".

Operating Expenses before depreciation: The Authority's operating expenses consist of the following categories: employment costs, repairs and maintenance, supplies and materials, utilities, bad debt expense, and administration. Operating expenses decreased by approximately \$5,631,000 or 11.7% from 2020.

Rates and Billing and Collection Process

The rate of charge per million gallons of sewage treated, known as the Bulk Rate, is set by the Authority on an annual basis in accordance with the Municipal and County Utilities Authorities Law and the Bond Resolution. The rate per million gallons for 2021 and 2020 was \$4,039. The Bulk Rate for 2022 will be \$4,039.

Customers, known as Participants, are required to pay estimated Annual Charges to the Authority in equal quarterly installments. These Annual Charge payments are based on the estimated wastewater flows and the current Bulk Rate. The amount of this estimated Annual Charge is stated in a certificate delivered to each Participant no later than January 31 of each year. The Participants are required to make Annual Charge payments on the first days of March, June, September and December, with the exception of Manasquan River Regional Sewerage Authority whose payments are due on the last days of March, June, September and December. There are two exceptions to the above-described process – Long Beach Township and the Naval Air Warfare Center, both of whom make quarterly payments based on actual metered flows.

At the end of each calendar year, the estimated Annual Charge billings are adjusted to reflect the actual wastewater discharged by the Participant during the year. This process is referred to as a “Deficiency Notification” and can result in an additional amount due the Authority or a “credit” due to the Participant. All such excess payments or additional payments are due in March of the following fiscal year.

Pursuant to the service contracts, the Participants are required to pay interest at the rate of eight percent (8%) per annum on any Annual Charge payment or part thereof due to the Authority that shall remain unpaid for 30 days following its due date.

Capital Improvement Program

As part of the annual budget process, the Authority updates its Capital Improvement Plan. This Plan generally updates the projected capital expenditures for the current year, the upcoming budget year as well as for an additional six-year planning period. The 2021 capital budget projection was \$31,869,000. Actual capital expenditures for 2021 came in at about \$16,300,000.

The Authority currently has approximately 135 discreet projects listed on the Capital Improvement Plan – 5 of these projects are under construction, 30 are in various phases of evaluation and design, and the balance are to be addressed in the coming years. All proposed projects on the Plan have been, or will be, evaluated for economic feasibility. As the Authority moves forward with each major project, it is submitted for review by all agencies having jurisdiction.

The Authority’s Capital Improvement Program is financed from a combination of sources. The current Capital Improvement Plan projects total expenditures for the six-year period of 2022 through 2027 of \$227,152,000. Funding is expected from the following sources:

Operating Appropriation/General Fund	\$ 58,116,000
NJIB Loans	\$ 169,036,000

It is the Authority’s policy to utilize the New Jersey Infrastructure Bank (“NJIB”) to the greatest extent possible. For eligible projects, three quarters of the cost is funded by an interest-free “Fund” loan, and quarter of the cost is funded by a “Trust” loan which bears market-rate interest. NJIB loans are on a reimbursement basis whereby the Authority receives loan payments upon submission of a reimbursement voucher to the trust. Interest is credited to the Authority’s account on funds held by the Trust.

Final Comments

The Authority has adopted appropriate strategic operating, finance and capital improvement plans that insure the Authority will continue to provide the residents of Ocean County with an exemplary level of service while maintaining reasonable and stable rates.



OCEAN COUNTY UTILITIES AUTHORITY

HELPING TO PRESERVE THE WATER RESOURCES OF OCEAN AND SOUTHERN MONMOUTH COUNTIES...

FINANCIAL STATEMENTS

Ocean County Utilities Authority
Statements of Net Position
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets and Deferred Outflows of Resources		
Current assets		
Cash and cash equivalents	\$ 13,259,193	\$ 12,122,462
Accounts receivable, less allowance for doubtful accounts	3,705,479	4,440,690
NJIB and ERB loan funds receivable	3,130,725	2,877,388
Inventories	3,421,636	3,357,858
Prepaid expenses	<u>1,370,061</u>	<u>1,258,271</u>
Total current assets	<u>24,887,094</u>	<u>24,056,669</u>
Non-current assets		
Investments	<u>52,630,128</u>	<u>52,227,512</u>
Restricted assets		
Cash and cash equivalents	8,914,786	9,705,567
Investments	17,389,790	17,579,402
Interest receivable	<u>350,615</u>	<u>375,232</u>
Total restricted assets	<u>26,655,191</u>	<u>27,660,201</u>
Capital assets		
Property, plant, and equipment	927,712,209	905,064,781
Construction in progress	<u>27,600,874</u>	<u>36,398,812</u>
	955,313,083	941,463,593
Less: Accumulated depreciation	<u>689,393,707</u>	<u>674,579,482</u>
Net capital assets	<u>265,919,376</u>	<u>266,884,111</u>
Total assets	<u>370,091,789</u>	<u>370,828,493</u>
Deferred outflows of resources		
Pension related	1,528,569	5,009,643
OPEB related	<u>24,651,363</u>	<u>24,962,665</u>
Total deferred outflows of resources	<u>26,179,932</u>	<u>29,972,308</u>
Total assets and deferred outflows of resources	<u>\$ 396,271,721</u>	<u>\$ 400,800,801</u>

See Independent Auditor's Report.

The Notes to Financial Statements are an integral part of these statements.

Ocean County Utilities Authority
Statements of Net Position
December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Liabilities, Deferred Inflows of Resources, and Net Position		
Current liabilities payable from current assets		
Accounts payable	\$ 4,006,805	\$ 2,272,848
Accrued expenses	3,496,444	3,008,954
Unearned revenue	<u>1,820,260</u>	<u>2,376,636</u>
Total current liabilities payable from current assets	<u>9,323,509</u>	<u>7,658,438</u>
Current liabilities payable from restricted assets		
Accounts payable	161,210	252,576
Retainage payable and other	592,311	760,244
Revenue bonds, due within one year	3,470,000	3,295,000
Loans payable, due within one year	11,325,649	10,868,641
Accrued interest payable	<u>1,166,768</u>	<u>1,355,810</u>
Total current liabilities payable from restricted assets	<u>16,715,938</u>	<u>16,532,271</u>
Total current liabilities	<u>26,039,447</u>	<u>24,190,709</u>
Non-current liabilities		
Compensated absences payable	1,468,940	1,579,820
Long-term portion of revenue bonds payable, net	16,352,159	20,028,688
Long-term portion of loans payable, net	72,092,707	80,880,012
Net pension liability	27,793,084	39,962,522
Net OPEB liability	<u>86,232,779</u>	<u>83,537,430</u>
Total non-current liabilities	<u>203,939,669</u>	<u>225,988,472</u>
Total liabilities	<u>229,979,116</u>	<u>250,179,181</u>
Deferred inflows of resources		
Pension related	19,704,592	17,542,535
OPEB related	<u>31,516,813</u>	<u>33,693,138</u>
Total deferred inflows of resources	<u>51,221,405</u>	<u>51,235,673</u>
Net position		
Net investment in capital assets	168,170,579	157,453,755
Restricted for		
Bond reserve	4,390,850	4,393,431
Renewal and replacement	5,000,000	5,000,000
Revenue reserve	3,500,000	3,500,000
Unrestricted net deficit	<u>(65,990,229)</u>	<u>(70,961,239)</u>
Total net position	<u>115,071,200</u>	<u>99,385,947</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 396,271,721</u>	<u>\$ 400,800,801</u>

See Independent Auditor's Report.

The Notes to Financial Statements are an integral part of these statements.

Ocean County Utilities Authority
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating revenues		
User charges and fees	\$ 77,275,103	\$ 76,225,900
Product sales	383,983	408,148
Other	249,418	253,091
Total operating revenues	<u>77,908,504</u>	<u>76,887,139</u>
Operating expenses exclusive of depreciation		
Employment costs	28,067,478	28,713,026
Pension benefit, net	(6,526,307)	(1,025,251)
OPEB expense, net	962,327	649,528
Repairs and maintenance	2,626,909	2,848,207
Supplies and materials	6,589,652	6,534,552
Utilities	5,580,218	5,454,374
Administration	5,421,447	5,178,910
Total operating expenses exclusive of depreciation	<u>42,721,724</u>	<u>48,353,346</u>
Operating income before depreciation	35,186,780	28,533,793
Depreciation	<u>17,230,204</u>	<u>16,930,883</u>
Operating income	<u>17,956,576</u>	<u>11,602,910</u>
Non-operating revenues (expenses and losses)		
Insurance recoveries	21,888	-
Grant revenue for capital projects	27,505	1,132,975
OCCARES grant revenue	-	818,768
Interest and investment income (loss)	(653,166)	3,210,033
Interest expense	(1,723,920)	(1,961,758)
Gain (loss) on disposal of assets	56,370	(43,495)
Total non-operating revenues (expenses and losses)	<u>(2,271,323)</u>	<u>3,156,523</u>
Changes in net position	15,685,253	14,759,433
Net position		
Beginning of year	<u>99,385,947</u>	<u>84,626,514</u>
End of year	<u>\$ 115,071,200</u>	<u>\$ 99,385,947</u>

See Independent Auditor's Report.

The Notes to Financial Statements are an integral part of these statements.

Ocean County Utilities Authority
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating activities		
Receipts from customers and users	\$ 77,345,545	\$ 78,515,880
Payments to employees	(27,822,869)	(28,114,732)
Payments to suppliers	(18,919,111)	(23,982,367)
Net cash provided by operating activities	<u>30,603,565</u>	<u>26,418,781</u>
Noncapital financing activities		
OCCARES grant revenue	<u>741,769</u>	<u>76,999</u>
Capital and related financing activities		
Purchases of capital assets	(16,295,536)	(20,487,550)
Proceeds from sale of capital assets	86,437	-
Insurance recoveries	21,888	-
Proceeds from NJIB and ERB loan/grant funds	2,877,388	7,828,415
Principal paid on debt	(14,324,990)	(13,779,694)
Interest paid on debt, net of savings credits	(2,523,023)	(2,829,577)
Net cash used in capital and related financing activities	<u>(30,157,836)</u>	<u>(29,268,406)</u>
Investing activities		
Proceeds from investment maturities	20,815,773	20,390,489
Proceeds from sales of investments	8,454,342	2,029,511
Purchases of investments	(31,884,855)	(24,906,503)
Interest and investment income received	1,773,192	1,851,328
Net cash used in investing activities	<u>(841,548)</u>	<u>(635,175)</u>
Net change in cash and cash equivalents	345,950	(3,407,801)
Cash and cash equivalents		
Beginning of year	<u>21,828,029</u>	<u>25,235,830</u>
End of year	<u>\$ 22,173,979</u>	<u>\$ 21,828,029</u>
Cash and cash equivalents - statements of net position		
Cash and cash equivalents	\$ 13,259,193	\$ 12,122,462
Restricted cash and cash equivalents	<u>8,914,786</u>	<u>9,705,567</u>
Total cash and cash equivalents - statements of net position	<u>\$ 22,173,979</u>	<u>\$ 21,828,029</u>

See Independent Auditor's Report.
The Notes to Financial Statements are an integral part of these statements.

Ocean County Utilities Authority
Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 17,956,576	\$ 11,602,910
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation expense	17,230,204	16,930,883
Bad debt expense	25	-
Changes in operating assets and liabilities		
Accounts receivable	(6,583)	309,317
Inventories	(63,778)	(220,404)
Prepaid expenses	(111,790)	(183,993)
Deferred outflows of resources	3,792,376	(17,013,989)
Accounts payable	1,642,591	(3,668,036)
Accrued expenses and compensated absences	376,610	1,349,618
Unearned revenue	(556,376)	1,319,424
Retainage payable and other	(167,933)	106,109
Net pension liability	(12,169,438)	(4,788,104)
Net OPEB liability	2,695,349	23,064,318
Deferred inflows of resources	<u>(14,268)</u>	<u>(2,389,272)</u>
Net cash provided by operating activities	<u>\$ 30,603,565</u>	<u>\$ 26,418,781</u>

See Independent Auditor's Report.
The Notes to Financial Statements are an integral part of these statements.

Ocean County Utilities Authority
Notes to Financial Statements
December 31, 2021 and 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Ocean County Utilities Authority (the "Authority"), a public body, was created to construct and operate a wastewater collection and treatment system to serve Ocean County and portions of Monmouth County. The Authority has entered into a service contract agreement with its participants, obligating each user to make payments to the Authority for its proportionate share of the Authority's operating expenses, debt service, and required reserves.

The Authority was created pursuant to a resolution adopted by the Board of Chosen Freeholders of Ocean County on July 8, 1970 and the Sewerage Authorities Law, constituting Chapter 138 of the Pamphlet Laws of 1946 of the State as amended ("Original Act"). On December 6, 1978, the Ocean County Sewerage Authority was reorganized as the Ocean County Utilities Authority pursuant to the Original Act.

New Jersey statutes provide for the creation, dissolution, and operations of separate bodies, corporate and politic, for the purpose of fostering the provision and distribution of an adequate supply of water and the collection, treatment, disposal, and recycling of wastewater and sewage sludge. The statutes were enacted as the "Municipal and Counties Utilities Authorities Act" are codified in New Jersey Statutes Annotated as NJSA 40:14B-1 et seq. Additional statutory requirements relating to the financial operations of independent local authorities were established as the "Local Authorities Fiscal Control Law," which is codified as NJSA 40A:5A-1 et seq. The provisions of the Local Authorities Fiscal Control Law established the Local Finance Board and the Division of Local Government Services, in the Department of Community Affairs, State of New Jersey, as oversight agencies for the creation, project financing, budgeting, and overall financial condition of local authorities.

The Board of Commissioners of the Authority consists of ten members and two alternates, eleven of whom are appointed by the Board of Chosen Freeholders of Ocean County and one of whom is appointed by the Board of Chosen Freeholders of Monmouth County. All members of the Authority are appointed to five-year terms.

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

Reporting Entity

The Authority is considered to be a "Component Unit" of the County of Ocean ("County") under accounting principles generally accepted in the United States of America ("GAAP"). This determination is based on the oversight responsibility of the County, which manifests itself primarily in the selection of members of the Authority, and on the accountability for fiscal matters as evidenced by the Deficiency Advance Contract dated September 15, 1971, which obligates the County to provide for any deficits of the Authority, which advances are to be refunded to the County through subsequent collection of user fees.

The County does not follow GAAP for accounting and financial reporting purposes. Rather, it follows a regulatory basis, utilizing accounting principles which differ, in some cases significantly, from GAAP. The financial statements of the County do not include the financial statements of the Authority, based on the separate legal status of the Authority.

Ocean County Utilities Authority
Notes to Financial Statements
December 31, 2021 and 2020

Basis of Presentation

The financial statements of the Authority have been prepared in accordance with GAAP applicable to enterprise funds of state and local governments. Enterprise funds are used to account for operations:

- that are 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 services to the general public on a continuing basis be financed or recovered primarily through user charges; or
- where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, accountability, or other purposes.

Accounting Pronouncements Adopted in the Current Year

Accounting for Interest Cost Incurred Before the End of a Construction Period

On June 22, 2018, GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. Adoption of this statement had no effect on the Authority's 2021 and 2020 financial statements.

This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this statement. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

New Accounting Pronouncements Not Yet Adopted

Leases

On June 28, 2017, GASB issued GASB Statement No. 87, *Leases*, a new lease accounting standard which creates accounting standards for governmental entities under GAAP. Previously, governmental entities reported their leases similar to how private entities reported leases.

The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governmental entities. This statement increases the usefulness of government financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principles that leases are financing of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about a government's leasing activities. This statement was effective for years beginning after December 15, 2019. In May 2020, the GASB issued GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which delays the effective date for one and a half years. This statement is now effective for periods beginning after June 15, 2021. Earlier application is permitted.

Ocean County Utilities Authority
Notes to Financial Statements
December 31, 2021 and 2020

Subscription-Based Information Technology Arrangements

In May 2020, GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. This statement is effective for periods beginning after June 15, 2022. Earlier application is permitted.

The Authority is currently evaluating the effect that these pronouncements will have on its financial statements and related disclosures.

A. Basis of Accounting

The accounting policies of the Authority conform to GAAP as applicable to government entities. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned, and expenses are recorded when liabilities are incurred.

The Authority classifies charges to provide services to users and product sales as operating revenue and all other income as non-operating revenue. Non-exchange transactions in which the Authority receives value without directly giving equal value in return include grants. Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Revenue from grants is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Authority must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

B. Use of Estimates

The preparation of financial statements in conformity with GAAP 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 revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the useful lives of capital assets and depreciation expense, the net pension liability, and net other postemployment benefits ("OPEB") liability.

C. Cash and Cash Equivalents

Cash and cash equivalents include interest-bearing accounts and short-term investments with an original maturity of three months or less, carried at cost, which approximates market.

D. Investments

Investments consist of U.S. Treasury obligations, money market funds, U.S. Treasury notes, and securities insured by the U.S. government. Investments are reported at fair value with changes in fair value being reported within non-operating revenues/expenses in the statements of revenues, expenses, and changes in net position.

Ocean County Utilities Authority
Notes to Financial Statements
December 31, 2021 and 2020

E. Accounts Receivable

The Authority's billing practices include billing its customers on an estimated basis. An annual billing adjustment is made in the first quarter of the following year for actual billable flow charges. For financial statement presentation, these adjustments are reflected in revenue for the year earned. Pursuant to the service contracts, customers are required to pay interest at the rate of 8% per annum on any annual charge payment or part thereof due to the Authority that shall remain unpaid for 30 days following its due date. As of December 31, 2021 and 2020, an allowance for doubtful accounts has been established of approximately \$94,000, based on accounts that may not be collectible.

F. Inventories

Inventories of spare parts, chemicals, and supplies are expensed when consumed. Inventories are stated at cost as determined utilizing the average cost valuation method, which approximates the first-in, first-out method. No determinations have been made, and no allowances have been recorded with respect to obsolete or surplus inventories, as management believes all inventory items are unique to the Authority's system and will be needed and used in future years.

G. Net Position

Net position is identified as the residual of all other elements presented in the statements of net position. Net position is classified in the following three components:

Net Investment in Capital Assets - This component of net position consists of capital assets, net of accumulated depreciation, and any funds receivable from the NJIB and ERB (as defined in Note 5) for capital expenditures reduced by the outstanding balances of any bonds, notes, or other borrowings and deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt. If there are significant unspent related debt proceeds or deferred inflows of resources at year-end, the portion of the debt or deferred inflows of resources attributable to the unspent amount should not be included in the calculation of net investment in capital assets. Instead, that portion of the debt or deferred inflows of resources should be included in the same net position component as the unspent amount.

Restricted - This component of net position consists of external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation that restricts the use of net position.

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

H. Bond Resolution Requirements

The Authority is operating under a Bond Resolution adopted December 20, 1985, and various related subsequently adopted supplemental resolutions.

Pursuant to the Bond Resolution, the Authority established the following funds:

Revenue Fund – assets held by the trustee consisting of all revenues received by the Authority and deficiency deposits, government grants, or other contributions. Withdrawals are made for payment to the Authority's other funds for authorized operating expenses and, as of the first day of each month, transfers to the other funds subject to limitations.

Ocean County Utilities Authority
Notes to Financial Statements
December 31, 2021 and 2020

Operating Fund – assets held by the Authority for the operation, maintenance, and repair of the system. The trustee transfers necessary funds from the Revenue Fund to meet the Operating Fund requirement.

Bond Service Fund – assets held by the trustee for payment of matured principal and interest on outstanding bonds plus principal and interest due on or before the following January 1. The trustee transfers necessary funds from the Revenue Fund to meet the Bond Service Fund requirement.

Sinking Fund – assets held by the trustee to meet the Sinking Fund requirements on outstanding bonds, as required by the applicable bond resolutions.

Bond Reserve Fund – assets held by the trustee in an amount equal to maximum bond service, as defined by the applicable bond resolutions. As of December 31, 2021 and 2020, maximum bond service was \$4,390,850 and \$4,393,431, respectively.

Renewal and Replacement Fund – assets held to be used for major repairs, replacement, and renovation of the sewage system. Asset size is the greater of:

- (a) \$1,500,000; or
- (b) an amount as may be required by the Authority.

Revenue Reserve Fund – assets held to be used to meet deficiencies in the Operating Fund or other accounts. The assets in the Revenue Reserve Fund shall be the greater of:

- (a) \$3,500,000; or
- (b) 10% of the maximum bond service (excluding junior lien bonds); or
- (c) a larger amount as the Authority may require.

General Fund – assets held, which, if free and clear of any lien or pledge created by the Bond Resolution, may be spent for any lawful purpose.

Construction Fund – assets held subject to the restricted use from which they were raised by debt or by grant. Monies are used to pay for capital additions and improvements to the system.

In addition to the above, the Authority has established the following restricted accounts:

- (a) Scrap Payable Account which maintains proceeds from the sale of items that were acquired with grant funds. Interest earned remains within the account. Proceeds and interest income will be utilized for additional construction or will be refunded to the grant agency as determined by the Authority and grant agency. All activity related to the account is recorded in the Scrap Payable Account.
- (b) Connection Escrow Account which maintains proceeds from users for items which may be utilized to pay costs of a project associated with the user or may be refunded to the user if not utilized. All interest is recognized as income. Escrow activity is included in retainage payable and other in the accompanying statements of net position.

Since the activity of the Authority is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the Authority, these funds are all combined into a single enterprise fund for GAAP presentation.

Ocean County Utilities Authority
Notes to Financial Statements
December 31, 2021 and 2020

Balances previously mentioned for the funds and accounts, excluding the general fund, are reflected in restricted cash and cash equivalents for their related money market portions and restricted investments on the statements of net position.

I. Property, Plant, and Equipment

Property, plant, and equipment are stated at cost and include direct construction costs, other expenditures related to construction, and certain professional and administrative costs. System construction costs are charged to construction in progress until such time as each segment of the system is completed and put into operation.

Depreciation is determined on a straight-line basis for all plant and equipment. Present policy is to begin depreciation in the first month of the year following purchase or transfer from construction in progress.

Depreciation is provided over the following estimated lives:

<u>Description</u>	<u>Estimated Life (Years)</u>
Lab equipment	7
Site improvements	20
Buildings and structures	40
Computers	3
Process electrical	15
Pipe (process), mechanical and electrical	20
Plant control system	7
Interceptors	40
Furniture	15
Vehicles	5
Preoperating costs and capitalized interest	20

Construction in progress includes costs incurred for various additions, improvements, and modifications to existing capital assets during the year for which the project was incomplete at year-end. Depreciation is not provided until the project is completed and placed in service.

The Authority assesses capital assets for impairment whenever events or changes in circumstances indicate that the service utility of the capital asset has both significantly and unexpectedly declined. For the years ended December 31, 2021 and 2020, management has determined that there was no impairment of capital assets.

J. Capitalized Interest

During the years ended December 31, 2021 and 2020, the Authority incurred \$1,723,920 and \$1,961,758, respectively, of net interest expense. No interest has been capitalized to construction projects during the years ended December 31, 2021 and 2020.

K. Restricted Net Position

Certain components of net position are restricted for specific uses as required by the Authority's bond resolutions. The purpose of each is indicated on the face of the statements of net position and is explained in Note 1G. The Authority's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Ocean County Utilities Authority
Notes to Financial Statements
December 31, 2021 and 2020

L. Income Taxes

No provision for income taxes has been made as the Authority is exempt from federal and state income taxes.

M. Debt Issue Costs

Debt issue costs have been expensed in accordance with *Governmental Accounting Standards*.

N. Budgetary Procedures

The Authority follows these procedures in establishing the operating fund budget:

The annual budget for each fiscal year of the Authority is introduced by resolution passed by not less than a majority of the governing body. Copies are submitted to the Director of the Division of Local Government Services (the "Director") prior to the beginning of the Authority's fiscal year for approval prior to its adoption.

The budget must comply with the terms and provisions of any security agreements and is to be in such form and detail as to items of revenue, expenses, and other contents as required by law or by rules and regulations of the Local Finance Board.

No authority budget can be finally adopted until the Director has approved the budget.

Public hearings are conducted to obtain citizen comments on the proposed budget.

Operating expense appropriations lapse at the close of the fiscal year to the extent that they have not been expended. The level at which expenditures cannot exceed the budget is at the total budget level.

The budget may be increased after adoption when an item of revenue has been made available after the adoption date.

O. Deferred Inflows/Outflows

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, establishes standards for reporting deferred outflows of resources, deferred inflows of resources, and net position. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until then. The Authority's deferred outflows and deferred inflows are a result of its participation in the pension plan (see Note 11) and OPEB plans (see Note 10).

P. Reclassifications

Certain line items in prior year financial statements were reclassified to conform to the current year presentation. Reclassifications had no effect on prior year's change in net position or net position.

Ocean County Utilities Authority
Notes to Financial Statements
December 31, 2021 and 2020

2. CASH AND CASH EQUIVALENTS AND INVESTMENTS

The Authority's investment practices are governed by New Jersey State Statute 40A:5-15.

Deposits

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey, which are insured by the Federal Deposit Insurance Corporation ("FDIC"), or by any other agency of the United States that insures deposits or the State of New Jersey Cash Management Fund. NJSA 17:9-42 requires New Jersey governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). New Jersey statutes require public depositories to maintain collateral for deposit of public funds that exceed insurance limits based on specific criteria outlined in the statutes.

Investments

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

- (a) Bonds or other obligations of the United States or obligations guaranteed by the United States.
- (b) Government Money Market Mutual Funds.
- (c) Any obligation that a federal agency or a federal instrumentality has issued in accordance with an Act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligation bears a fixed rate of interest not dependent on any index or other external factor.
- (d) Bonds or other obligations of the local unit, or bonds or other obligations of school districts of which the local unit is a part or within which the school district is located.
- (e) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investment of the Department of the Treasury for investment by local units.
- (f) Local government investment pools.
- (g) Deposits with the State of New Jersey Cash Management Fund established pursuant to Section 1 of P.L. 1977, C. 281 (C.52:18A-90.4).
- (h) Agreements for the repurchase of fully collateralized securities.

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

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

Ocean County Utilities Authority
Notes to Financial Statements
December 31, 2021 and 2020

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

- (a) It is managed in accordance with the Securities and Exchange Commission's government money market rules (2a7); and
- (b) It is rated in the highest category by a nationally recognized statistical rating organization.
- (c) Have their portfolio limited to U.S. government securities as defined in (2a7) and repurchase agreements that are collateralized by such U.S. government securities.

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

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

During the year, the Authority had none of its idle funds invested in repurchase agreements collateralized by eligible securities. At the close of the year, no such investments were held by the Authority.

Interest Rate Risk

Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The Authority will minimize interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. By investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio in accordance with this policy the Authority will also minimize interest rate risk. The Authority's formal investment policy states the portfolio shall remain sufficiently liquid to meet all operating costs which may be reasonably anticipated. Portfolios are structured so that securities mature concurrent with cash needs to meet anticipated demands (static liquidity). The portfolio should consist largely of securities with active secondary or resale markets (dynamic liquidity). A portion of the portfolio may be placed in money market mutual funds or local government investment pools which offer same-day liquidity for short-term funds.

Credit Risk

Credit risk is the risk that an issuer or other counter party to an investment will not fulfill its obligation. The standard of prudence to be used by the Authority shall be the "prudent person" standard which states:

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the possible income to be derived.

Ocean County Utilities Authority
Notes to Financial Statements
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The above standard is established as the standard for professional responsibility and shall be applied in the context of managing the Authority's overall portfolio. At December 31, 2021 and 2020, the Authority's investments representing greater than 5% of their portfolio were U.S. treasury notes, which totaled \$29,189,794 and \$41,968,758, respectively.

Custodial Credit Risk

Custodial credit risk is the risk that a government will not be able to cover deposits if the depository financial institution fails or will not be able to recover collateral securities that are in the possession of an outside party. It is the policy of the Authority to require that demand and time deposits in excess of FDIC or other federal insurable limits be secured by some form of collateral to protect public deposits in a single situation if it were to default due to poor management or economic factors. As of December 31, 2021 and 2020, the Authority's bank deposits were fully insured or collateralized.

The carrying amount of the Authority's cash and cash equivalents as of December 31, 2021 and 2020 was \$22,173,979 and \$21,828,029, respectively, and the bank balance was \$26,931,931 and \$24,261,129, respectively. Of the bank balance, \$500,000 was covered by federal depository insurance each year, \$24,025,872 and \$20,361,037, respectively, were covered by a collateral pool maintained by the banks as required by New Jersey statutes, and \$2,406,059 and \$3,400,092, respectively, were invested in Government Money Market Mutual Funds.

Fair Value Measurements

The Authority uses a fair value hierarchy established by GAAP that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are:

Level 1 - Valuation is based upon quoted prices for identical assets

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and inputs other than quoted prices that are observable instruments in the market.

Level 3 - Valuation is generated from model-based techniques that use significant unobservable inputs.

The Authority's investments, stated at fair value, as of December 31, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>	<u>Hierarchy</u>
Unrestricted			
Obligations guaranteed by the			
United States of America	\$ 23,617,215	\$ 20,453,780	Level 2
U.S. Treasury notes	<u>29,012,913</u>	<u>31,773,732</u>	Level 2
	<u>52,630,128</u>	<u>52,227,512</u>	
Restricted			
Obligations guaranteed by the			
United States of America	8,360,467	6,122,417	Level 2
U.S. Treasury notes	<u>9,029,323</u>	<u>11,456,985</u>	Level 2
	<u>17,389,790</u>	<u>17,579,402</u>	
	<u>\$ 70,019,918</u>	<u>\$ 69,806,914</u>	

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All investments are valued based on quoted market prices and are held by the Authority's agent in the Authority's name.

The Authority's investments mature as follows:

	<u>2021</u>	<u>2020</u>
< 1 year	\$ 27,087,272	\$ 21,505,204
1-5 years	22,640,274	27,262,010
> 5 years	<u>20,292,372</u>	<u>21,039,700</u>
	<u>\$ 70,019,918</u>	<u>\$ 69,806,914</u>

As of December 31, 2021 and 2020, \$52,630,128 and \$52,227,512, respectively, of the investments belonged to the general fund and are unrestricted. The restricted investments represent the amounts held in the reserve and amount to \$17,389,790 and \$17,579,402, respectively, as of December 31, 2021 and 2020.

3. CAPITAL ASSETS

Capital asset activity for the years ended December 31, 2021 and 2020 were as follows:

	<u>Balance 1/1/2021</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Balance 12/31/2021</u>
Capital assets not being depreciated				
Land	\$ 9,025,863	\$ -	\$ -	\$ 9,025,863
Construction in progress	<u>36,398,812</u>	<u>16,295,536</u>	<u>(25,093,474)</u>	<u>27,600,874</u>
Total capital assets not being depreciated	<u>45,424,675</u>	<u>16,295,536</u>	<u>(25,093,474)</u>	<u>36,626,737</u>
Capital assets being depreciated				
Site improvements	9,019,962	47,449	-	9,067,411
Building and building improvements	274,522,264	4,967,568	-	279,489,832
Machinery and equipment	502,121,839	20,078,457	(2,446,046)	519,754,250
Preoperating costs	<u>110,374,853</u>	<u>-</u>	<u>-</u>	<u>110,374,853</u>
Totals at historical cost	896,038,918	25,093,474	(2,446,046)	918,686,346
Less: Accumulated depreciation	<u>(674,579,482)</u>	<u>(17,230,204)</u>	<u>2,415,979</u>	<u>(689,393,707)</u>
Total capital assets being depreciated				
net of accumulated depreciation	<u>221,459,436</u>	<u>7,863,270</u>	<u>(30,067)</u>	<u>229,292,639</u>
Net capital assets	<u>\$ 266,884,111</u>	<u>\$ 24,158,806</u>	<u>\$ (25,123,541)</u>	<u>\$ 265,919,376</u>

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	Balance 1/1/2020	Additions	Retirements/ Reclassifications	Balance 12/31/2020
Capital assets not being depreciated				
Land	\$ 9,025,863	\$ -	\$ -	\$ 9,025,863
Construction in progress	28,198,274	20,487,550	(12,287,012)	36,398,812
Total capital assets not being depreciated	37,224,137	20,487,550	(12,287,012)	45,424,675
Capital assets being depreciated				
Site improvements	8,520,396	499,566	-	9,019,962
Building and building improvements	271,073,365	3,448,899	-	274,522,264
Machinery and equipment	494,402,696	8,320,786	(601,643)	502,121,839
Preoperating costs	110,374,853	-	-	110,374,853
Totals at historical cost	884,371,310	12,269,251	(601,643)	896,038,918
Less accumulated depreciation	(658,224,508)	(16,930,883)	575,909	(674,579,482)
Total capital assets being depreciated				
net of accumulated depreciation	226,146,802	(4,661,632)	(25,734)	221,459,436
Net capital assets	\$ 263,370,939	\$ 15,825,918	\$ (12,312,746)	\$ 266,884,111

4. ACCRUED SICK AND VACATION BENEFITS

The Authority allows employees to accumulate unused benefits as follows:

Sick Leave – Sick leave for permanent employees accumulates at the rate of one day per month. Unused sick leave may be bought back for those days accumulated in excess of 45 days, but under the provisions of Chapter 3, P.L. 2010, employees hired on or after May 21, 2010 are not entitled to supplemental compensation for sick leave before retirement and are therefore not entitled to “buy back” their sick leave. Upon retirement, an employee is entitled to receive only half of the accumulated days, up to 45 days and 100% of days accumulated over 45 days.

Vacations – Vacation benefits for permanent employees accumulate based on length of continuous employment. Vacation days may accrue up to a maximum of twenty-four (24) months’ worth of vacation, but under the provisions of Chapter 3, P.L. 2010, any employee hired on or after May 21, 2010 may accrue up to a maximum of twelve (12) months’ worth of vacation unless the Authority requests an employee to forgo vacation time due to work-related emergencies.

At December 31, 2021 and 2020, \$1,468,940 and \$1,579,820, respectively, of unpaid sick and vacation pay are accrued as compensated absences payable. For the purpose of establishing the accrued liability, the Authority recognizes the full value of current accumulations calculated in accordance with the policies enumerated above. GASB Statement No. 16 provides the authoritative source of GAAP for recognition and reporting of the accrued liability for compensated absences and provides alternatives for the purpose of calculating the accrued liability for sick leave. Under the termination payment method, the accrual should be made only to the extent that it is probable that the benefits will result in termination payments. Under this method, the current accrued value of earned benefits would be discounted based on the past experience of the Authority in making termination payments to employees upon separation from service. Under the vesting method, the accrual should be based on the value of accumulated benefits at the balance sheet date for employees who currently are eligible to receive termination payments for these benefits, as well as the accumulated benefits of employees who are expected to become eligible in the future to receive such payments.

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The Authority has followed the provisions of GASB Statement No. 16 in the calculation of the accrued liability for compensated absences at December 31, 2021 and 2020. Management has analyzed past experience utilizing the termination payment method and has determined that no discount is warranted on the value of sick pay.

5. NEW JERSEY INFRASTRUCTURE BANK LOANS

The Authority has received several loans from the State of New Jersey Infrastructure Bank ("NJIB") under the Wastewater Treatment Trust Program/Environmental Infrastructure Trust Program ("NJIB Trust") for improvements to the Authority's wastewater system. The NJIB Trust has issued bonds for loans to various entities. The loan is on the reimbursement basis whereby the Authority receives loan payments upon submission of a reimbursement voucher to the trust fund. Interest and an administrative fee are charged on the trust loan, and interest is credited to the Authority's account on funds not yet received. The funds on hand at the NJIB Trust for loans committed to the Authority are drawn down subject to the approval of the NJIB Trust. The NJIB Trust loans have interest rates ranging from 2.0% to 6.5% and mature in various increments through 2040.

Under the Wastewater Treatment Fund Program/Environmental Infrastructure Fund Program ("NJIB Fund"), the State of New Jersey extended several noninterest-bearing loans. When a project is completed, the final expenditures report is submitted to the NJIB and the loan is converted to permanent financing. If the total project cost is less than the loan amount, the State of New Jersey will make an adjustment to the final loan payment and reduce the liability accordingly. In addition, the NJIB Fund provides earnings credits by which earnings on investments in all bond funds are distributed to borrowers as credits toward debt service payments. These credits are recognized as a liability in the year issued and amortized as they are charged against future debt service payments.

During the years ended December 31, 2021 and 2020, the Authority received grant funding and loans from The New Jersey Energy Resilience Bank ("ERB"). The ERB was created to minimize the impact of future major power outages and increase energy resiliency and supports the development of distributed energy resources and critical facilities throughout the state that will enable it to remain operational during future outages.

As of December 31, 2021 and 2020, there were \$3,130,725 and \$2,877,388, respectively, in loan funds receivable from the NJIB Trust, NJIB Fund, and ERB.

As of December 31, 2021 and 2020, net loan premiums related to the NJIB loans in the amount of \$3,900,544 and \$3,692,289, respectively, are being amortized using the bonds outstanding method which approximates the effective interest method. Net accumulated amortization as of December 31, 2021 and 2020 is \$3,091,388 and \$2,950,464, respectively. The annual amortization is recorded against interest expense. The unamortized balance of the net loan premiums of \$809,156 and \$741,825, respectively, has been offset against the long-term portion of loans payable at December 31, 2021 and 2020.

The NJIB Trust, NJIB Fund loans, and ERB loans are subordinate to the revenue bonds issued under the Bond Resolution of the Authority. In the event of any insolvency or bankruptcy proceedings, holders of the revenue bonds shall be entitled to receive payment in full of all payments due before the holders of outstanding authority subordinate bonds are entitled to receive any payment from the gross revenues (as defined in the General Bond Resolution).

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NJIB and ERB loans outstanding at December 31, 2021 are as follows:

<u>Issue</u>	<u>Trust</u>	<u>Fund</u>	<u>Total</u>
Series 2002	\$ 623,692	\$ -	\$ 623,692
Series 2004	978,763	776,368	1,755,131
Series 2005	7,948,785	6,414,319	14,363,104
Series 2006	2,366,845	1,887,341	4,254,186
Series 2007	4,948,000	4,237,632	9,185,632
Series 2008	1,494,000	401,815	1,895,815
Series 2009	824,000	1,150,556	1,974,556
Series 2010A	423,000	855,572	1,278,572
Series 2010B	1,360,000	725,776	2,085,776
Series 2012	2,289,310	2,310,772	4,600,082
Series 2013	1,060,000	2,291,030	3,351,030
Series 2014	2,770,000	7,230,509	10,000,509
Series 2016	1,250,000	2,551,401	3,801,401
Series 2017	1,710,000	4,328,822	6,038,822
Series 2020	520,000	1,568,252	2,088,252
Series 2021	1,450,000	4,598,448	6,048,448
	<u>\$ 32,016,395</u>	<u>\$ 41,328,613</u>	73,345,008
		Future savings credits	1,986,060
		Unamortized net premium - loans	809,156
		NJIB construction loans not yet converted to	
		permanent financing	4,705,449
		ERB loans payable	2,572,683
		Less loans payable, due within one year	<u>(11,325,649)</u>
		Long-term portion of loans payable, net	<u>\$ 72,092,707</u>

6. REVENUE BONDS PAYABLE

In December 2006, the Authority issued Series 2006 refunding bonds in the amount of \$79,360,000. The bonds mature on January 1, 2026 and bear interest at 5.25% per annum. As of December 31, 2021 and 2020, bond premiums in the amount of \$7,242,091 are being amortized using the bonds outstanding method which approximates the effective interest method. Net accumulated amortization as of December 31, 2021 and 2020 is \$6,694,932 and \$6,488,403, respectively. The unamortized balance of \$547,159 and \$753,688, respectively, has been offset against the long-term portion of bonds payable at December 31, 2021 and 2020.

Refunding Series 2006

The 2006 Bonds are not subject to redemption prior to their respective stated maturity dates.

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7. DEBT SERVICE ON BONDS AND LOANS

The following summarizes net activity in long-term liabilities for the years ended December 31, 2021 and 2020:

	<u>Balance 1/1/2021</u>	<u>Increases</u>	<u>Decreases</u>	<u>Non-Cash Project Credits/ Deobligations</u>	<u>Balance 12/31/2021</u>	<u>Amount Due Within One Year</u>
Revenue bonds	\$ 22,570,000	\$ -	\$ (3,295,000)	\$ -	\$ 19,275,000	\$ 3,470,000
Revenue bond premiums, net	<u>753,688</u>	<u>-</u>	<u>(206,529)</u>	<u>-</u>	<u>547,159</u>	<u>-</u>
Total revenue bonds	<u>23,323,688</u>	<u>-</u>	<u>(3,501,529)</u>	<u>-</u>	<u>19,822,159</u>	<u>3,470,000</u>
NJIB loans	78,165,204	6,209,794	(11,029,990)	-	73,345,008	11,325,649
NJIB future savings credits	2,320,324	-	(334,264)	-	1,986,060	-
Unamortized net premium - loans	741,825	208,245	(140,914)	-	809,156	-
NJIB construction loans not yet converted to permanent financing	7,965,124	3,086,712	(6,346,387)	-	4,705,449	-
ERB loans payable	<u>2,556,176</u>	<u>16,507</u>	<u>-</u>	<u>-</u>	<u>2,572,683</u>	<u>-</u>
Total loans payable	<u>91,748,653</u>	<u>9,521,258</u>	<u>(17,851,555)</u>	<u>-</u>	<u>83,418,356</u>	<u>11,325,649</u>
Net pension liability	<u>39,962,522</u>	<u>-</u>	<u>(12,169,438)</u>	<u>-</u>	<u>27,793,084</u>	<u>-</u>
Net OPEB liability - SHBP	67,343,050	3,322,623	(1,769,350)	-	68,896,323	-
Total OPEB liability - Medicare Part B	<u>16,194,380</u>	<u>1,353,635</u>	<u>(211,559)</u>	<u>-</u>	<u>17,336,456</u>	<u>-</u>
Total net OPEB liability	<u>83,537,430</u>	<u>4,676,258</u>	<u>(1,980,909)</u>	<u>-</u>	<u>86,232,779</u>	<u>-</u>
Total long-term debt	<u>\$ 238,572,293</u>	<u>\$ 14,197,516</u>	<u>\$ (35,503,431)</u>	<u>\$ -</u>	<u>\$ 217,266,378</u>	<u>\$ 14,795,649</u>

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	<u>Balance 1/1/2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Non-Cash Project Credits/ Deobligations</u>	<u>Balance 12/31/2020</u>	<u>Amount Due Within One Year</u>
Revenue bonds	\$ 25,705,000	\$ -	\$ (3,135,000)	\$ -	\$ 22,570,000	\$ 3,295,000
Revenue bond premiums, net	<u>988,904</u>	<u>-</u>	<u>(235,216)</u>	<u>-</u>	<u>753,688</u>	<u>-</u>
Total revenue bonds	<u>26,693,904</u>	<u>-</u>	<u>(3,370,216)</u>	<u>-</u>	<u>23,323,688</u>	<u>3,295,000</u>
NJIB loans	86,715,085	2,253,461	(10,644,694)	(158,648)	78,165,204	10,868,641
NJIB future savings credits	2,475,684	158,648	(314,008)	-	2,320,324	-
Unamortized net premium - loans	824,520	57,309	(140,004)	-	741,825	-
NJIB construction loans not yet converted to permanent financing	6,931,927	3,317,812	(2,284,615)	-	7,965,124	-
ERB loans payable	<u>1,876,186</u>	<u>679,990</u>	<u>-</u>	<u>-</u>	<u>2,556,176</u>	<u>-</u>
Total loans payable	<u>98,823,402</u>	<u>6,467,220</u>	<u>(13,383,321)</u>	<u>(158,648)</u>	<u>91,748,653</u>	<u>10,868,641</u>
Net pension liability	<u>44,750,626</u>	<u>-</u>	<u>(4,788,104)</u>	<u>-</u>	<u>39,962,522</u>	<u>-</u>
Net OPEB liability - SHBP	46,271,482	22,501,408	(1,429,840)	-	67,343,050	-
Total OPEB liability - Medicare Part B	<u>14,201,630</u>	<u>2,190,771</u>	<u>(198,021)</u>	<u>-</u>	<u>16,194,380</u>	<u>-</u>
Total net OPEB liability	<u>60,473,112</u>	<u>24,692,179</u>	<u>(1,627,861)</u>	<u>-</u>	<u>83,537,430</u>	<u>-</u>
Total long-term debt	<u>\$ 230,741,044</u>	<u>\$ 31,159,399</u>	<u>\$ (23,169,502)</u>	<u>\$ (158,648)</u>	<u>\$ 238,572,293</u>	<u>\$ 14,163,641</u>

Debt service requirements on outstanding bonds and loans during the next five years and thereafter are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2022	\$ 14,795,649	\$ 2,242,880	\$ 17,038,529
2023	14,230,439	1,795,851	16,026,290
2024	14,408,248	1,375,801	15,784,049
2025	13,933,796	933,977	14,867,773
2026	10,196,978	502,888	10,699,866
2027-2031	16,260,749	889,989	17,150,738
2032-2036	7,069,680	235,425	7,305,105
2037-2040	<u>1,724,469</u>	<u>28,019</u>	<u>1,752,488</u>
	<u>\$ 92,620,008</u>	<u>\$ 8,004,830</u>	<u>\$ 100,624,838</u>

The Authority has additional outstanding loan principal of \$7,278,132 due in future years for NJIB and ERB loan draws on projects still in process. Repayment schedules for these loans have not been finalized.

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8. DEFERRED COMPENSATION PROGRAM

The Authority offers its employees a Deferred Compensation Plan created in accordance with Internal Revenue Code Section 457. The Deferred Compensation Plan, available to all Authority employees, permits them to defer a portion of their salary until future years.

During December 1998, the Authority, in accordance with Internal Revenue Code 457, amended the Deferred Compensation Plan to establish an exclusive benefit trust whereby all plan investments are held for the exclusive benefit of the Deferred Compensation Plan's participants and beneficiaries are not subject to the claims of the Authority's general creditors. As such, the Deferred Compensation Plan amounts as of December 31, 2021 and 2020 are not reflected on the Authority's statements of net position.

9. STATE HEALTH BENEFITS PROGRAM

The Authority is enrolled in the State Health Benefits Program ("SHBP"). Premiums paid into the SHBP provide health and dental insurance benefits to full-time employees and commissioners. Employees may elect to enroll eligible dependents for coverage. Employees who are receiving SHBP health benefits through another employer are entitled to waive his or her right to coverage and receive 25% of the premium to which he/she was eligible or \$5,000, whichever is less. In addition to the SHBP, the Authority establishes a medical expense bank of \$750 per year for blue collar, white collar, and exempt employees.

10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

State Health Benefits Local Government Retired Employees Plan

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

The Plan provides medical and prescription drug coverage to retirees and their covered dependents of the participating employers. Under the provisions of Chapter 88, P.L. 1974 and Chapter 48, P.L. 1999, local government employers electing to provide postretirement medical coverage to their employees must file a resolution with the Division. Under Chapter 88, local employers elect to provide benefit coverage based on eligibility rules and regulations promulgated by the State Health Benefits Commission. Chapter 48 allows local employers to establish their own age and service eligibility for employer-paid health benefits coverage for retired employees. Under Chapter 48, the employer may assume the cost of postretirement medical coverage for employees and their dependents who on a disability pension; or 2) retired with 25 or more years of service credit in a State or locally administered retirement system and period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 3) retired and reached the age of 65 with 25 or more years of service credits in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 4) retired and reached age 62 with 15 years of service with the employer. Further, the law provides that the employer-paid obligations for retiree coverage may be determined by means of a collective negotiations agreement.

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Contributions and Funding Policy

Pursuant to Chapter 78, P.L. 2011, future retirees eligible for postretirement medical coverage who have less than 20 years of creditable service on June 8, 2011 will be required to pay a percentage of the cost of their healthcare coverage in retirement provided they retire with 25 or more years of pension service credit. The percentage of the premium for which the retiree will be responsible will be determined based on the retiree's annual retirement benefit and level of coverage.

The funding policy for the OPEB plan is on a pay-as-you-go basis, where the Authority is billed monthly by the Plan. The Plan received employer and employee contributions as follows:

	<u>2021</u>	<u>2020</u>
Employer contributions (fiscal year)	\$ 1,637,349	\$ 1,308,454
Employee contributions	\$ -	\$ -
Salary basis for contributions	\$ 17,366,931	\$ 17,328,403
Percent of base wages	9.43%	7.55%

Proportionate Share of OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources

The net OPEB liability was measured as of June 30, 2021, and the total OPEB liability to calculate the net OPEB 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 OPEB liability is based on the ratio of the plan members of an individual employer to the total members of the Plan during the measurement period July 1, 2020 through June 30, 2021. At December 31, 2021 and 2020, the Authority's proportionate share and net OPEB liability was as follows:

	<u>2021</u>	<u>2020</u>
Authority net OPEB liability	\$ 68,896,323	\$ 67,343,050
Authority's proportion	0.382762002%	0.375241001%

OPEB expense, net is composed of the following at December 31:

	<u>2021</u>	<u>2020</u>
Proportionate share of allocable plan OPEB benefit	\$ 754,101	\$ 532,801
Net amortization of deferral amounts from changes in proportion	<u>541,506</u>	<u>328,848</u>
Total employer OPEB expense excluding that attributable to employer-paid member contributions	<u>\$ 1,295,607</u>	<u>\$ 861,649</u>

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At December 31, 2021 and 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB as follows:

	2021		2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 9,910,942	\$ 12,178,234	\$ 10,072,401	\$ 14,976,054
Differences between expected and actual experience	1,545,951	14,414,128	1,773,764	12,540,532
Net difference between projected and actual earnings on OPEB plan investments	32,942	-	42,767	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	8,898,206	4,151,416	8,848,437	5,223,132
Authority contributions subsequent to the measurement date	883,325	-	751,324	-
	<u>\$ 21,271,366</u>	<u>\$ 30,743,778</u>	<u>\$ 21,488,693</u>	<u>\$ 32,739,718</u>

\$883,325 and \$751,324 reported as deferred outflows of resources related to OPEB resulting from Authority contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the years ended December 31, 2022 and 2021, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB as of December 31, 2021 will be recognized in OPEB expense as follows:

	<u>OPEB Expense</u>
2022	\$ (2,820,779)
2023	(2,824,489)
2024	(2,827,880)
2025	(2,019,398)
2026	(339,475)
Thereafter	476,284
	<u>\$ (10,355,737)</u>

Actuarial Assumptions

The total OPEB liability for the June 30, 2021 and 2020 measurement date was determined by an actuarial valuation as of June 30, 2020 and 2019, which was rolled forward to June 30, 2021 and 2020.

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This actuarial valuation used the following actuarial assumptions applied to all periods in the measurement:

	<u>2021</u>	<u>2020</u>
Inflation rate	2.50%	2.50%
Salary increases through 2026 *	2.00% - 6.00%	2.00% - 6.00%
Thereafter	3.00% - 7.00%	3.00% - 7.00%

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

For June 30, 2021, the following assumptions were used:

Pre-retirement healthy mortality rates were based on the PUB-2010 "General" classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using the MP-2021 scale. Post-retirement health mortality rates were based on the PUB-2010 "General" classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using MP-2021 scale. Disabled retiree mortality was based on the PUB-2010 "General" classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using the MP-2021 scale.

For June 30, 2020, the following assumptions were used:

Pre-retirement healthy mortality rates were based on the PUB-2010 "General" classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using the MP-2020 scale. Post-retirement health mortality rates were based on the PUB-2010 "General" classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using MP-2020 scale. Disabled retiree mortality was based on the PUB-2010 "General" classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using the MP-2020 scale.

Certain actuarial assumptions used in the July 1, 2020 and 2019 valuations were based on the results of the pension plans' experience studies for which the members are eligible for coverage under this Plan – the Public Employee's Retirement System ("PERS"). The PERS experience study was prepared for the period July 1, 2014 to June 30, 2018.

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

Discount Rate

The discount rate used to measure the total OPEB liability at June 30, 2021 and 2020 was 2.16% and 2.21%, respectively. This represents the municipal bond return rate as chosen by the State. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

Healthcare Trend Assumptions

For pre-Medicare medical benefits, the trend rate is initially 5.65% and decreases to a 4.5% long-term trend rate after seven years. For post-65 medical benefits, trend rates vary between 0.17% and 15.23%, trending to 4.5% for 2032 and all future years. For prescription drug benefits, the initial trend rate is 6.75% and decreases to a 4.5% long-term trend rate after seven years.

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

The following presents the Authority's proportionate share of the net OPEB liability measured as of December 31, 2021 and 2020, calculated using the discount rate as disclosed above as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

2021			
	At 1% decrease (1.16%)	At current discount rate (2.16%)	At 1% increase (3.16%)
Authority's proportionate share of the net OPEB liability	\$ 81,077,757	\$ 68,896,323	\$ 59,242,275
2020			
	At 1% decrease (1.21%)	At current discount rate (2.21%)	At 1% increase (3.21%)
Authority's proportionate share of the net OPEB liability	\$ 79,613,713.31	\$ 67,343,050	\$ 57,629,704

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

The following presents the Authority's proportionate share of the net OPEB liability measured as of December 31, 2021 and 2020, calculated using the healthcare cost trend rate as disclosed above as well as what the net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate:

2021			
	At 1% decrease	Healthcare cost trend rate	At 1% increase
Net OPEB liability	\$ 15,017,879,689	\$ 17,999,781,235	\$ 21,890,793,528
Authority's proportionate share of the net OPEB liability	\$ 57,482,737	\$ 68,896,323	\$ 83,789,640
2020			
	At 1 % decrease	Healthcare cost trend rate	At 1% increase
Authority's proportionate share of the net OPEB liability	\$ 55,726,443	\$ 67,343,050	\$ 82,555,156

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OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Division financial report which can be found at the following link: www.state.nj.us/treasury/pensions/financial-reports.shtml.

Medicare Part B Reimbursement Plan

In addition to the OPEB plan, the Authority established Medicare Part B Reimbursement Plan (the "Part B Plan"), a single-employer defined benefit OPEB plan that is not administered through a trust. The Part B Plan reimburses the monthly Medicare Part B premium for eligible retirees and their spouses to assist in paying for medical coverage. The reimbursement starts when an eligible retiree (or spouse) begins paying Medicare Part B premiums. The reimbursement lasts for the life of the retiree. Surviving spouses continue to receive Medicare Part B reimbursement for life. To receive benefits under this plan, an employee must either retire on disability pension or retire with 25 years of service. The service must be in one or more State or locally administered retirement systems.

At December 31, 2021 and 2020, the following employees were covered by the benefit terms:

	<u>2021</u>	<u>2020</u>
Retirees and beneficiaries currently receiving benefits	89	86
Inactive plan members entitled to but not yet receiving benefits	87	87
Active plan members	<u>267</u>	<u>267</u>
	<u>443</u>	<u>440</u>

Contributions and Funding Policy

Employees are not required to contribute to the Plan. The Plan is entirely funded by the Authority on a pay-as-you-go basis. For the years ended December 31, 2021 and 2020, the Authority paid \$211,559 and \$198,021 to eligible retirees, respectively.

Total OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Medicare Part B Reimbursement Plan

The Authority's total OPEB liability, measured as of December 31, 2021 and 2020, was \$17,336,456 and \$16,194,380, respectively. The total OPEB liability was determined by an actuarial valuation as of December 31, 2021 and 2020. The actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

	<u>2021</u>	<u>2020</u>
Election rate	100.00%	100.00%
Discount rate	1.84%	2.00%
Medical trend rate	4.00%	4.50%
Salary increases through 2026 *	2.00% - 6.00%	2.00% - 6.00%
Thereafter	3.00% - 7.00%	3.00% - 7.00%

100% of eligible participants, including employees who are currently waiving medical coverage, are assumed to receive the Medicare Part B reimbursement upon retirement. The discount rate is based on the 20-year General Obligation (GO) Bond index as of December 31, 2021 and 2020. The medical trend rate for the Medicare Part B premium is assumed to increase 4.5% annually.

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This is approximately equal to the observed annual increase in Medicare Part B premium over the last 15 years. Mortality rates were based on 2018 mortality projection scale MP-2020 for the December 31, 2021 measurement date. Mortality rates were based on 2018 mortality project scale MP-2018 for the December 31, 2020 measurement date.

The following table shows the changes in the total OPEB liability for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	\$ 16,194,380	\$ 14,201,630
Changes for the year		
Service cost	465,940	428,067
Interest	321,837	387,822
Changes of benefit terms	-	-
Experience losses	6,470	1,735,341
Changes in assumptions	559,388	(360,459)
Benefits payments	(211,559)	(198,021)
Balance at end of year	<u>\$ 17,336,456</u>	<u>\$ 16,194,380</u>

For the years ended December 31, 2021 and 2020, the Authority recognized OPEB expense of \$1,267,225 and \$1,214,550, respectively. At December 31, 2021 and 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB Medicare Part B Reimbursement Plan from the following sources:

	<u>2021</u>		<u>2020</u>
	<u>Deferred</u>	<u>Deferred</u>	<u>Deferred</u>
	<u>Outflows of</u>	<u>Inflows of</u>	<u>Outflows of</u>
	<u>Resources</u>	<u>Resources</u>	<u>Resources</u>
Changes of assumptions	\$ 2,134,922	\$ 773,035	\$ 1,986,537
Differences between expected and actual experience	1,245,075	-	1,487,435
	<u>\$ 3,379,997</u>	<u>\$ 773,035</u>	<u>\$ 3,473,972</u>
			<u>\$ 953,420</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to the OPEB Medicare Part B Reimbursement Plan will be recognized in the expense for the years ending December 31 as follows:

	<u>OPEB Expense</u>
2022	\$ 479,448
2023	479,448
2024	479,448
2025	479,448
2026	608,334
Thereafter	80,836
	<u>\$ 2,606,962</u>

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Sensitivity of Total OPEB Liability to Changes in the Discount Rate Related to Medicare Part B Reimbursement Plan

The following presents the Authority's total OPEB liability measured as of December 31, 2021 and 2020, calculated using the discount rate as well as if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	2021		
	At 1% decrease (0.84%)	At current discount rate (1.84%)	At 1% increase (2.84%)
Total OPEB liability	\$ 21,426,332	\$ 17,336,456	\$ 14,193,644
	2020		
	At 1% decrease (1.00%)	At current discount rate (2.00%)	At 1% increase (3.00%)
Total OPEB liability	\$ 20,032,704	\$ 16,194,380	\$ 13,246,612

Sensitivity of Total OPEB Liability to Changes in Medical Trend Rate Related to Medicare Part B Reimbursement Plan

The following presents the Authority's total OPEB liability measured as of December 31, 2021 and 2020, calculated using the medical trend rate as disclosed above as well as if it were calculated using the medical trend rate that is one percentage point lower or one percentage point higher than the current rate:

	2021		
	At 1% decrease (3.00%)	Medical trend rate (4.00%)	At 1% increase (5.00%)
Total OPEB liability	\$ 13,745,970	\$ 17,336,456	\$ 22,272,481
	2020		
	At 1% decrease (3.50%)	Medical trend rate (4.50%)	At 1% increase (5.50%)
Total OPEB liability	\$ 12,959,122	\$ 16,194,380	\$ 20,610,583

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OPEB Summary

For the years ended December 31, 2021 and 2020, aggregate data for the Authority's two OPEB plans is summarized by the following table.

	2021		
	State of NJ	Medicare Part B	Total
Net OPEB liability	\$ 68,896,323	\$ 17,336,456	\$ 86,232,779
Deferred outflow of resources	21,271,366	3,379,997	24,651,363
Deferred inflows of resources	30,743,778	773,035	31,516,813
OPEB expense	1,295,607	1,267,225	2,562,832

	2020		
	State of NJ	Medicare Part B	Total
Net OPEB liability	\$ 67,343,050	\$ 16,194,380	\$ 83,537,430
Deferred outflow of resources	21,488,693	3,473,972	24,962,665
Deferred inflows of resources	32,739,718	953,420	33,693,138
OPEB expense	861,649	1,214,500	2,076,149

11. PENSION PLAN

Employees of the Authority that are eligible participate in the State's Public Employees' Retirement System ("PERS"). PERS is a cost-sharing multiple-employer defined benefit pension plan administered by the Division. For additional information about PERS, please refer to the Division's Comprehensive Annual Financial Report which can be found at www.state.nj.us/treasury/pensions/financial-reports.shtml.

The vesting and benefit provisions are set by NJSA 43:15A. PERS provides retirement, death, and disability benefits. All benefits vest after 10 years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS. The following represents the membership tiers for PERS:

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

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 before age 62 and 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.

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Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

Employer and Employee Contributions

The contribution policy for PERS is set by NJSA 15A and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. The local employer's 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 were credited with the full payment, and any such amounts were not to be included in their unfunded liability. The unfunded liability is being paid by the employer in level annual payments over a period of 15 years, which began with the payments due in the fiscal year ended June 30, 2012 and are adjusted by the rate of return on the actuarial value of assets.

During the years ended December 31, 2021 and 2020, the PERS received employer and employee contributions as follows:

	<u>2021</u>	<u>2020</u>
Employer contributions	\$ 2,747,557	\$ 2,680,809
Employee contributions	\$ 1,302,525	\$ 1,299,633
Salary basis for contributions	\$ 17,366,931	\$ 17,328,403
Percent of base wages	7.50%	7.50%

Summary of Significant Accounting Policies

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 PERS and contributions to/deductions from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

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

The net pension liability was measured as of June 30, 2021 and 2020, and the total pension liability to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2020 and 2019. In accordance with GASB Statement No. 68, the measurement date shall not be earlier than one year from the statement of net position date; therefore, the Authority has elected to utilize June 30, 2021 and 2020 as the measurement dates, respectively.

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The Authority's proportion of the net pension liability is based on the ratio of the contributions as an individual employer to total contributions to the Local Group in the PERS during the years ended June 30, 2021 and 2020.

At December 31, the Authority's proportionate share and net pension liability was as follows:

	<u>2021</u>	<u>2020</u>
Authority net pension liability	\$ 27,793,084	\$ 39,962,522
Authority's proportion	0.232135538%	0.243145867%

Total pension expense is comprised of the following at December 31:

	<u>2021</u>	<u>2020</u>
Proportionate share of allocable plan pension expense	\$ (3,795,405)	\$ 954,874
Net amortization of deferral amounts from changes in proportion	<u>16,655</u>	<u>700,685</u>
Total employer pension expense excluding that attributable to employer-paid member contributions	<u>\$ (3,778,750)</u>	<u>\$ 1,655,559</u>

At December 31, 2021 and 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS as follows:

	<u>2021</u>	
	<u>Deferred</u>	<u>Deferred</u>
	<u>Outflows of</u>	<u>Inflows of</u>
	<u>Resources</u>	<u>Resources</u>
Changes of assumptions	\$ 144,746	\$ 9,894,518
Differences between expected and actual experience	438,333	198,966
Net difference between projected and actual earnings on pension plan investments	-	7,321,429
Changes in proportion and differences between Authority contributions and proportionate share of contributions	<u>945,490</u>	<u>2,289,679</u>
	<u>\$ 1,528,569</u>	<u>\$ 19,704,592</u>

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	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 1,296,429	\$ 16,732,686
Differences between expected and actual experience	727,652	141,325
Net difference between projected and actual earnings on pension plan investments	1,365,951	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	1,619,611	668,524
	<u>\$ 5,009,643</u>	<u>\$ 17,542,535</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions will be recognized in pension expense for the years ending December 31 as follows:

	Deferred Outflows (Inflows), Net
2022	\$ (7,081,676)
2023	(5,056,300)
2024	(3,447,534)
2025	(2,591,521)
2026	1,008
	<u>\$ (18,176,023)</u>

Actuarial Assumptions

The collective total pension liability for the June 30, 2021 and 2020 measurement dates was determined by an actuarial valuation as of July 1, 2020 and 2019, respectively, which was rolled forward to June 30, 2021 and 2020, respectively. This actuarial valuation uses the following actuarial assumptions:

	2021	2020
Inflation rate	2.75%	2.75%
Salary increases through 2026	2.00 - 6.00%	2.00 - 6.00%
Thereafter	based on years of service 3.00 - 7.00%	based on years of service 3.00 - 7.00%
Investment rate of return	based on years of service 7.00%	based on years of service 7.00%

Ocean County Utilities Authority
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For June 30, 2021 and 2020, the following assumptions were used:

Preretirement 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.

Postretirement mortality rates were based on the Pub-2010 General Below-Median Income Healthy Retiree mortality table with a 91.4% adjustment for males and 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2010 Non-Safety Disabled Retiree mortality table with a 127.7% adjustment for males and 117.2% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2021 and Scale MP-2020, respectively.

The actuarial assumptions used in the July 1, 2020 and 2019 valuations were based on the results of an actuarial experience study for the period from July 1, 2014 to June 30, 2018.

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2021 and 2020) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees, and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2021 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Risk mitigation strategies	3.00%	3.35%
Cash equivalents	4.00%	0.50%
U.S. Treasuries	5.00%	0.95%
Investment grade credit	8.00%	1.68%
High yield	2.00%	3.75%
Private credit	8.00%	7.60%
Real assets	3.00%	7.40%
Real estate	8.00%	9.15%
U.S. equity	27.00%	8.09%
Non-U.S. developed markets equity	13.50%	8.71%
Emerging markets equity	5.50%	10.96%
Private equity	13.00%	11.30%

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Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Risk mitigation strategies	3.00%	3.40%
Cash equivalents	4.00%	0.50%
U.S. Treasuries	5.00%	1.94%
Investment grade credit	8.00%	2.67%
High yield	2.00%	5.95%
Private credit	8.00%	7.59%
Real assets	3.00%	9.73%
Real estate	8.00%	9.56%
U.S. equity	27.00%	7.71%
Non-U.S. developed markets equity	13.50%	8.57%
Emerging markets equity	5.50%	10.23%
Private equity	13.00%	11.42%

Discount Rate

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2021 and 2020. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be based on 100% and 78% of the actuarially determined contributions for the State employer for the years ended June 30, 2021 and 2020, respectively, and 100% of actuarially determined contributions for the local employers for both years ended June 30, 2021 and 2020.

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

The following presents the collective net pension liability of the participating employers as of June 30, 2021 and 2020, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	2021		
	At 1% decrease (6.00%)	At current discount rate (7.00%)	At 1% increase (8.00%)
Authority's proportionate share of the net pension liability	\$ 37,848,544	\$ 27,793,084	\$ 19,259,601

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	2020		
	At 1% decrease	At current	At 1% increase
	(6.00%)	discount rate	(8.00%)
		(7.00%)	
Authority's proportionate share of the net pension liability	\$ 50,306,149	\$ 39,962,522	\$ 31,185,672

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued State of New Jersey Division of Pensions and Benefits financial report which can be found at the following link: www.nj.gov/treasury/pensions/financial-reports.shtml.

12. NET DEFICIT

At December 31, 2021 and 2020, the Authority had an unrestricted net deficit of \$65,990,229 and \$70,961,239, respectively. The reason for the deficit is the recognition of the Authority's proportionate share of the net pension and OPEB liabilities and related deferred inflows and outflows of resources for financial reporting purposes. The recognition of the Authority's proportionate share of the net pension and OPEB liabilities (net of deferred inflows and outflows of resources) resulted in a reduction of the Authority's net position of \$139,067,336 and \$144,763,317 as of December 31, 2021 and 2020, respectively.

13. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, error and omission, injuries to employees, and natural disaster. The Authority has purchased insurance to mitigate these risks. Settled claims have not exceeded this coverage in any of the past three years.

14. COMMITMENTS AND CONTINGENCIES

Commitments

The Authority has committed design and construction contracts outstanding at December 31 as follows:

	2021	2020
Construction	\$ 3,739,469	\$ 6,694,844
Engineering	954,038	1,110,422
	<u>\$ 4,693,507</u>	<u>\$ 7,805,266</u>

Litigation

The Authority may be the subject of, or a party to, various pending or threatened legal actions. The Authority believes that any ultimate liability arising from these legal actions should not have a material effect on its financial position or operations.

15. SUBSEQUENT EVENTS

Management has evaluated events occurring after December 31, 2021 for possible adjustment to or disclosure in the financial statements through January 24, 2023, the date on which the financial statements were available to be issued. Based on this evaluation, the Authority has determined that no subsequent events have occurred that require recognition or disclosure in the financial statements.



OCEAN COUNTY UTILITIES AUTHORITY

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REQUIRED SUPPLEMENTARY INFORMATION

Ocean County Utilities Authority
Schedule of the Authority's Proportionate Share of the Net Pension Liability –
Public Employees' Retirement System (PERS)
Years Ended December 31, 2021 through 2013

Schedule 1

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Authority's proportion (percentage) of the collective net pension liability	0.232135538%	0.243145867%	0.246643739%	0.241560950%	0.239161189%	0.232062938%	0.235468898%	0.225414305%	0.221703422%
Authority's proportionate share (amount) of the collective net pension liability	\$ 27,793,084	\$ 39,962,522	\$ 44,750,626	\$ 47,562,147	\$ 55,672,902	\$ 68,730,386	\$ 52,858,049	\$ 42,203,723	\$ 42,371,929
Authority's covered-employee payroll	\$ 17,366,931	\$ 17,328,403	\$ 17,490,869	\$ 17,503,041	\$ 16,779,714	\$ 16,369,807	\$ 15,879,556	\$ 16,023,337	\$ 15,449,961
Authority's proportionate share (amount) of the collective net pension liability as a percentage of its covered-employee payroll	160.0%	230.6%	255.9%	271.7%	331.8%	419.9%	332.9%	263.4%	274.3%
Plan fiduciary net position as a percentage of the total collective pension liability (local only)	70.33%	58.32%	56.27%	53.60%	48.10%	40.14%	47.93%	52.08%	48.72%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

Notes to Schedule

Benefit changes

None

Changes of assumptions

The discount rate changed as follows as of June 30:	7.00%	7.00%	6.28%	5.66%	5.00%	3.98%	4.90%	5.39%
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Ocean County Utilities Authority
Schedule of the Authority's Contribution – Public Employees' Retirement System (PERS)
Years Ended December 31, 2021 through 2012

Schedule 2

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contribution	\$ 2,747,557	\$ 2,680,809	\$ 2,415,819	\$ 2,402,751	\$ 2,215,573	\$ 2,061,614	\$ 2,024,401	\$ 1,858,283	\$ 1,670,490	n/a
Contributions in relation to the contractually required contribution	<u>(2,747,557)</u>	<u>(2,680,809)</u>	<u>(2,415,819)</u>	<u>(2,402,751)</u>	<u>(2,215,573)</u>	<u>(2,061,614)</u>	<u>(2,024,401)</u>	<u>(1,858,283)</u>	<u>(1,670,490)</u>	<u>n/a</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Percent of base wages	7.50%	7.50%	7.50%	7.34 - 7.50%	7.20 - 7.34%	7.06 - 7.20%	6.92 - 7.06%	6.78 - 6.92%	6.64 - 6.78%	6.50%
Authority's covered-employee payroll	\$ 17,366,931	\$ 17,328,403	\$ 17,490,869	\$ 17,503,041	\$ 16,779,714	\$ 16,369,807	\$ 15,879,556	\$ 16,023,337	\$ 15,449,961	\$ 15,178,041
Contributions as a percentage of Authority's covered-employee payroll	15.82%	15.47%	13.81%	13.73%	13.20%	12.59%	12.75%	11.60%	10.81%	n/a

Ocean County Utilities Authority
Schedule of the Authority's Proportionate Share of the Net OPEB Liability –
State Health Benefits Local Government Retired Employees Plan (SHBP)
Years Ended December 31, 2021 through 2018

Schedule 3

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Authority's proportion (percentage) of the collective net OPEB liability	0.382762002%	0.375241001%	0.341585997%	0.357270002%
Authority's proportionate share (amount) of the collective net OPEB liability	\$ 68,896,323	\$ 67,343,050	\$ 46,271,482	\$ 55,972,127
Authority's covered-employee payroll	\$ 17,366,931	\$ 17,328,403	\$ 17,490,869	\$ 17,503,041
Authority's proportionate share (amount) of the collective net OPEB liability as a percentage of its covered-employee payroll	396.7%	388.6%	264.5%	319.8%
Plan fiduciary net position as a percentage of the total collective OPEB liability	0.28%	0.91%	1.98%	1.97%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

Notes to Schedule

Benefit changes

None

Changes of assumptions

The discount rate changed as follows as of June 30:	2.16%	2.21%	3.50%	3.87%
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Ocean County Utilities Authority
Schedule of the Authority's OPEB Contribution –
State Health Benefits Local Government Retired Employees Plan (SHBP)
Years Ended December 31, 2021 through 2018

Schedule 4

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Authority's required contribution	\$ 1,637,349	\$ 1,308,454	\$ 1,476,253	\$ 1,720,835
Authority's contributions in relation to required contribution	<u>(1,637,349)</u>	<u>(1,308,454)</u>	<u>(1,476,253)</u>	<u>(1,720,835)</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ 1
Authority's covered-employee payroll	\$ 17,366,931	\$ 17,328,403	\$ 17,490,869	\$ 17,503,041
Contributions as a percentage of authority's covered-employee payroll	9.43%	7.55%	8.44%	9.83%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

Ocean County Utilities Authority
Schedule of Changes in Total OPEB Liability –
Medicare Part B Reimbursement Plan
Years Ended December 31, 2021 through 2018

Schedule 5

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB Liability				
Service cost	\$ 465,940	\$ 428,067	\$ 285,150	\$ 319,199
Interest cost	321,837	387,822	409,201	378,296
Changes of benefit terms	-	-	-	-
Differences between actual and expected experience	6,470	1,735,341	-	-
Changes of assumptions	559,388	(360,459)	2,648,717	(1,031,128)
Benefit payments	<u>(211,559)</u>	<u>(198,021)</u>	<u>(165,293)</u>	<u>(142,818)</u>
Net change in total OPEB liability	1,142,076	1,992,750	3,177,775	(476,451)
Total OPEB liability - beginning	<u>16,194,380</u>	<u>14,201,630</u>	<u>11,023,855</u>	<u>11,500,306</u>
Total OPEB liability - ending	<u>\$ 17,336,456</u>	<u>\$ 16,194,380</u>	<u>\$ 14,201,630</u>	<u>\$ 11,023,855</u>
Covered-employee payroll	\$ 17,366,931	\$ 17,328,403	\$ 17,490,869	\$ 17,503,041
Total OPEB liability as a percentage of covered-employee payroll	99.82%	93.46%	81.19%	62.98%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this presentation will only include information for those years for which information is available.

Notes to Schedule

Benefit changes

None

Changes of assumptions

The discount rate changed as follows:

	1.84%	2.00%	2.75%	3.74%
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Ocean County Utilities Authority
Notes to Required Supplementary Information
December 31, 2021 and 2020

1. SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS USED IN THE CALCULATION OF THE 2021 CONTRIBUTION RATE

PERS

Valuation Date	July 1, 2020
Actuarial Cost Method	Projected Unit Credit Cost Method
Remaining Amortization Period	30-year closed period
Asset Valuation Method	The actuarial value of assets is adjusted to reflect actual contributions, benefit payments and administrative expenses, and an assumed rate of return on the previous year's assets and current year's cash flow at the prior year's actuarial valuation interest rate, with a further adjustment to reflect 20% of the difference between the resulting value and the actual market value of Plan assets.
Wage Growth	3.25%
Price Inflation	2.75%
Salary Increases	2% to 7%, varying by years of service and time period
Investment Rate of Return	7%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	<u>Pre-Retirement Mortality</u> : The Pub-2010 General Below-Median Income Employee mortality table [PubG-2010(B) Employee] as published by the Society of Actuaries 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. For purposes of calculating projected cash flows used to determine the GASB discount rate, mortality improvement is based on SOA's Scale MP-2018. Upon direction from the DPB, for purposes of calculating the Total Pension Liability, mortality improvement is based on SOA's Scale MP-2021.

All pre-retirement deaths are assumed to be ordinary deaths.

Ocean County Utilities Authority
Notes to Required Supplementary Information
December 31, 2021 and 2020

Mortality (Continued) Healthy Retirees and Beneficiaries (Healthy Annuitants): The Pub-2010 General Below-Median Income Healthy Retiree mortality table [PubG-2010(B) Healthy Retiree] as published by the Society of Actuaries with a 91.4% adjustment for males and 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. For purposes of calculating projected cash flows used to determine the GASB discount rate, mortality improvement is based on SOA's Scale MP-2018. Upon direction from the DPB, for purposes of calculating the Total Pension Liability, mortality improvement is based on SOA's Scale MP-2021.

Disabled Retirees (Disabled Annuitants): The Pub-2010 Non-Safety Disabled Retiree mortality table [PubNS-2010 Disabled Retiree] as published by the Society of Actuaries 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. For purposes of calculating projected cash flows used to determine the GASB discount rate, mortality improvement is based on SOA's Scale MP-2018. Upon direction from the DPB, for purposes of calculating the Total Pension Liability, mortality improvement is based on SOA's Scale MP-2021.

SHBP

Valuation Date	July 1, 2020
Actuarial Cost Method	Entry Age Normal with Level % of Salary
Remaining Amortization Period	6.82
Asset Valuation Method	Market Value of Assets
Salary Increases	2% to 7%, varying by years of service and time period
Investment Rate of Return	2.16%
Retirement Age	60
Mortality	PUB-2010 "General" and "Safety" classification headcount-weighted mortality table with fully generation mortality improvement projections from the central year using Scale MP-2021

Ocean County Utilities Authority
Notes to Required Supplementary Information
December 31, 2021 and 2020

Medicare Part B

Valuation Date	January 1, 2021
Actuarial Cost Method	Entry Age Normal Funding Method
Asset Valuation Method	Market value of assets.
Salary Increases	2% to 7%, varying by years of service and time period
Election Rate	100% of eligible participants, including employees who are currently waiving medical coverage, are assumed to receive the Medicare Part B reimbursement upon decrement.
Interest Rate	The interest rate is based on the 20-year General Obligation (GO) Bond index of 2.00% as of December 31, 2020. The beginning of year rate based on the same index is 2.75% as of December 31, 2019.
Trend Assumption	The Medicare Part B Premium is assumed to increase 3.5% annually. This is approximately equal to the observed annual increase in Medicare Part B premium over the last 15 years.
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	The base mortality rates were projected from base year 2018 using mortality projection scale MP-2020.

2. SUMMARY OF ACTUARIAL METHODS AND ASSUMPTIONS USED IN THE CALCULATION OF THE 2020 CONTRIBUTION RATE

PERS

Valuation Date	July 1, 2019
Actuarial Cost Method	Projected Unit Credit Cost Method
Remaining Amortization Period	30-year closed period
Asset Valuation Method	The actuarial value of assets is adjusted to reflect actual contributions, benefit payments and administrative expenses, and an assumed rate of return on the previous year's assets and current year's cash flow at the prior year's actuarial valuation interest rate, with a further adjustment to reflect 20% of the difference between the resulting value and the actual market value of Plan assets.
Wage Growth	3.25%
Price Inflation	2.75%

Ocean County Utilities Authority
Notes to Required Supplementary Information
December 31, 2021 and 2020

Salary Increases	2% to 7%, varying by years of service and time period
Investment Rate of Return	7%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	<p><u>Pre-Retirement Mortality</u>: The Pub-2010 General Below-Median Income Employee mortality table [PubG-2010(B) Employee] as published by the Society of Actuaries 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. For purposes of calculating projected cash flows used to determine the GASB discount rate, mortality improvement is based on SOA's Scale MP-2018. Upon direction from the DPB, for purposes of calculating the Total Pension Liability, mortality improvement is based on SOA's Scale MP-2020.</p>

All pre-retirement deaths are assumed to be ordinary deaths.

Healthy Retirees and Beneficiaries (Healthy Annuitants): The Pub-2010 General Below-Median Income Healthy Retiree mortality table [PubG-2010(B) Healthy Retiree] as published by the Society of Actuaries with a 91.4% adjustment for males and 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. For purposes of calculating projected cash flows used to determine the GASB discount rate, mortality improvement is based on SOA's Scale MP-2018. Upon direction from the DPB, for purposes of calculating the Total Pension Liability, mortality improvement is based on SOA's Scale MP-2021.

Disabled Retirees (Disabled Annuitants): The Pub-2010 Non-Safety Disabled Retiree mortality table [PubNS-2010 Disabled Retiree] as published by the Society of Actuaries 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. For purposes of calculating projected cash flows used to determine the GASB discount rate, mortality improvement is based on SOA's Scale MP-2018. Upon direction from the DPB, for purposes of calculating the Total Pension Liability, mortality improvement is based on SOA's Scale MP-2021.

Ocean County Utilities Authority
Notes to Required Supplementary Information
December 31, 2021 and 2020

SHBP

Valuation Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Remaining Amortization Period	6.87
Asset Valuation Method	Market Value of Assets
Salary Increases	2% to 7%, varying by years of service and time period
Investment Rate of Return	2.21%
Retirement Age	60
Mortality	PUB-2010 "General" and "Safety" classification headcount-weighted mortality table with fully generation mortality improvement projections from the central year using Scale MP-2020

Medicare Part B

Valuation Date	January 1, 2021
Actuarial Cost Method	Entry Age Normal Funding Method
Asset Valuation Method	Market value of assets.
Salary Increases	2% to 7%, varying by years of service and time period
Election Rate	100% of eligible participants, including employees who are currently waiving medical coverage, are assumed to receive the Medicare Part B reimbursement upon decrement.
Interest Rate	The interest rate is based on the 20-year General Obligation (GO) Bond index of 2.00% as of December 31, 2020. The beginning of year rate based on the same index is 2.75% as of December 31, 2019.
Trend Assumption	The Medicare Part B Premium is assumed to increase 3.5% annually. This is approximately equal to the observed annual increase in Medicare Part B premium over the last 15 years.
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition.
Mortality	The base mortality rates were projected from base year 2018 using mortality projection scale MP-2020.



OCEAN COUNTY UTILITIES AUTHORITY

HELPING TO PRESERVE THE WATER RESOURCES OF OCEAN AND SOUTHERN MONMOUTH COUNTIES...

OTHER SUPPLEMENTARY INFORMATION

Ocean County Utilities Authority
Schedule of Revenues and Costs (Budgetary Basis)
Year Ended December 31, 2021 (with Summarized 2020 Actual Information)

Schedule 6

	2021 Adopted Budget	2021 Modified Budget	2021 Actual	2020 Actual
Revenues				
User fees	\$ 74,902,000	\$ 74,902,000	\$ 77,275,103	\$ 76,225,900
Other	350,000	350,000	383,983	408,148
Interest and investment income	1,000,000	1,000,000	1,748,570	1,869,759
Total revenues	<u>76,252,000</u>	<u>76,252,000</u>	<u>79,407,656</u>	<u>78,503,807</u>
Costs of providing services				
Operations and maintenance				
Salaries	16,226,000	16,215,500	14,919,246	15,433,603
Fringe benefits	7,745,000	7,633,500	7,144,410	6,780,133
Chemicals	3,410,000	3,520,000	3,123,273	3,130,040
Buildings and grounds	194,000	170,000	41,132	106,697
Fees	818,000	804,000	614,556	682,952
Fuel	401,000	406,000	350,648	261,037
General	210,000	208,500	160,012	152,551
Instrumentation	149,000	139,000	50,656	49,487
Laboratory equipment	38,000	30,000	26,561	54,226
Legal fees	1,000	1,000	-	-
Lines maintenance	83,000	83,000	39,411	102,886
Outside services	795,000	1,052,000	881,381	1,089,089
Personnel equipment	186,000	194,000	142,214	133,998
Supplies and consumables	2,469,000	2,521,000	2,229,310	1,999,468
Tools and safety equipment	220,000	218,000	123,001	153,127
Utilities	5,036,000	4,765,500	4,657,239	4,446,913
Vehicle maintenance	210,000	230,000	229,108	231,979
	<u>38,191,000</u>	<u>38,191,000</u>	<u>34,732,158</u>	<u>34,808,186</u>
Fertilizer manufacturing division				
Salaries	257,000	282,000	240,734	242,281
Fringe benefits	148,000	123,000	96,417	102,827
Chemicals	355,000	355,000	344,027	452,024
Buildings and grounds	10,000	33,000	31,950	-
Fees	17,000	17,000	12,098	12,279
Fuel oil	30,000	5,000	-	-
General	55,000	57,500	48,778	45,007
Instrumentation	10,000	28,500	8,252	-
Legal	-	4,000	3,850	1,183
Outside services	2,274,000	2,336,500	2,199,088	2,161,508
Personnel equipment	4,000	4,000	1,134	1,626
Supplies and consumables	200,000	173,000	155,734	119,499
Tools and safety equipment	20,000	20,000	18,952	20,246
Utilities	1,070,000	1,011,500	810,573	897,434
	<u>4,450,000</u>	<u>4,450,000</u>	<u>3,971,587</u>	<u>4,055,914</u>
Engineering and construction				
Salaries	901,000	901,000	792,742	900,561
Fringe benefits	418,000	418,000	353,386	386,832
General	23,000	23,000	10,880	8,302
Legal fees	4,000	4,000	65	559
Outside services	94,000	94,000	76,861	66,535
Personnel equipment	5,000	5,000	2,459	2,162
Tools and equipment	5,000	5,000	-	-
	<u>1,450,000</u>	<u>1,450,000</u>	<u>1,236,393</u>	<u>1,364,951</u>
Total costs of providing services	<u>44,091,000</u>	<u>44,091,000</u>	<u>39,940,138</u>	<u>40,229,051</u>

See Independent Auditor's Report.

Ocean County Utilities Authority
Schedule of Revenues and Costs (Budgetary Basis)
Year Ended December 31, 2021 (with Summarized 2020 Actual Information)

Schedule 6 (continued)

	2021 Adopted Budget	2021 Modified Budget	2021 Actual	2020 Actual
General and administrative				
Salaries	\$ 1,942,000	\$ 1,975,300	\$ 1,975,050	\$ 1,916,001
Fringe benefits	2,667,000	2,645,800	2,592,405	2,349,660
General	251,000	237,700	196,495	201,894
Information systems	81,000	101,000	100,026	104,645
Insurance premiums	2,250,000	2,142,700	2,132,946	1,982,855
Legal fees	125,000	125,000	118,039	105,944
Outside services	1,106,000	1,168,500	1,151,482	1,044,222
Personnel equipment	1,000	28,000	26,277	85,396
Supplies and consumables	8,000	7,000	5,693	10,292
Telecommunications	120,000	120,000	112,406	110,027
Total general and administrative	<u>8,551,000</u>	<u>8,551,000</u>	<u>8,410,819</u>	<u>7,910,936</u>
Interest expense	<u>2,497,000</u>	<u>2,497,000</u>	<u>2,333,981</u>	<u>2,624,831</u>
Other costs funded by revenues				
Principal maturity	15,024,000	15,024,000	35,503,431	13,779,694
Operations and maintenance reserve	<u>1,998,000</u>	<u>1,998,000</u>	<u>-</u>	<u>-</u>
Total costs funded by operating revenues	<u>72,161,000</u>	<u>72,161,000</u>	<u>86,188,369</u>	<u>64,544,512</u>
Budgetary revenues over expenses	<u>4,091,000</u>	<u>4,091,000</u>	<u>(6,780,713)</u>	<u>13,959,295</u>
Total	<u>\$ 76,252,000</u>	<u>\$ 76,252,000</u>	<u>\$ 79,407,656</u>	<u>\$ 78,503,807</u>
			2021 Actual	2020 Actual
Reconciliation of budgetary basis to change in net position GAAP basis				
Budgetary revenues over expenses			\$ (6,780,713)	\$ 13,959,295
Adjustments to budgetary basis				
Depreciation expense			(17,230,204)	(16,930,883)
Principal payments on debt			35,503,431	13,779,694
Other income			249,418	253,091
Grant revenue			27,505	1,951,743
Change in fair value of investments			(2,401,736)	1,340,274
Insurance recoveries			21,888	-
Amortization of discounts/premiums on bonds			610,061	663,073
Gain (loss) on asset disposals			56,370	(43,495)
Pension contribution accrual			(66,748)	(1,340,406)
OPEB contributions subsequent to measurement date			132,001	751,324
Bad debt expense			-	-
Inventory adjustments			-	-
Pension benefit, net			6,526,307	1,025,251
OPEB expense, net			<u>(962,327)</u>	<u>(649,528)</u>
Total adjustments			<u>22,465,966</u>	<u>800,138</u>
Change in net position GAAP basis			<u>\$ 15,685,253</u>	<u>\$ 14,759,433</u>

See Independent Auditor's Report.

Ocean County Utilities Authority
Schedule of Wastewater Revenue Bonds Payable
December 31, 2021

Schedule 7

Issue	Date of Issue	Amount Issued	Interest Rate	Maturities		Balance December 31, 2021
				Date	Amount	
Refunding series 2006	12/05/06	\$ 79,360,000	5.250%	01/01/22	3,470,000	
			5.250%	01/01/23	3,655,000	
			5.250%	01/01/24	3,845,000	
			5.250%	01/01/25	4,045,000	
			5.250%	01/01/26	4,260,000	
						\$ 19,275,000

See Independent Auditor's Report.

**Ocean County Utilities Authority
Board of Commissioners
December 31, 2021**

Schedule 8

<u>Name</u>	<u>Title</u>
John C. Parker	Chairman
Alan W. Avery Jr.	Vice Chairman
F. Frank Sadeghi	Treasurer
Carol A. Scull	Secretary
Robert Toscan	Commissioner
Watson F. Pharo	Commissioner
Helen Fayad	Commissioner
Jesse Tantillo	Commissioner
Daniel J. Hennessy	Commissioner
Reverend Oscar L. Cradle	Commissioner
Menashe Miller	Alternate
Carmen F. Amato, Jr.	Alternate

See Independent Auditor's Report.

Ocean County Utilities Authority
Schedule of Expenditures of State Financial Assistance
Year Ended December 31, 2021

<u>State Grantor/Pass Through Grantor/Program Title</u>	<u>Pass Through Grantor's/State Account Number</u>	<u>Award Period</u>		<u>Current Fiscal Year Cash Received</u>	<u>Current Fiscal Year Expenditures</u>	<u>Cumulative Expenditures</u>
		<u>From</u>	<u>To</u>			
<u>Department of Environmental Protection Agency:</u>						
NJ Environmental Infrastructure Trust Program:						
2021 NJIB Construction Loan	S340372-59	6/30/2019	6/10/2021	\$ 777,111	\$ -	\$ 5,782,271
2021 NJIB Construction Loan	S340372-60	6/30/2019	6/10/2021	109,441	-	564,122
2021 NJIB Construction Loan	S340372-61	1/1/2020	-	351,769	2,396,530	2,748,299
2021 NJIB Construction Loan	S340372-62	1/1/2020	-	<u>1,266,968</u>	<u>690,182</u>	<u>1,957,144</u>
Total state financial assistance				<u>\$ 2,505,289</u>	<u>\$ 3,086,712</u>	<u>\$ 11,051,836</u>

See Independent Auditor's Report.
See accompanying Notes to Schedules of Expenditures of State Financial Assistance.

Ocean County Utilities Authority
Notes to Schedule of Expenditures of State Financial Assistance
December 31, 2021

1. BASIS OF PRESENTATION

The accompanying schedule of expenditures of state financial assistance (the "Schedule") presents the activities in all state awards of Ocean County Utilities Authority (the "Authority"). All financial assistance received directly from state agencies, as well as financial assistance passed through other governmental agencies or non-profit organizations, are included on the Schedule. The information in this Schedule is presented in accordance with the requirements of NJ Circular Letter 15-08-OMB. Because the Schedule presents only a selected portion of the operations of the Authority, the Schedule is not intended to and does not present the net position, changes in net position, or cash flows of the Authority. The Authority's contracts with the and state agencies do not have a provision for an indirect cost rate.

2. SUMMARY OF SIGNIFICANT ESTIMATES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in NJ Circular Letter 15-08-OMB, wherein certain types of expenditures are not allowed or are limited as to reimbursement.

3. SUB-RECIPIENTS

The Authority provided no state financial assistance to sub-recipients for the year ended December 31, 2021.

4. INDIRECT COSTS

The Authority does not have a state negotiated indirect cost rate, nor has it elected to use the 10% de minimis indirect cost rate.

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 AUDITOR'S REPORT

To the Board of Commissioners,
Ocean County Utilities Authority:

We have audited, in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of Ocean County Utilities Authority (the "Authority"), as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 24, 2023.

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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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* or audit requirements as prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and audit requirements as prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in blue ink that reads 'Withum Smith & Brown, PC'.

January 24, 2023

REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM AND ON INTERNAL CONTROLS OVER COMPLIANCE IN ACCORDANCE WITH NEW JERSEY TREASURY CIRCULAR 15-08

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners,
Ocean County Utilities Authority:

Report on Compliance for Each Major State Program

Opinion on Each Major State Program

We have audited Ocean County Utilities Authority's (the "Authority") compliance with the compliance requirements described in the *New Jersey State Compliance Supplement* that could have a direct and material effect on Ocean County Utilities Authority's major state programs for the year ended December 31, 2021. The Authority's major state program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major state program for the year ended December 31, 2021.

Basis for Opinion on Each Major State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States ("*Government Auditing Standards*"); and the audit requirements of State of New Jersey, Department of the Treasury, OMB Policy Circular 15-08-OMB ("NJ Circular 15-08-OMB"). Our responsibilities under those standards and NJ Circular 15-08-OMB are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major state program. Our audit does not provide a legal determination of the Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Authority's state program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Authority's compliance based on our audit. 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 NJ Circular 15-08-OMB will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Authority's compliance with the requirements of each major state program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and NJ Circular 15-08-OMB we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Organization's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Organization's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with NJ Circular 15-08-OMB, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of NJ Circular Letter 15-08-OMB. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in blue ink that reads 'Withum Smith & Brown, PC'. The signature is written in a cursive, flowing style.

January 24, 2023

**Ocean County Utilities Authority
Schedule of Findings and Questioned Costs
Year Ended December 31, 2021**

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? ☐ yes ☒ no

Significant deficiencies identified that are not considered to be material weaknesses? ☐ yes ☒ none reported

Noncompliance material to financial statements noted? ☐ yes ☒ no

State Financial Assistance:

Type of auditor's report issued on compliance for major programs: Unmodified

Internal control over major programs:

Material weakness(es) identified? ☐ yes ☒ no

Significant deficiencies identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)04-04 and 2 CFR 200.516(a)? ☐ yes ☒ no

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? ☐ yes ☒ no

Identification of major state programs:

State:
NJ Environmental Infrastructure Trust Program

Section II – Financial Statement Findings

There are no financial statement findings reported.

Section III – State Financial Assistance Findings and Questioned Costs

There are no state award findings or questioned costs reported.

**Ocean County Utilities Authority
Schedule of Prior Year Findings and Questioned Costs, Comments and
Recommendations
Year Ended December 31, 2020**

Schedule of Prior Year Financial Statement Findings

This section identifies the status of prior year findings related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

Material Weaknesses

None

Comments and Recommendations

None