

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown,
County of Monmouth, State of New Jersey)

Financial Statements and Supplementary Information

For the Years Ended December 31, 2024 and 2023

(With Independent Auditor's Report Thereon)

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Financial Statements and Supplementary Information
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Certified Public Accountants + Advisors

1985 Cedar Bridge Ave., Suite 3 • Lakewood, NJ 08701 • 732.797.1333

194 East Bergen Place • Red Bank, NJ 07701 • 732.747.0010

www.hfacpas.com

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members
of the Township of Middletown Sewerage Authority
County of Monmouth
Belford, New Jersey

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the Township of Middletown Sewerage Authority (hereafter referred to as the Authority), a component unit of the Township of Middletown, County of Monmouth State of New Jersey, as of and for the years ended December 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, as of December 31, 2024, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit 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 in compliance with audit standards prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. 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 opinion.

Emphasis of Matter

Prior Period Restatement of Prior Year Financial Statements

We draw attention to Note 12 of the financial statements, which explains that the financial statements for the year ended December 31, 2024, have been restated to correct compensated absences balances and expenses due to the implementation of GASB 101, *Compensated Absences*. As a result, compensated absences, operating expenses and the respective changes in financial position have been restated to reflect the activity in accordance with generally accepted accounting principles. Our opinion is not modified in respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the

design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our 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 generally accepted auditing standards, *Government Auditing Standards* and audit standards prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey 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 generally accepted auditing standards, *Government Auditing Standards* and audit standards prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, 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 other required supplementary information as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2025, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Authority's internal control over financial reporting and compliance.

Holman Frenia Allison, P.C.

HOLMAN FRENIA ALLISON, P.C.

Certified Public Accountants

November 6, 2025
Lakewood, New Jersey

INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Chairman and Members
of the Township of Middletown Sewerage Authority
County of Monmouth
Belford, New Jersey

We have audited, in accordance with the 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 audit requirements as prescribed by Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the Township of Middletown Sewerage Authority, a component unit of the Township of Middletown, County of Monmouth, State of New Jersey (herein referred to as the Authority), as of and for the year ended December 31, 2024, and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements and have issued our report thereon dated November 6, 2025.

Report on Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as finding 2024-002, that we consider a *significant deficiency*.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *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 and which are described in the accompanying general comments and recommendations as finding 2024-001.

Township of Middletown Sewerage Authority Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Township of Middletown Sewerage Authority's response to the findings identified in our audit and described in the accompanying general comments and recommendations. The Township of Middletown Sewerage Authority's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Audit 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Holman Frenia Allison, P.C.

HOLMAN FRENIA ALLISON, P.C.

Certified Public Accountants

November 6, 2025
Lakewood, New Jersey

MEMBERS OF THE AUTHORITY

STEVEN SCHWEIZER
Chairperson
MICHAEL IANNACI
Vice Chairperson
EDWARD SKELLY
Secretary/Treasurer
ROSEANN ETESON
WILLIS KRATZ
CHARLES W. ROGERS, III
SCOTT WEIKEL

**TOWNSHIP OF MIDDLETOWN
SEWERAGE AUTHORITY**



PO BOX 205
BELFORD, NJ 07718
WWW.TOMSANJ.COM

PAUL THOMSON
Executive Director

ADMINISTRATION BUILDING
100 BEVERLY WAY
TELE: (732) 495-1010
FAX: (732) 495-4565

November 6, 2025

MANAGEMENT'S DISCUSSION AND ANALYSIS

As Management of the Township of Middletown Sewerage Authority, hereafter referred to as the "Authority", we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2024, 2023 and 2022. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements as presented elsewhere in this report.

A. Financial Highlights

- a. The assets of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$39,117,478 (net position) compared to \$37,315,394 for the prior fiscal year, which is an increase of \$1,802,084 primarily from an increase in operating revenues.
- b. The Authority's unrestricted/restricted cash and cash equivalents balances at December 31, 2024 was \$5,047,390 representing a decrease of \$1,419,321 from the prior fiscal year. The cash and cash equivalents have been programmed by the Authority for future capital improvements and working capital.
- c. The Authority had total operating revenues of \$15,506,913 and total operating expenses of \$13,725,408 compared to 2023, total operating revenue of \$10,997,789 and total operating expenses of \$12,122,590. Operating revenues in 2024 increased \$4,509,124 over 2023. This increase consists primarily of \$3,172,546 of user charges. Operating expenses in 2024 increased \$1,602,818 over 2023. This increase consists primarily of \$1,154,467 of salaries and related costs and \$113,526 in sludge disposal.
- d. The Authority's capital outlays for the fiscal year ended December 31, 2024 were \$2,993,240 compared to \$1,843,451 for the year ended December 31, 2023.
- e. As described in Note 12: Restatement of Prior-Year Financial Statements, the Authority restated prior year financial statements to correct accounts payables and related activity included in prior periods. Prior year balances reflected in the MD&A have been updated for comparison purposes.

B. Using the Annual Report

a. Management's Discussion and Analysis

The Management's Discussion and Analysis is intended to serve as an introduction to the Financial Statements prepared in accordance with Generally Accepted Accounting Principles applicable to governmental entities in the United States of America.

b. Financial Statements

The financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. They consist of comparative statements of net position, comparative statements of revenues, expenses and changes in net position, and comparative statements of cash flows.

The statements of net position present information on all the Authority's assets and liabilities, with the difference reported as net position.

The comparative statements of revenues, expenses and changes in net position present information showing how the Authority's net position changed during the most recent fiscal year in accordance with generally accepted accounting standards. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., depreciation and earned but unused vacation leave).

The financial statements report on the Authority's activities. The activities are primarily supported by user charges. The Authority's function is to provide a service to the community.

c. Notes to Financial Statements

The Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

C. The Authority as a Whole

The Authority's net position decreased during the current fiscal year primarily due to an increase in operating expenses as discussed in the financial highlights. The Authority's revenues are principally from user charges.

The largest portion of the Authority's net position reflects its investment in capital assets (e.g., land, buildings, equipment, and the collection system). The Authority uses these capital assets to provide services to the community. The unrestricted net position of the Authority is available for future use to provide services.

COMPUTATIONS OF NET POSITION

	December 31,		
	2024	2023	2022
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			
Current Unrestricted and Other Assets and Deferred Outflows of Resources	\$ 9,743,761	\$ 8,151,351	\$ 8,149,375
Current Restricted Assets	3,209,758	4,818,148	6,248,077
Capital Assets, Net	54,967,999	54,903,011	55,772,522
Total Assets and Deferred Outflows of Resources	<u>\$ 67,921,518</u>	<u>\$ 67,872,510</u>	<u>\$ 70,169,974</u>

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

Current Unrestricted and Other Liabilities	\$ 1,271,999	\$ 2,181,863	\$ 1,765,055
Current Restricted Liabilities	1,548,144	1,550,992	1,525,518
Long-term Liabilities and Deferred Inflows of Resources			
Deferred Inflows of Resources	25,983,897	26,824,261	27,684,249
Total Liabilities and Deferred Inflows of Resources	<u>28,804,040</u>	<u>30,557,116</u>	<u>30,974,822</u>

NET POSITION

Investment in Capital Assets, Net of Related Debt	47,820,280	46,616,532	46,374,836
Net Position - Restricted	1,612,565	1,631,701	1,623,881
Net Position - Unrestricted	<u>(10,315,367)</u>	<u>(10,932,839)</u>	<u>(8,803,565)</u>
Total Net Position	39,117,478	37,315,394	39,195,152
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 67,921,518</u>	<u>\$ 67,872,510</u>	<u>\$ 70,169,974</u>

For the year ended December 31,

OPERATING REVENUES

	2024	2023	2022
User Charges	\$ 13,631,118	\$ 10,458,572	\$ 10,209,173
Connection Fees	999,034	455,516	678,825
Lifetime fitness revenue	808,000	-	-
Other Revenues	68,761	83,701	120,450
Total Operating Revenues	<u>15,506,913</u>	<u>10,997,789</u>	<u>11,008,448</u>

OPERATING EXPENSES

Administrative	1,654,542	1,491,011	1,051,620
Cost of Providing Services	9,142,614	7,918,617	6,169,219
Depreciation	2,928,252	2,712,962	2,596,110
Total Operating Expenses	<u>13,725,408</u>	<u>12,122,590</u>	<u>9,816,949</u>

Operating (Loss)/Income	<u>1,781,505</u>	<u>(1,124,801)</u>	<u>1,191,499</u>
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Non-Operating Revenues (Expenses) - net	20,579	(555,071)	(785,249)
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Change in Net Position	<u>1,802,084</u>	<u>(1,679,872)</u>	<u>406,250</u>
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Net Position, Beginning of Year	<u>37,315,394</u>	<u>39,195,152</u>	<u>38,788,902</u>
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Prior period adjustment (See Note 12)	<u>-</u>	<u>(199,886)</u>	<u>-</u>
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Net Position, Beginning of Year, as restated	<u>-</u>	<u>38,995,266</u>	<u>-</u>
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Net Position, End of Year	<u>\$ 39,117,478</u>	<u>\$ 37,315,394</u>	<u>\$ 39,195,152</u>
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D. Budgetary Highlights

For the year ended December 31, 2024, budgets were prepared by the Authority and were approved by the Division of Community Affairs of the State of New Jersey. The budgets were primarily used as a management tool. The budgets were prepared in accordance with the accounting procedures prescribed by the Division of Local Government Services of the State of New Jersey.

E. Capital Assets and Debt Administration

a. Capital Assets

As of December 31, 2024, the Authority's investment in capital assets was \$54,967,999 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, collection systems, and vehicles.

Capital expenditures paid during the year ended December 31, 2024 aggregated \$2,993,240 compared to \$1,843,451 in 2023.

Additional information on the Authority's capital assets can be found in note 4 of the notes to the financial statements.

b. Debt Administration

On July 10, 2008, the Authority Commissioners approved a resolution to authorize the Authority to sell Sewer Revenue Bonds as part of the State of New Jersey Environmental Infrastructure Trust. In connection with the offering, \$7,595,000 of 2008A Sewer Revenue Bonds were sold with an average fixed coupon of approximately 5.00%. Additionally, the Authority has issued the 2008B Sewer Revenue Bonds in the amount of \$7,627,686. The Bonds mature 20 years from date of issue. The proceeds of the loans were used solely for the Authority's Waste Water Treatment Plant Upgrade Project which became operational at the end of 2010. The 2008A and 2008B Sewer Revenue Bonds are secured by the assets of the Authority including its restricted and unrestricted cash balances. At December 31, 2016, the Authority had temporary New Jersey Bank construction notes aggregating \$2,650,911. During the year, the Authority drew down an additional \$2,729,764 and an additional \$679,601 is being held in escrow for future draw down in 2018. During the year ended December 31, 2018, the Authority drew down and was reimbursed \$223,453. On May 25, 2018, the Authority converted the temporary construction loans to permanent bond financing. The bonds were sold at a premium providing an additional \$10,245 of economic benefit to the Authority. The 2017 Series A Bonds aggregated \$1,510,000. The Series B Bonds aggregated \$4,560,737, of which \$398,119 was considered debt forgiveness under the program. All the Bond proceeds were used to upgrade and construct new plant facilities. As of December 31, 2024, the Authority had \$7,095,640 of outstanding bonds payable of which \$1,153,830 is due within one year.

F. Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Authority's budget for the fiscal year ended December 31, 2024:

- a. The state of the economy.
- b. The ability to control expenditures.

G. Contacting the Authority's Financial Management

The financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Paul Thomson, Executive Director, Township of Middletown Sewerage Authority, 100 Beverly Way, Belford, NJ 07718.

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Statements of Net Position
December 31, 2024 and 2023

	2024	(Restated) 2023
ASSETS		
Current unrestricted assets:		
Cash and cash equivalents (Note 2)	\$ 1,837,632	\$ 1,648,563
Accounts receivable (Note 3)	2,379,503	1,683,545
Prepaid assets	69,507	198,542
Inventory	370,695	421,813
Total current unrestricted assets	4,657,337	3,952,463
Current restricted assets:		
Cash and cash equivalents (Note 2)	3,209,758	4,818,148
Total current restricted assets	3,209,758	4,818,148
Capital assets (Note 4)	128,314,914	125,321,674
Less: accumulated depreciation (Note 4)	(73,346,915)	(70,418,663)
Capital assets, net	54,967,999	54,903,011
Total assets	62,835,094	63,673,622
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to other postemployment benefits (Note 6)	4,651,154	3,604,789
Deferred outflows related to pensions (Note 7)	435,270	594,099
Total deferred outflow of resources	5,086,424	4,198,888
Total assets and deferred outflow of resources	\$ 67,921,518	\$ 67,872,510

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Statements of Net Position (continued)
December 31, 2024 and 2023

	2024	(Restated) 2023
LIABILITIES		
Current unrestricted liabilities:		
Accounts payable	\$ 641,342	\$ 728,343
Unearned revenue	25,441	839,081
Accrued expenses	207,793	212,493
Pensions payable (Note 7)	397,423	401,946
Total current unrestricted liabilities	1,271,999	2,181,863
Current restricted liabilities:		
Current portion of bonds payable, net (Note 5)	1,165,761	1,138,761
Accrued interest	53,186	63,898
Developer deposits	329,197	348,333
Total current restricted liabilities	1,548,144	1,550,992
Long-term liabilities:		
Compensated absences (Note 5)	376,650	378,766
Bonds payable, net of current portion (Note 5)	5,981,958	7,147,718
Net other postemployment benefits liability (Note 6)	11,117,312	8,883,271
Net pension liability (Note 7)	3,968,634	4,356,018
Total long-term liabilities	21,444,554	20,765,773
Total liabilities	24,264,697	24,498,628
DEFERRED INFLOW OF RESOURCES		
Deferred inflows related to other postemployment benefits (Note 6)	4,003,785	5,352,551
Deferred inflows related to pensions (Note 7)	535,558	705,937
Total deferred inflow of resources	4,539,343	6,058,488
Total liabilities and deferred inflow of resources	28,804,040	30,557,116
NET POSITION		
Investments in capital assets, net of related debt	47,820,280	46,616,532
Restricted:		
Restricted for debt service	1,283,368	1,283,368
Restricted for reserve deposits	329,197	348,333
Unrestricted (Note 11)	(10,315,367)	(10,932,839)
Total net position	39,117,478	37,315,394
Total liabilities, deferred inflow of resources and net position	\$ 67,921,518	\$ 67,872,510

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Statements of Revenues, Expenses and Changes in Net Position
For the Years Ended December 31, 2024 and 2023

	2024	(Restated) 2023
Operating revenues:		
User charges	\$ 13,631,118	\$ 10,458,572
Connection fees	999,034	455,516
Lifetime fitness revenue	808,000	-
Other operating revenue	68,761	83,701
Total operating revenues	15,506,913	10,997,789
Operating expenses:		
Administrative expenses	1,654,542	1,491,011
Cost of providing services	9,142,614	7,918,617
Depreciation	2,928,252	2,712,962
Total operating expenses	13,725,408	12,122,590
Operating (loss)/income	1,781,505	(1,124,801)
Non-operating revenues / (expenses):		
Interest income	151,292	121,798
Gain on sale of assets	-	8,550
Bond administrative fees	-	(27,315)
Interest expense	(142,644)	(167,706)
Amortization	11,931	11,931
Municipal appropriation	-	(507,079)
Contributed capital	-	4,750
Total non-operating revenues / (expenses)	20,579	(555,071)
Change in net position	1,802,084	(1,679,872)
Net position, January 1	37,315,394	39,195,152
Prior period adjustment (See Note 12)	-	(199,886)
Net position, January 1, as restated	37,315,394	38,995,266
Net position, December 31	\$ 39,117,478	\$ 37,315,394

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Statements of Cash Flows
For the Years Ended December 31, 2024 and 2023

	2024	(Restated) 2023
Cash flows from operating activities:		
Cash received from service users	\$ 13,997,315	\$ 10,805,217
Cash paid to suppliers	(4,430,478)	(4,731,293)
Cash paid to employees	(6,864,025)	(5,653,863)
	2,702,812	420,061
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(2,993,240)	(1,843,451)
Principal repayment on long term debt	(1,126,829)	(1,099,276)
Contributed capital	-	4,750
Bond administrative issuance costs	-	(27,315)
Gain on sale of assets	-	8,550
Interest expense	(153,356)	(177,956)
	(4,273,425)	(3,134,698)
Cash flows from investing activities:		
Interest income	151,292	121,798
	151,292	121,798
Net change in cash	(1,419,321)	(2,592,839)
Unrestricted and restricted cash, January 1	6,466,711	9,059,550
Unrestricted and restricted cash, December 31	\$ 5,047,390	\$ 6,466,711
Reconciliation to the Statements of Net Position:		
Current unrestricted assets:		
Cash	\$ 1,837,632	\$ 1,648,563
Current restricted assets:		
Cash	3,209,758	4,818,148
Unrestricted and restricted cash, December 31	\$ 5,047,390	\$ 6,466,711

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Statements of Cash Flows (continued)
For the Years Ended December 31, 2024 and 2023

	2024	(Restated) 2023
Reconciliation of operating income to cash flows from operating activities:		
Operating (loss) income	\$ 1,781,505	\$ (1,124,801)
Adjustments to reconcile operating income to cash flows provided from operating activities:		
Depreciation and amortization	2,928,252	2,712,962
Municipal appropriation	-	(507,079)
Unbudgeted OPEB expenses (benefit)	(161,090)	(395,109)
Unbudgeted pension expense (benefit)	(403,457)	(163,724)
Changes in assets and liabilities:		
Accounts receivable	(695,958)	(199,785)
Prepaid assets	129,035	54,369
Inventory	51,118	(27,669)
Accounts payable	(87,001)	146,711
Accrued expenses	(4,700)	(139,062)
Deferred revenue	(813,640)	7,213
Compensated absences	(2,116)	47,865
Developer deposits	(19,136)	8,170
Cash flows from operating activities	\$ 2,702,812	\$ 420,061

Noncash Investing, Capital, and Financing Activities:

During the years ended December 31, 2024 and 2023, noncash capital contributions received were \$0 and \$4,750 respectively.

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown County of Monmouth, State of New Jersey)
Notes to Financial Statements

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Township of Middletown Sewerage Authority (hereafter referred to as the Authority) have been prepared to conform with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units on a going concern basis. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant of these policies.

Reporting Entity

The Authority is a public politic and corporate body organized and existing under the Municipal and County Utilities Authority law constituting Chapter 183 of the Pamphlet Laws of 1957 of the State of New Jersey, approved August 22, 1957, and was created by virtue of an ordinance of the Township of Middletown, in the County of Monmouth, State of New Jersey, entitled: "An Ordinance of the Township of Middletown, in the County of Monmouth and State of New Jersey creating the Middletown Municipal Utilities Authority", adopted by its governing body on February 13, 1966.

The Township and the Authority have entered into a Service Agreement dated August 1, 1969, which was modified on May 10, 1993. Pursuant to Article 3, Section 302 of the Service Agreement, the Authority agrees to impose charges, connection fees, or rentals, as defined in the "Service Agreement", in compliance with all applicable rules and regulations of the Township, State, and County, and will collect from the users all sums due it, such that the receipts of the Authority in each fiscal year shall be sufficient (1) to pay or provide for the expenses of operations, maintenance, and debt service, (2) to maintain such reserves or sinking funds as may be required by any contract of the Authority, and (3) to comply in all respects with the terms and provisions of any Bond Resolution and the Municipal and County Utility Authorities Law.

Pursuant to Section 302 of the Service Agreement, the Township agrees to pay all amounts of interest and principal on the bonds should the funds available to the Authority be insufficient to cover such obligation, subject to certain notice and consent provisions. The Authority is obligated to repay the Township out of surplus funds within one year from the time received pursuant to the Service Agreement.

The Township has also adopted an ordinance compelling connection to the Authority's system. Upon failure to comply with such ordinance, the Township may proceed to make such connection, or cause same to be made, and charge and assess the cost thereof against such property pursuant to the revised Statute of New Jersey.

The purposes for which the Authority was created include the acquisition and/or construction of sewer facilities incident to the collection, disposition, purification and treatment of sewerage or other waste.

The Authority's basic financial statements include all accounts of the Authority's operations. The Authority consists of five members and two alternates, who are appointed by resolution of the Township Committee for five-year terms.

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Component Unit

The Authority is considered to be a "Component Unit" of the Township of Middletown under GAAP however, the Township does not follow GAAP for accounting and financial reporting purposes rather it follows a regulatory basis of accounting, utilizing accounting principles which differ, in some cases significantly, from GAAP. Of particular note is the exclusion from the Township's financial statements of potential component units, based on the separate legal status of these units. Accordingly, the financial statements of the Township do not include the Authority as a component unit.

Basis of Presentation

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations (a) 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 (b) 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.

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

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Enterprise funds are accounted for using the accrual basis of accounting.

Revenues – Exchange and Non-Exchange Transactions – Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. Sewer service charges are recognized as revenue when services are provided. Connection fees are collected in advance and, accordingly, the Authority defers these revenues until the municipality issues a release for certificate of occupancy and determines that sewage collection services are being provided to the properties.

Non-exchange transactions, in which the Authority receives value without directly giving equal value in return, include grants, contributed capital, and donations. Revenue from grants, contributed capital, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal 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 specified purpose, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

Expenses – On the accrual basis of accounting, expenses are recognized at the time they are incurred.

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets and Budgetary Accounting

The Authority must adopt an annual budget in accordance with *N.J.A.C. 5:31-2*. *N.J.A.C. 5:31-2* requires the governing body to introduce the annual Authority budget at least 60 days prior to the end of the current fiscal year and to adopt no later than the beginning of the Authority's fiscal year. The governing body may amend the budget at any point during the year by resolution of the Board of Commissioners. The budgetary basis of accounting is utilized to determine the Authority has sufficient cash to operate and pay debt service. As such, certain items such as bond payments are included in budgetary expenses while depreciation is not included.

The legal level of budgetary control is established at the detail shown on the Statements of Revenues, Expenses and Changes in Net Position. All budget transfers and amendments to those accounts must be approved by resolution of the Authority as required by the Local Finance Board. Management may transfer among supplementary line items as long as the legal level line items are not affected. There are no statutory requirements that budgetary line items not be over-expended.

The Authority records encumbrances. An encumbrance represents a commitment related to unperformed contracts for goods or services. The issuance of a purchase order or the signing of a contract would create an encumbrance. The encumbrance does not represent an expenditure for the period, only a commitment to expend resources. At year-end, the accounting records are adjusted to record only expenses in accordance with generally accepted accounting principles.

Cash and Cash Equivalents

Cash and cash equivalents include cash in banks and may include petty cash and change funds. It may also include all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. Such is the definition of cash and cash equivalents used in the statement of cash flows. U.S. treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

New Jersey Authorities are required by *N.J.S.A. 40A:5-14* to deposit public funds into a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States of America or State of New Jersey or the New Jersey Cash Management Fund. *N.J.S.A. 40A:5-15.1* provides a list of securities which may be purchased by New Jersey Authorities. The Authority is required by *N.J.S.A. 17:9-41* to deposit funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey.

Additionally, the Authority has adopted a cash management plan which requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act. In lieu of designating a depository, the cash management plan may provide that the local unit make deposits with the State of New Jersey Cash Management Fund.

Inventory

Inventory consists principally of plant supplies and replacement parts, fuel, and chemicals for the treatment of sewerage. The inventory is stated at cost or fair market value, determined on a first in, first out basis. As of December 31, 2024 and 2023, inventory balances were \$370,695 and \$421,813, respectively.

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepaid Expenses

Prepaid expenses recorded on the financial statements represent payments made to vendors for services that will benefit periods beyond the Authority’s fiscal year end. For the year ended December 31, 2024 and 2023, \$69,507 and \$198,542, of prepaid expenses were recorded, respectively.

Capital Assets

Capital assets primarily consist of expenditures to acquire, construct, place in operation and improve the facilities of the Authority. Assets purchased are stated at cost. Assets contributed by developer’s are valued at estimated fair market value as of the date of contribution. Costs incurred for construction projects are recorded as construction in progress. In the year that the project is completed, these costs are transferred to capital assets. The Authority has set the capitalization threshold at \$5,000. Depreciation is determined on a straight-line basis for all capital assets. Depreciation was provided over the following estimated useful lives:

<u>Description</u>	<u>Years</u>
Buildings and plant	40
Machinery and equipment	3 – 40
Collection system	40

Deferred Outflows and Deferred Inflows of Resources

In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Compensated Absences

Compensated absences represent amounts to which employees are entitled to base on accumulated leave earned in accordance with the Authority's Personnel Policy. Employees may be compensated for accumulated sick and vacation leave in the event of retirement from service at the current salary.

Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied and are recorded as a liability until the revenue is both measurable and the Authority is eligible to realize the revenue.

Bond premiums

Bond premiums are deferred and amortized over the term of the bonds.

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension and Other post-employment Benefits

For purposes of measuring the net pension and other post-employment benefits liabilities, deferred outflows of resources and deferred inflows of resources related to pensions and other post-employment benefits, and pension and other post-employment benefits expenses, information about the fiduciary net position of the Public Employees' Retirement System (PERS), the Other Post-Employment Benefits (OPEB) and additions to/deductions from the PERS's and OPEB's fiduciary net position have been determined on the same basis as they are reported by the plan. For these purposes, 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.

Net Position

In accordance with the provisions of GASB Statement No. 34 ("Statement 34") of the Governmental Accounting Standards Board *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the Authority has classified its net position into three components – net investment in capital assets; restricted; and unrestricted. These classifications are defined as follows:

Investment in Capital Assets, net – Represent capital assets, including right to use leased assets, net of accumulated depreciation and amortization, and reduced by any related outstanding debt or lease liabilities incurred for their acquisition, construction, or improvement of those assets.

Restricted Net Position – Consists of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, laws, or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted Net Position – All other net position that do not meet the definition of "restricted" or "net investment in capital assets".

Restricted Accounts

The Authority is subject to the provisions and restrictions of the bond resolutions and supplemental resolutions thereto. A summary of the activities of each fund (account) created by the bond resolutions are covered below:

Revenue Account – All revenues of the Authority, except for certain investment earnings on debt proceeds. Funds deposited to the Revenue Account shall be transferred to the following accounts:

Operating Account – The amount necessary to result in a balance equal to operating expenses for a three-month period projected by the annual budget. The use of this account is restricted to the payment of operating expenses.

Debt Service Account – The amount necessary to result in a balance equal to the Debt Service Requirement. Prior to May 1, the Debt Service Requirement is equal to the interest due (and past due and unpaid) on the next succeeding Interest Payment Date on all Bonds outstanding, plus one-third of the principal due (and past due and unpaid) on the next succeeding Principal Installment Date on all Bonds outstanding as of such date. On or after May 1, the Debt Service Requirement

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted Accounts (continued)

for principal due increases to the full amount of the principal due (and past due and unpaid) on the next succeeding Principal Installment Date. Funds on deposit in this account are restricted to the payment of the principal of and interest on outstanding bonds. Excesses in this account may be transferred, at the discretion of the Authority, to the General Account.

Any amount required to be held in the Debt Service Account at year end that is attributable to interest that will accrue in the subsequent fiscal year is reported as net position restricted for payment of future debt service.

Debt Service Reserve Account – The amount necessary to result in a balance equal to the maximum amount of Debt Service (cash basis) for the then current or any future Bond Year (12-month period ending October 31st) on the Bonds then outstanding. Funds in this account may only be transferred to the Debt Service Account. Pursuant to the terms of the Ninth Supplemental Indenture, dated August 1, 2002, Article V of the Prior Indenture was amended to permit the Debt Service Reserve Fund Requirement to be satisfied in full or in part by a Qualified Surety Bond (“QSB”). Any amounts released from the Debt Service Reserve Account through the substitution of a QSB may be used for any corporate purpose of the Authority, subject to receipt of an opinion from a nationally recognized Bond Counsel that such a release would not adversely affect the exclusion from gross income of the Holders of Bonds for federal income tax purposes. The Authority has not utilized a QSB for the purpose of funding any portion of its Debt Service Reserve Requirement at December 31, 2024.

Construction Account – Pursuant to the applicable Supplemental Indentures, proceeds from debt issued to finance System improvements, certain investment earnings on such proceeds, and grants-in-aid must be deposited to the Construction Account. These funds are restricted to the payment of costs of authorized system improvements. Excesses remaining in this account after completion of improvements and allocation of excess investment earnings, if any, must be transferred to the Debt Service Account or Debt Service Reserve Account if deficiencies exist. Any remaining amount may be used for the retirement of Bonds or other authorized system improvements or may be transferred to the General Account.

General Account – The balance of Revenues. Balances in the General Account shall be utilized first to make up deficiencies in any of the preceding accounts, and then for any lawful purpose.

Income Taxes

The Authority operates as defined by Internal Revenue Code Section 115 and appropriately is exempt from income taxes under Section 115.

Operating and Non-Operating Revenues and Expenses

The Authority defines its operating revenues as income derived from charges to residents and others for services provided used for operating purposes. Non-operating revenues primarily consist of interest income, amortization and sales of capital assets. Operating expenses are costs incurred in the operation of its program activities to provide services to residents and others. Non-operating expenses primarily include expenses attributable to the Authority’s interest on debt, issuance of debt, municipal appropriation, penalties and fines and sales of capital assets.

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amount.

Impact of Recently Issued Accounting Principles

Accounting Pronouncements Adopted in Current Year

The following GASB Statements became effective for the fiscal year ended December 31, 2024:

- Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement 62*.
- Statement No. 101, *Compensated Absences*

Implementation of these standards had a material impact on the Authority's financial statements, see Note 12 for additional information.

Accounting Pronouncements Effective in Future Reporting Periods

The following accounting pronouncements will become effective in future reporting periods:

- Statement No. 102, *Certain Risk Disclosures*. The requirements of this statement are effective for fiscal years beginning after June 15, 2024.
- Statement No. 103, *Financial Reporting Model Improvements*. The requirements of this statement are effective for fiscal years beginning after June 15, 2025.
- Statement No. 104, *Disclosure of Certain Capital Assets*. The requirements of this statement are effective for fiscal years beginning after June 15, 2025.

Management has not yet determined the potential impact these Statements will have on the Authority's financial statements.

Subsequent Events

Township of Middletown Sewerage Authority has evaluated subsequent events occurring after December 31, 2024 through November 6, 2025, which is the date the financial statements were available to be issued.

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 2: CASH AND CASH EQUIVALENTS

The Authority is governed by the deposit and investment limitations of New Jersey state law. The deposits held at December 31, 2024 and 2023, and reported at fair value are as follows:

<u>Type</u>	<u>Carrying Value</u>	
	<u>2024</u>	<u>2023</u>
Deposits:		
Demand deposits	\$ 5,046,915	\$ 6,466,011
Petty cash	475	700
Total deposits	<u>\$ 5,047,389</u>	<u>\$ 6,466,711</u>
Reconciliation to the Governmental Funds:		
Unrestricted current assets:		
Cash and cash equivalents	\$ 1,837,632	\$ 1,648,563
Restricted current assets:		
Cash and cash equivalents	3,209,758	4,818,148
Total	<u>\$ 5,047,389</u>	<u>\$ 6,466,711</u>

Custodial Credit Risk Related to Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits might not be recovered. Although the Authority does not have a formal policy regarding custodial credit risk, N.J.S.A. 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act (GUDPA). Under the Act, the first \$250,000 of governmental deposits in each insured depository is protected by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the Authority in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust funds such as salary withholdings or funds that may pass to the Authority relative to the happening of a future condition. If the Authority had any such funds, they would be shown as uninsured and uncollateralized in the schedule below. As of December 31, 2024 and 2023, the Authority's bank balances were insured or exposed to credit risk as follows:

	<u>2024</u>	<u>2023</u>
Insured	\$ 258,091	\$ 257,264
Collateralized in the Authority's name under GUDPA	4,543,187	6,006,586
Uninsured and uncollateralized	324,547	348,333
Total	<u>\$ 5,125,825</u>	<u>\$ 6,612,183</u>

NOTE 3: ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 2024 and 2023 consisted of the following:

	<u>2024</u>	<u>2023</u>
Accounts receivable – User fees	\$ 2,252,321	\$ 1,559,265
Accounts receivable – Other	127,182	124,280
Total	<u>\$ 2,379,503</u>	<u>\$ 1,683,545</u>

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 4: CAPITAL ASSETS, NET

The activity in capital assets for the year ended December 31, 2024 is as followed:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Retirements/ Adjustments)</u>	<u>Ending Balance</u>
Non-depreciable assets:				
Land	\$ 2,641,837	\$ -	\$ -	\$ 2,641,837
Construction in progress	367,426	2,298,159	(600,258)	2,065,327
Total non-depreciable assets	<u>3,009,263</u>	<u>2,298,159</u>	<u>(600,258)</u>	<u>4,707,164</u>
Depreciable assets:				
Buildings and plant	3,399,722	618,986	-	4,018,708
Machinery and equipment	46,180,434	76,095	-	46,256,529
Collection system	72,732,255	-	600,258	73,332,513
Total depreciable assets	<u>122,312,411</u>	<u>695,081</u>	<u>600,258</u>	<u>123,607,750</u>
Total non-depreciable and depreciable assets	125,321,674	2,993,240	-	128,314,914
Less: accumulated depreciation	<u>(70,418,663)</u>	<u>(2,928,252)</u>	<u>-</u>	<u>(73,346,915)</u>
Capital assets, net	<u>\$ 54,903,011</u>	<u>\$ 64,988</u>	<u>\$ -</u>	<u>\$ 54,967,999</u>

Depreciation expense was \$2,928,252 as of December 31, 2024.

The activity in capital assets for the year ended December 31, 2023 is as followed:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Retirements/ Adjustments)</u>	<u>Ending Balance</u>
Non-depreciable assets:				
Land	\$ 2,641,837	\$ -	\$ -	\$ 2,641,837
Construction in progress	513,190	233,532	(379,296)	367,426
Total non-depreciable assets	<u>3,155,027</u>	<u>233,532</u>	<u>(379,296)</u>	<u>3,009,263</u>
Depreciable assets:				
Buildings and plant	3,021,310	378,412	-	3,399,722
Machinery and equipment	45,788,842	615,280	(223,688)	46,180,434
Collection system	71,736,732	995,523	-	72,732,255
Total depreciable assets	<u>120,546,884</u>	<u>1,989,215</u>	<u>(223,688)</u>	<u>122,312,411</u>
Total non-depreciable and depreciable assets	123,701,911	2,222,747	(602,984)	125,321,674
Less: accumulated depreciation	<u>(67,929,389)</u>	<u>(2,712,962)</u>	<u>223,688</u>	<u>(70,418,663)</u>
Capital assets, net	<u>\$ 55,772,522</u>	<u>\$ (490,215)</u>	<u>\$ (379,296)</u>	<u>\$ 54,903,011</u>

Depreciation expense was \$2,712,962 as of December 31, 2023.

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 5: LONG-TERM LIABILITIES

During the years ended December 31, 2024 and 2023, the following changes occurred in long-term obligations:

	2024				
	Beginning Balance	Additions	(Retirements/ Adjustments)	Ending Balance	Balance Due Within One Year
Revenue bonds payables	\$ 8,222,469	\$ -	\$ (1,126,829)	\$ 7,095,640	\$ 1,153,830
Unamortized bond premiums	64,010	-	(11,931)	52,079	11,931
	8,286,479	-	(1,138,760)	7,147,719	1,165,761
*Compensated absences	378,766	-	(2,116)	376,650	-
Net OPEB liability	8,359,354	2,757,958	-	11,117,312	-
Net pension liability	4,356,018	-	(387,384)	3,968,634	-
Total	\$ 21,380,617	\$ 2,757,958	\$ (1,528,260)	\$ 22,610,315	\$ 1,165,761

	2023				
	Beginning Balance	Additions	(Retirements/ Adjustments)	Ending Balance	Balance Due Within One Year
Revenue bonds payables	\$ 9,321,745	\$ -	\$ (1,099,276)	\$ 8,222,469	\$ 1,126,830
Unamortized bond premiums	75,941	-	(11,931)	64,010	11,931
	9,397,686	-	(1,111,207)	8,286,479	1,138,761
*Compensated absences	330,901	47,865	-	378,766	-
Net OPEB liability	8,359,354	-	-	8,359,354	-
Net pension liability	4,563,777	-	(207,759)	4,356,018	-
Total	\$ 22,651,718	\$ 47,865	\$ (1,318,966)	\$ 21,380,617	\$ 1,138,761

* The prior year balance as of December 31, 2023 has been restated to align with the current year's GASB 101: *Compensated Absences* implementation requirements.

Revenue Bonds Payable

On July 10, 2008, the Authority Commissioners approved a resolution to authorize the Authority to sell Sewer Revenue Bonds as part of the NJ Bank Trust. In connection with the offering, \$7,595,000 of 2008A Sewer Revenue Bonds were sold with an average fixed coupon of approximately 4.00%. Additionally, the Authority has issued the 2008B Sewer Revenue Bonds in the amount of \$7,627,686 which is an interest free loan. The bonds mature 20 years from date of issue-August 2028. The proceeds of the loans were designated solely for the Authority's Wastewater Treatment Plant Upgrade Project.

The 2008A and 2008B Sewer Revenue Bonds are secured by the assets of the Authority including its restricted and unrestricted cash balances.

In July 2016, the Authority was advised by the NJ Bank Trust Program, that the 2008 A Sewer Revenue Bonds have been restructured and that the Authority under a Series 2016 A-R1 savings credit program would receive over the remaining life of the bonds' a principal reduction of \$499,000 and a reduction of interest payments aggregating \$410,810.

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 5: LONG-TERM LIABILITIES (continued)

Revenue Bonds Payable (continued)

At December 31, 2016, the Authority had temporary New Jersey Bank construction notes aggregating \$2,650,911, to finance various capital improvement projects. During the year 2017, the Authority drew down an additional \$2,729,764 and an additional \$679,601 was being held in escrow for future draw downs in 2018. On May 25, 2018, the Authority converted the temporary construction loans to permanent bond financing. The bonds were sold at a premium providing an additional \$10,245 of economic benefit to the authority. The 2017 Series A Bonds aggregated \$1,510,000 and are interest bearing with a coupon rate of 5.00%. The Series B Bonds are interest free and aggregated \$4,560,737, of which \$398,119 was considered debt forgiveness under the program. The bonds mature August 2036.

The 2017A and 20178 Sewer Revenue Bonds are secured by the assets of the Authority including its restricted and unrestricted cash balances.

Revenue bonds payable at December 31, consist of the following:

Year Ending December 31,	Principal	Interest	Total
2025	\$ 1,153,830	\$ 127,506	\$ 1,281,336
2026	1,181,061	100,306	1,281,367
2027	1,199,522	75,766	1,275,288
2028	1,224,292	50,326	1,274,618
2029	302,448	23,806	326,254
2030 – 2034	1,557,240	78,712	1,635,952
2035 – 2036	477,247	10,163	487,410
Total	<u>\$ 7,095,640</u>	<u>\$ 466,585</u>	<u>\$ 7,562,225</u>

Compensated Absences

The Authority previously followed GASB Statement No. 16, *Accounting for Compensated Absences*, which was originally adopted in 1995. As of December 31, 2024, the Authority has implemented the provisions of GASB Statement 101, *Compensated Absences*. Under this standard, a liability is recognized for compensated absences when the leave is earned by employees and is attributable to services already rendered, regardless of whether the leave vests or accumulates. This includes all leave expected to be used and compensated in the future. The liability is measured using current pay rates in effect as of the financial statement date, or the pay rates expected to be applied at the time of leave usage, if applicable. Additionally, the liability includes salary-related payments directly associated with the leave, such as the employer’s share of Social Security and Medicare contributions. For the years ended December 31, 2024 and 2023, the Authority accrued compensated absences in the amount of \$376,650 and \$378,766, respectively.

Other Postemployment Benefits Liability

For details on the other postemployment benefits liability, see Note 6: *Postemployment Benefits Other Than Pensions*. The Authority’s contribution into the postemployment benefits plan is budgeted and paid on an annual basis.

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 5: LONG-TERM LIABILITIES (continued)

Net Pension Liability

For details on the net pension liability, see the Pension Obligations in Note 7: *Pension Obligations*. The Authority's annual required contribution to the Public Employees' Retirement System is budgeted and paid on an annual basis.

NOTE 6: OTHER POSTEMPLOYMENT BENEFITS (OPEB)

General Information about the Other Post-employment Benefits Plan

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

The Plan provides medical and prescription drug 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 the eligibility rules and regulations promulgated by the State Health Benefits Commission. Chapter 48 allows local employers to establish their own age and service eligibility for employer paid health benefits coverage for retired employees. Under Chapter 48, the employer may assume the cost of postretirement medical coverage for employees and their dependents who: 1) retired on a disability pension; or 2) retired with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 3) retired and reached the age of 65 with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 4) retired and reached age 62 with at least 15 years of service with the employer. Further, the law provides that the employer paid obligations for retiree coverage may be determined by means of a collective negotiations agreement.

In accordance with Chapter 330, P.L.1997, which is codified in N.J.S.A 52:14-17.32i, the State provides medical and prescription coverage to local police officers and firefighters, who retire with 25 years of service or on a disability from an employer who does not provide postretirement medical coverage. Local employers were required to file a resolution with the Division in order for their employees to qualify for State-paid retiree health benefits coverage under Chapter 330. The State also provides funding for retiree health benefits to survivors of local police officers and firefighters who die in the line of duty under Chapter 271, P.L.1989.

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

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 6: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Basis of Presentation

The schedule of employer and nonemployer allocations and the schedule of OPEB amounts by employer and nonemployer (collectively, the Schedules) present amounts that are considered elements of the financial statements of its participating employers or the State as a nonemployer contributing entity. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of the participating employers or the State. The accompanying Schedules were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of the Plan to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

Allocation Methodology

GASB Statement No. 75 requires participating employers in the Plan to recognize their proportionate share of the collective net OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective OPEB expense (benefit). The special funding situation's and nonspecial funding situation's net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB (benefit) expense are based on separately calculated total OPEB liabilities. For the special funding situation and the nonspecial funding situation, the total OPEB liabilities for the year ended June 30, 2024 were \$4,833,833,875 and \$12,914,432,673, respectively. The nonspecial funding situation's net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB (benefit) expense are further allocated to employers based on the ratio of the plan members of an individual employer to the total members of the Plan's nonspecial funding situation during the measurement period July 1, 2023 through June 30, 2024. Employer and nonemployer allocation percentages have been rounded for presentation purposes; therefore, amounts presented in the schedule of OPEB amounts by employer and nonemployer may result in immaterial differences.

Net OPEB Liability

The components of the collective net OPEB liability of the plan as of June 30, 2024 is as follows:

Total OPEB Liability	\$	17,748,257,548
Plan fiduciary net position		<u>(157,187,957)</u>
Net OPEB liability	\$	<u><u>17,905,445,505</u></u>

The total OPEB liability as of June 30, 2024 was determined by an actuarial valuation as of July 1, 2023, which was rolled forward to June 30, 2024. The actuarial assumptions vary for each plan member depending on the pension plan the member is enrolled in. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 6: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Net OPEB Liability (continued)

Salary Increases*:

Public Employees' Retirement System (PERS)	
Rate for all future years	2.75% to 6.55%
Police and Firemen's Retirement System (PFRS)	
Rate for all future periods	3.25% to 16.25%

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

Pre-retirement healthy mortality

Pre-retirement mortality rates for PERS were based on the PUB-2010 General classification Headcount-weighted mortality table with fully generational improvement projections from the central year using Scale MP-2021. Pre-retirement mortality rates for PFRS were based on the PUB-2010 Safety classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021.

Post-retirement healthy mortality

Post-retirement mortality rates for Chapter 330 retirees were based on the PUB-2010 Safety classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021. Post-retirement mortality rates for other retirees is based on the PUB-2010 General classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021.

Disabled retiree mortality

Disabled retiree mortality rates for PERS future disabled retirees were based on the PUB-2010 General classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021. Disabled retiree mortality rates for PFRS future disabled retirees were based on the PUB-2010 Safety classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021.

Disabled retiree mortality rates for Chapter 330 current retirees were based on the PUB-2010 Safety classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021. Disabled retiree mortality rates for other current retirees were based on the PUB-2010 General classification headcount-weighted disabled mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021.

Actuarial assumptions used in the July 1, 2023 valuation were based on the results of the PFRS and PERS experience studies prepared for July 1, 2018 to June 30, 2021.

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

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 6: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

OPEB Obligation and OPEB (Benefit) Expense

The Authority's proportionate share of the total Other Post-Employment Benefits Obligations was \$11,117,312. The OPEB Obligation was measured as of June 30, 2024, and the total OPEB Obligation used to calculate the OPEB Obligation was determined by an actuarial valuation as of July 1, 2023, which was rolled forward to June 30, 2024. The State's proportionate share of the OPEB Obligation associated with the Authority was based on projection of the State's long-term contributions to the OPEB plan associated with the Authority relative to the projected contributions by the State associated with all participating entities, actuarially determined. At June 30, 2024, the State proportionate share of the OPEB Obligation attributable to the Authority was 0.062089%, which was an increase of 0.002893% from its proportion measured as of June 30, 2023.

For the fiscal year ended June 30, 2024, the State of New Jersey recognized an OPEB (benefit) expense in the amount of \$125,924 for the State's proportionate share of the OPEB (benefit) expense attributable to the Authority. This OPEB (benefit) expense was based on the OPEB plans June 30, 2024, measurement date.

Health Care Trend Assumptions

For pre-Medicare medical benefits, the trend rate is initially 7.50% and decreases to a 4.5% long-term trend rate after nine years. For post-65 medical benefits PPO, the trend rate is increasing to 22.62% in fiscal year 2027 and decreases to 4.50% in fiscal year 2034. For HMO, the trend is increasing to 23.58% in fiscal year 2027 and decreases to 4.50% in fiscal year 2034. For prescription drug benefits, the initial trend rate is 12.75% decreasing to a 4.5% long-term trend rate after nine years. For the Medicare Part B reimbursement, the trend rate is 5.00%.

Discount Rate

The discount rate for June 30, 2024 was 3.93%. This represents the municipal bond return rate as chosen by the State. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

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

The following presents the net OPEB liability as of June 30, 2024, calculated using the healthcare trend rate as disclosed above as well as what the net OPEB liability would be if it was calculated using a healthcare trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 6: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Sensitivity of Net OPEB Liability to Changes in the Healthcare Trend Rate (continued)

	1% Decrease	Healthcare Cost Trend Rate	1% increase
State of New Jersey's Proportionate Share of Total OPEB Obligation Associated with the Authority	\$ 9,402,977	\$ 11,117,312	\$ 13,321,465
State of New Jersey's Total Nonemployer OPEB Liability	\$ 15,144,352,142	\$ 17,905,445,505	\$ 21,455,435,620

Sensitivity of Net OPEB Liability to Changes in the Discount Rate

The following presents the collective net OPEB liability of the participating employers as of June 30, 2024, calculated using the discount rate as disclosed above as well as what the collective net OPEB liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage-point higher than the current rate:

	At 1% Decrease (2.93%)	At Discount Rate (3.93%)	At Discount Rate (4.93%)
State of New Jersey's Proportionate Share of Total OPEB Obligation Associated with the Authority	\$ 12,950,470	\$ 11,117,312	\$ 9,649,115
State of New Jersey's Total Nonemployer OPEB Liability	\$ 20,857,914,273	\$ 17,905,445,505	\$ 15,540,780,410

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 6: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Additional Information

The following is a summary of the deferred outflows of resources, deferred inflows of resources, and net OPEB liability balances as of June 30, 2024:

Balances at December 31, 2024 and December 31, 2023

	<u>12/31/2024</u>	<u>12/31/2023</u>
	June 30, 2024	June 30, 2023
Actuarial valuation date (including roll forward)		
Deferred Outflows of Resources	\$ 4,651,154	\$ 3,604,789
Deferred Inflows of Resources	4,003,785	5,352,551
Net OPEB Liability	11,117,312	8,883,271
Authority's portion of the Plan's total net OPEB Liability	0.06209%	0.05920%

OPEB Deferred Outflows/Inflows of Resources

At December 31, 2024, the Authority's proportionate share of the OPEB outflows and inflows, calculated by the plan as of the June 30, 2024 measurement date is \$4,651,154 and \$4,003,785, respectively. At December 31, 2024, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 563,013	\$ 1,883,655
Changes of Assumptions	1,858,604	1,845,404
Net Difference between Projected and Actual Earnings on Pension	-	5,032
Changes in Proportion	2,229,537	269,694
	<u>\$ 4,651,154</u>	<u>\$ 4,003,785</u>

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 6: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

OPEB Deferred Outflows/Inflows of Resources (continued)

The following is a summary of the deferred outflows of resources and deferred inflows of resources related to OPEB that will be recognized in future periods:

Year Ending	
<u>Dec 31,</u>	
2025	\$ (417,887)
2026	(20,473)
2027	228,347
2028	4,716
2029	104,609
Thereafter	<u>748,057</u>
	<u><u>\$ 647,369</u></u>

The previous amounts do not include employer specific deferred outflows of resources and deferred inflow of resources related to the changes in proportion. These amounts should be recognized (amortized) by each employer over the average remaining service lives of all plan members, which is 7.89, 7.89, 7.82, 7.82, 7.87, 8.05, 8.14 and 8.04 years for the 2024, 2023, 2022, 2021, 2020, 2019, 2018 and 2017 amounts, respectively.

Plan Membership

At July 1, 2023, the Program membership consisted of the following:

Active Plan Members	60,691
Retirees Currently Receiving Benefits	<u>28,899</u>
Total Plan Members	<u>89,590</u>

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 6: OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

Changes in the Total OPEB Liability

The change in the State's Total OPEB liability for the measurement date June 30, 2024, is as follows:

Service Cost	\$	545,086,159
Interest on the Total OPEB Liability		554,448,470
Changes of Benefit Terms		107,670,542
Differences Between Expected and Actual Experience		408,491,660
Changes of Assumptions		1,735,990,164
Contributions from the Employer		(399,436,504)
Contributions from Non-Employer Contributing Entities		(62,827,411)
Net Investment Income		(1,636,336)
Administrative Expenses		11,119,284
		15,006,539,477
Net Change in Total OPEB Liability		2,898,906,028
Total OPEB Liability (Beginning)		15,006,539,477
Total OPEB Liability (Ending)	\$	17,905,445,505

NOTE 7: PENSION OBLIGATIONS

Public Employees' Retirement System (PERS)

Plan Description

The State of New Jersey, Public Employees' Retirement System (PERS) is a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the Division). For additional information about PERS, please refer to Division's annual financial statements, which can be found at <http://www.state.nj.us/treasury/pensions/annual-reports.shtml>.

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

The following represents the membership tiers for PERS:

Tier	Definition
1	Members 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

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 7: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

Plan Description (continued)

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

Basis of Presentation

The schedules of employer and nonemployer allocations and the schedules of pension amounts by employer and nonemployer (collectively, the Schedules) present amounts that are considered elements of the financial statements of PERS or its participating employers. Accordingly, they do not purport to be a complete presentation of the financial position or changes in financial position of PERS or the participating employers. The accompanying Schedules were prepared in accordance with U.S. generally accepted accounting principles. Such preparation requires management of PERS to make a number of estimates and assumptions relating to the reported amounts. Due to the inherent nature of these estimates, actual results could differ from those estimates.

Contributions

The contribution policy for PERS is set by *N.J.S.A. 43:15A* and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contribution is based on an actuarially determined amount, which includes the employer portion of the normal cost and an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid. For the fiscal year 2024, the State's pension contribution was more than the actuarial determined amount. The local employers' contribution amounts are based on an actuarially determined rate, which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012 and will be adjusted by the rate of return on the actuarial value of assets. For the year ended December 31, 2024, the Authority's contractually required contribution to PERS plan was \$397,423.

Components of Net Pension Liability

At December 31, 2024, the Authority's proportionate share of the PERS net pension liability was \$3,968,634. The net pension liability was measured as of June 30, 2024. The total pension liability used to calculate the net pension liability was determined using updated procedures to roll forward the total pension liability from an actuarial valuation as of July 1, 2023, which was rolled forward to June 30,

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 7: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

Components of Net Pension Liability (continued)

2024. The Authority's proportion of the net pension liability was based on the Authority's actual contributions to the plan relative to the total of all participating employers' contributions for the year ended June 30, 2024. The Authority's proportion measured as of June 30, 2024, was 0.0292068069% which was a decrease of 0.0008671027% from its proportion measured as of June 30, 2023.

Balances at December 31, 2024 and December 31, 2023

	<u>12/31/2024</u>	<u>12/31/2023</u>
Actuarial valuation date (including roll forward)	June 30, 2024	June 30, 2023
Deferred Outflows of Resources	\$ 435,270	\$ 594,099
Deferred Inflows of Resources	535,558	705,937
Net Pension Liability	3,968,634	4,356,018
Authority's portion of the Plan's total Net Pension Liability	0.02921%	0.03007%

Pension Expense/(Credit) and Deferred Outflows/Inflows of Resources

At June 30, 2025 OR December 31, 2024, the Authority's proportionate share of the PERS expense/(credit), calculated by the plan as of the June 30, 2024 measurement date is \$11,730. At December 31, 2024, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between Expected and Actual Experience	\$ 79,499	\$ 10,566
Changes of Assumptions	4,930	45,154
Net Difference between Projected and Actual Earnings on Pension Plan Investments	-	184,015
Changes in Proportion and Differences between Authority Contributions and Proportionate Share of Contributions	<u>350,841</u>	<u>295,823</u>
	<u>\$ 435,270</u>	<u>\$ 535,558</u>

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 7: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

Pension Expense/(Credit) and Deferred Outflows/Inflows of Resources (continued)

The following is a summary of the deferred outflows of resources and deferred inflows of resources related to PERS that will be recognized in future periods:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2025	\$ (157,495)
2026	141,383
2027	(64,006)
2028	(32,299)
2029	<u>12,129</u>
	<u>\$ (100,288)</u>

Special Funding Situation

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

Additionally, the State has no proportionate share of the PERS net pension liability attributable to the Authority as of December 31, 2024. At December 31, 2024, the State's proportionate share of the PERS expense, associated with the Authority, calculated by the plan as of the June 30, 2024 measurement date was \$12,795.

Actuarial Assumptions

The total pension asset/(liability) as of the measurement date was determined by using an actuarial valuation as noted in the table below, with updated procedures used to roll forward the total pension liability to the measurement date. The actuarial valuations used the following actuarial assumptions:

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 7: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

Actuarial Assumptions (continued)

Inflation:	
Price	2.75%
Wage	3.25%
 Salary Increases:	
	2.75 - 6.55%
	Based on Years of Service
 Investment Rate of Return	 7.00%

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

The actuarial assumptions used in the July 1, 2023 valuation were based on the results of an actuarial experience study for the period July 1, 2018 to June 30, 2021.

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2024) 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, 2024 are summarized in the following table:

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 7: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

Long-Term Expected Rate of Return (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	28.00%	8.63%
Non-U.S. Developed Markets Equity	12.75%	8.85%
International Small Cap Equity	1.25%	8.85%
Emerging Markets Equity	5.50%	10.66%
Private Equity	13.00%	12.40%
Real Estate	8.00%	10.95%
Real Assets	3.00%	8.20%
High Yield	4.50%	6.74%
Private Credit	8.00%	8.90%
Investment Grade Credit	7.00%	5.37%
Cash Equivalents	2.00%	3.57%
U.S. Treasuries	4.00%	3.57%
Risk Mitigation Strategies	3.00%	7.10%
	<u>100.00%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2024. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers and the nonemployer contributing entity will be based on 100% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for the local employers. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all projected benefit payments to determine the total pension liability.

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 7: PENSION OBLIGATIONS (continued)

Public Employees' Retirement System (PERS) (continued)

Sensitivity of the Authority's proportionate share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability calculated using the discount rate as disclosed above, as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Authority's Proportionate Share of the Net Pension Liability	\$ 5,317,728	\$ 3,968,634	\$ 2,882,398

NOTE 8: 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 contracts for commercial liability insurance for property, general liability, auto liability, public official liability, law enforcement liability, workers compensation, and employee health and life insurance. There was no significant reduction in insurance coverage for each of the past two years. There were no settlements in excess of insurance coverage for 2024 and 2023.

NOTE 9: CONTRACTS

The Authority's union contract with the Communication Workers of America Local 1075 expired as of December 31, 2022. The Authority is in negotiations with the union for a new contract and at the August 21, 2023, Board of Commissioners meeting, the Commissioners voted to approve a Memorandum of Agreement for a new union contract for the period January 1, 2023 to December 31, 2026. The Memorandum of Agreement provides for annual salary increases and adjustment to employee benefits.

NOTE 10: SAFETY, ENVIRONMENTAL AND LITIGATION MATTERS

On April 27, 2023, the Authority was issued ten (10) Violations from the New Jersey Department of Labor and Workforce Development Office of Public Employees Occupational Safety and Health (PEOSH) arising from a workplace accident occurring in May 2022. The Authority has filed a Notice to Contest Citations and Abatement Dates. Four (4) of the violations are listed as Willful-Serious which include a \$42,000 fine for each fine, resulting in a total of \$168,000. The Authority has retained a safety consultant to assist the Authority in addressing the alleged violations. The Authority has recently entered into a settlement Agreement with PEOSH reducing the fine to \$126,000 payable over 3 years. The underlying event, the death of an Authority employee, is presently being handled by the JIF (the Authority's Insurance Company) as a dependency worker's compensation matter. A notice of Claim alleging wrongful death was received by the Authority in August 2022. This matter was referred to the JIF for coverage. The JIF has informed the Authority's Attorney that they have denied the claim based upon worker's compensation as the exclusive remedy for workplace accidents. As of the date of this

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 10: SAFETY, ENVIRONMENTAL AND LITIGATION MATTERS (continued)

report, the Authority is not aware of any other claims or action against the Authority with respect to this matter and it is uncertain whether any future actions or claims will be brought against the Authority.

NOTE 11: DEFICIT UNRESTRICTED NET POSITION

The Authority had a deficit in unrestricted net position in the amount of (\$10,315,367) at December 31, 2024. The primary cause of this deficit is due to the recording of the net pension liability and other net postemployment benefit liability, as required by generally accepted accounting principles. If this was not required, the unrestricted net position before the net pension liability and net other postemployment benefit liability and deferred outflows and inflows related to these liabilities would be \$4,223,498 as of December 31, 2024. This deficit in unrestricted net position does not indicate that the Authority is facing financial difficulties.

NOTE 12: PRIOR PERIOD RESTATEMENT

During the fiscal year ended December 31, 2024, the Authority implemented GASB Statement No. 101, *Compensated Absences*, which requires governments to recognize a liability for compensated absences when the leave is earned, rather than when it becomes payable. The standard also expands the types of compensated absences that must be recognized, including certain non-vesting leave such as parental, military, and jury duty leave.

Impact of the Restatement

As a result of implementing GASB 101, compensated absences payable and unrestricted net position was restated to reflect the updated liability for compensated absences, expense accounts and the related cash flow activities. During the year ended December 31, 2023, the restatement affects the following accounts:

1. **Statements of Net Position:** Compensated Absences Payable have been increased by \$261,231 to reflect the increase in the liability as result of implementation of GASB 101.
2. **Statements of Revenue, Expenses and Changes in Net Position:** Total Operating expenses increased by \$61,345 to reflect the increase in compensated absences related to GASB 101. Net loss increased by \$199,886 to reflect the implementation of GASB 101.
3. **Unrestricted Net Position:** The net impact on net position at the beginning of the earliest comparative period is decrease of \$149,821 reflecting the cumulative effect of the adjustments.

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Notes to Financial Statements (continued)

NOTE 12: PRIOR PERIOD RESTATEMENT (continued)

A summary of the restatement's effect on the relevant financial statement line items is presented below:

	2023		2023
	As Previously		As Restated
	Reported	Adjustment	
	<u> </u>	<u> </u>	<u> </u>
Statement of Net Position			
Compensated absences	\$ 117,535	\$ 261,231	\$ 378,766
Unrestricted net position	(10,671,608)	(261,231)	(10,932,839)
Statement of Revenue, Expenses and Changes in Net Position			
Total operating expenses	12,061,245	61,345	12,122,590
Net income	(1,618,527)	(61,345)	(1,679,872)
Statement of Cash Flows			
Increase/(decrease) in compensated absences	(13,480)	61,345	47,865

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
 (A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
 Schedule of the Authority's Proportionate Share of the Net Pension Liability
 Public Employees' Retirement System
 Last Ten Fiscal Years

	Measurement Date Ended June 30,									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Authority's proportion of the net pension liability (asset)	0.02921%	0.03007%	0.03024%	0.02568%	0.02901%	0.03093%	0.03130%	0.02989%	0.03052%	0.02733%
Authority's proportionate share of the net pension liability (asset)	\$ 3,968,634	\$ 4,356,018	\$ 4,563,777	\$ 3,042,650	\$ 4,730,806	\$ 5,573,065	\$ 6,163,588	\$ 6,957,955	\$ 9,038,671	\$ 6,118,520
Authority's covered-employee payroll	\$ 2,247,188	\$ 3,613,366	\$ 3,073,323	\$ 3,415,955	\$ 3,538,366	\$ 3,556,328	\$ 3,376,503	\$ 3,454,742	\$ 3,118,525	\$ 3,450,196
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	176.60%	120.55%	148.50%	89.07%	133.70%	156.71%	182.54%	201.40%	289.84%	177.34%
Plan fiduciary net position as a percentage of the total pension liability	68.22%	65.23%	62.91%	70.33%	56.27%	56.27%	53.60%	48.10%	40.14%	47.93%

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
 (A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
 Schedule of Authority Contributions
 Public Employees' Retirement System
 Last Ten Fiscal Years

	For the Year Ended December 31,									
	2024	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 397,423	\$ 401,946	\$ 381,353	\$ 300,789	\$ 317,357	\$ 300,855	\$ 311,373	\$ 276,901	\$ 271,121	\$ 224,698
Contributions in relation to the contractually required contribution	(397,423)	(401,946)	(381,353)	(300,789)	(317,357)	(300,855)	(311,373)	(276,901)	(271,121)	(224,698)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered-employee payroll	\$ 3,010,677	\$ 2,247,188	\$ 3,613,366	\$ 3,073,323	\$ 3,415,955	\$ 3,538,366	\$ 3,556,328	\$ 3,376,503	\$ 3,454,742	\$ 3,118,525
Contributions as a percentage of covered-employee payroll	13.20%	17.89%	10.55%	9.79%	9.29%	8.50%	8.76%	8.20%	7.85%	7.21%

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
 (A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
 Schedule of the Authority's Proportionate Share of the Net Other Post-Employment Benefit Liability
 Local Government Retired Employees Plan
 Last Seven Fiscal Years *

	Measurement Date Ended June 30,						
	2024	2023	2022	2021	2020	2019	2018
Authority's proportion of the other postemployment benefit liability (asset)	0.06209%	0.05920%	0.05176%	0.04927%	0.04990%	0.04739%	0.05118%
Authority's proportionate share of the net other postemployment benefit liability (asset)	\$ 111,117,312	\$ 8,883,271	\$ 8,359,354	\$ 8,867,772	\$ 5,956,078	\$ 6,419,889	\$ 8,017,548
Authority's covered-employee payroll	\$ 2,247,188	\$ 3,613,366	\$ 3,073,323	\$ 3,415,955	\$ 3,538,366	\$ 3,556,328	\$ 3,376,503
Authority's proportionate share of the net other postemployment benefit liability (asset) as a percentage of its covered-employee payroll	494.72%	245.84%	272.00%	259.60%	168.33%	180.52%	237.45%
Plan fiduciary net position as a percentage of the total other postemployment benefit liability	(0.89%)	(0.79%)	(0.36%)	0.28%	0.91%	1.98%	1.97%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, governments should present information for those years for which information is available.

**TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF MIDDLETOWN, COUNTY OF
MONMOUTH, STATE OF NEW JERSEY)
Notes to the Required Supplementary Information**

Public Employees' Retirement System (PERS)

Changes of Benefit Terms

None.

Changes of Assumptions

The discount rate used as of June 30, measurement date is as follows:

<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>
2024	7.00%	2019	6.28%
2023	7.00%	2018	5.66%
2022	7.00%	2017	5.00%
2021	7.00%	2016	3.98%
2020	7.00%	2015	4.90%

The long-term expected rate of return used as of June 30, measurement date is as follows:

<u>Year</u>	<u>Rate</u>	<u>Year</u>	<u>Rate</u>
2024	7.00%	2019	7.00%
2023	7.00%	2018	7.00%
2022	7.00%	2017	7.00%
2021	7.00%	2016	7.65%
2020	7.00%	2015	7.90%

The mortality assumption was updated upon the direction from the Division of Pensions and Benefits.

Other Post-Employment Benefits (OPEB)

Changes in Benefits

The change in benefit terms from June 30, 2023, to June 30, 2024 was a result of employers adopting and or changing Chapter 48 provisions.

Differences Between Expected and Actual Experiences

The differences between expected and actual experiences from June 30, 2023 to June 30, 2024 was a result of an update in census information, and premiums and claims experience.

Changes of Assumptions

The increase in changes in assumptions from June 30, 2023 to June 30, 2024 is a result of a change in the discount rate, trend update, and an experience study update.

**TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A COMPONENT UNIT OF THE TOWNSHIP OF MIDDLETOWN, COUNTY OF
MONMOUTH, STATE OF NEW JERSEY)
Notes to the Required Supplementary Information (continued)**

Other Post-Employment Benefits (OPEB) (continued)

Changes of Assumptions (continued)

The discount rate used as of June 30, measurement date for the last eight fiscal years is as follows:

<u>Year</u>	<u>Rate</u>
2024	3.93%
2023	3.65%
2022	3.54%
2021	2.16%
2020	2.21%
2019	3.50%
2018	3.87%
2017	3.58%
2016	2.85%

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Schedule of Revenues and Expenses - Budget to Actual
For the Year Ended December 31, 2024

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Revenues:				
User charges	\$ 12,975,486	\$ 12,975,486	\$ 13,631,118	\$ 655,632
Connection fees	400,000	400,000	999,034	599,034
Other operating revenue	30,000	30,000	876,761	846,761
	<u>13,405,486</u>	<u>13,405,486</u>	<u>15,506,913</u>	<u>2,101,427</u>
Total operating revenues				
Expenses:				
Administrative expenses:				
Salaries	805,000	805,000	795,994	9,006
Payroll taxes and fringe benefits	297,700	297,700	280,413	17,287
Administration - other:				
Advertising	12,000	12,000	4,312	7,688
Insurance	92,000	92,000	72,817	19,183
Miscellaneous	12,300	12,300	2,584	9,716
Office expenses	67,850	67,850	167,003	(99,153)
Postage	45,000	45,000	31,660	13,340
Printing	8,000	8,000	2,437	5,563
Professional fees	198,350	198,350	301,023	(102,673)
Repairs and maintenance	24,000	24,000	24,093	(93)
Safety	5,000	5,000	3,080	1,920
Training and education	17,500	17,500	20,164	(2,664)
Travel and memberships	12,000	12,000	32,642	(20,642)
Utilities	27,000	27,000	22,214	4,786
	<u>1,623,700</u>	<u>1,623,700</u>	<u>1,760,436</u>	<u>(136,736)</u>
Total administrative expenses				
Cost of providing services:				
Salaries	3,503,000	3,503,000	3,447,649	55,351
Payroll taxes and fringe benefits	1,597,100	1,597,100	1,773,306	(176,206)
Treatment plant:				
Chemicals	467,000	467,000	485,482	(18,482)
Fuel, gas and oil - vehicles	45,000	45,000	44,338	662
Insurance	172,500	172,500	147,120	25,380
MCBOA regional fees	975,000	975,000	966,765	8,235
Repairs and maintenance	850,000	850,000	863,576	(13,576)
Safety and uniforms	176,000	176,000	176,390	(390)
Sludge disposal and testing	925,000	925,000	929,711	(4,711)
Utilities	755,000	755,000	758,747	(3,747)
Collection system:				
Chemicals	27,000	27,000	8,183	18,817
Repairs and maintenance	4,000	4,000	-	4,000
	<u>9,496,600</u>	<u>9,496,600</u>	<u>9,601,267</u>	<u>(104,667)</u>
Total cost of providing services				
	<u>11,120,300</u>	<u>11,120,300</u>	<u>11,361,703</u>	<u>(241,403)</u>
Total expenses				

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Schedule of Revenues and Expenses - Budget to Actual (continued)
For the Year Ended December 31, 2024

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE
Non-operating revenues:				
Interest income	150,000	150,000	151,292	1,292
Total non-operating revenues	150,000	150,000	151,292	1,292
Non-operating expenses:				
Principal payments on debt service	1,126,830	1,126,830	1,126,830	-
Interest payments on debt service	153,356	153,356	153,356	-
Renewal & replacement reserve	400,000	400,000	-	400,000
Other reserves	455,000	455,000	-	455,000
Municipal appropriation	300,000	300,000	-	300,000
Total non-operating expenses	2,435,186	2,435,186	1,280,186	1,155,000
Excess (deficit) revenues over expenses	\$ -	\$ -	3,016,316	\$ 3,016,316
Plus:				
Principal payments on debt service			1,126,830	
Amortization			11,931	
Change in accrued interest			10,712	
Less:				
Depreciation			(2,928,252)	
Unbudgeted other postemployment benefit/(expense)			161,090	
Unbudgeted pension benefit/(expense)			403,457	
Change in net position per statements of revenues, expenses and changes in net position			\$ 1,802,084	

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Schedule of Revenues and Expenses - Budget to Actual
For the Year Ended December 31, 2023

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL (Restated)</u>	<u>VARIANCE</u>
Revenues:				
User charges	\$ 10,302,490	\$ 10,302,490	\$ 10,458,572	\$ 156,082
Connection fees	537,390	537,390	455,516	(81,874)
Other operating revenue	30,000	30,000	83,701	53,701
	<u>10,869,880</u>	<u>10,869,880</u>	<u>10,997,789</u>	<u>127,909</u>
Expenses:				
Administrative expenses:				
Salaries	405,000	405,000	687,437	(282,437)
Payroll taxes and fringe benefits	217,929	217,929	234,541	(16,612)
Administration - other:				
Advertising	12,000	12,000	16,240	(4,240)
Insurance	92,000	92,000	64,810	27,190
Miscellaneous	12,300	12,300	16,977	(4,677)
Office expenses	17,500	17,500	93,000	(75,500)
Postage	45,000	45,000	46,769	(1,769)
Printing	8,000	8,000	9,005	(1,005)
Professional fees	148,000	148,000	246,048	(98,048)
Repairs and maintenance	24,000	24,000	115,394	(91,394)
Safety	5,000	5,000	33,071	(28,071)
Training and education	17,500	17,500	14,606	2,894
Travel and memberships	12,000	12,000	11,284	716
Utilities	27,000	27,000	15,371	11,629
	<u>1,043,229</u>	<u>1,043,229</u>	<u>1,604,553</u>	<u>(561,324)</u>
Cost of providing services:				
Salaries	2,745,000	2,745,000	2,708,456	36,544
Payroll taxes and fringe benefits	1,477,071	1,477,071	1,512,461	(35,390)
Treatment plant:				
Chemicals	375,000	375,000	417,678	(42,678)
Fuel, gas and oil - vehicles	45,000	45,000	40,276	4,724
Insurance	172,500	172,500	147,152	25,348
MCBOA regional fees	950,000	950,000	940,507	9,493
Repairs and maintenance	650,000	650,000	751,672	(101,672)
Safety and uniforms	16,000	16,000	218,788	(202,788)
Sludge disposal and testing	875,000	875,000	816,185	58,815
Utilities	660,000	660,000	795,620	(135,620)
Collection system:				
Chemicals	27,000	27,000	15,113	11,887
Repairs and maintenance	4,000	4,000	-	4,000
	<u>7,996,571</u>	<u>7,996,571</u>	<u>8,363,908</u>	<u>(367,337)</u>
Total cost of providing services	<u>7,996,571</u>	<u>7,996,571</u>	<u>8,363,908</u>	<u>(367,337)</u>
Total expenses	<u>9,039,800</u>	<u>9,039,800</u>	<u>9,968,461</u>	<u>(928,661)</u>

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Schedule of Revenues and Expenses - Budget to Actual (continued)
For the Year Ended December 31, 2023

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL (Restated)</u>	<u>VARIANCE</u>
Non-operating revenues:				
Interest income	12,045	12,045	121,798	109,753
Total non-operating revenues	12,045	12,045	121,798	109,753
Non-operating expenses:				
Bond administrative fees	-	-	27,315	(27,315)
Principal payments on debt service	1,099,276	1,099,276	1,099,276	-
Interest payments on debt service	177,956	177,956	177,956	-
Municipal appropriation	507,079	507,079	507,079	-
Total non-operating expenses	1,784,311	1,784,311	1,811,626	(27,315)
Excess (deficit) revenues over expenses	<u>\$ 57,814</u>	<u>\$ 57,814</u>	(660,500)	<u>\$ (718,314)</u>
Plus:				
Principal payments on debt service			1,099,276	
Amortization			11,931	
Gain on sale of assets			8,550	
Change in accrued interest			10,250	
Contributed capital			4,750	
Less:				
Depreciation			(2,712,962)	
Unbudgeted other postemployment benefit/(expense)			395,109	
Unbudgeted pension benefit/(expense)			<u>163,724</u>	
Change in net position per statements of revenues, expenses and changes in net position			<u>\$ (1,679,872)</u>	

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
 (A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
 Schedule of Debt Service Requirements by Years
 December 31, 2024

Year Ended December 31,	Revenue Bonds (Series 2008 A)			
	Annual Interest Rate	Principal	Interest	Total
2025	4.500%	\$ 861,382	\$ 92,750	\$ 954,132
2026	4.500%	883,613	69,300	952,913
2027	4.500%	902,074	47,160	949,234
2028	4.250%	926,845	24,120	950,965
	Total	\$ 3,573,914	\$ 233,330	\$ 3,807,244

TOWNSHIP OF MIDDLETOWN SEWERAGE AUTHORITY
(A Component Unit of the Township of Middletown, County of Monmouth, State of New Jersey)
Schedule of Debt Service Requirements by Years (continued)
December 31, 2024

Year Ended December 31,	Revenue Bonds (Series 2017 A-1)			
	Annual Interest Rate	Principal	Interest	Total
2025	5.000%	\$ 292,448	\$ 34,756	\$ 327,204
2026	3.000%	297,448	31,006	328,454
2027	3.000%	297,448	28,606	326,054
2028	3.000%	297,448	26,206	323,654
2029	3.000%	302,448	23,806	326,254
2030	3.000%	307,448	21,256	328,704
2031	3.000%	307,448	18,556	326,004
2032	3.000%	312,448	15,856	328,304
2033	3.125%	312,448	13,006	325,454
2034	3.250%	317,448	10,038	327,486
2035	3.250%	322,448	6,788	329,236
2036	3.375%	154,798	3,375	158,173
Total		\$ 3,521,726	\$ 233,255	\$ 3,754,981

To the Chairman and Members
Township of Middletown Sewerage Authority
County of Monmouth
Belford, New Jersey

We have audited the financial accounts and transactions of the Township of Middletown Sewerage Authority (hereafter referred to as the Authority), a component unit of the Township of Middletown, County of Monmouth, State of New Jersey for the year ended December 31, 2024. In accordance with requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the following are the *General Comments* and *Recommendations* for the year then ended.

GENERAL COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required to be Advertised by (N.J.S.A.40A:11-4)

N.J.S.A.40A:11-4 - Every contract or agreement, for the performance of any work or furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of public funds not included within the terms of Section 3 of this act, shall be made or awarded only by the governing body of the contracting unit after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other Law. No work, materials or supplies shall be undertaken, acquired, or furnished for a sum exceeding in the aggregate \$44,000, except by contract or agreement.

The Authority has a qualified purchasing agent on staff and therefore may award contracts up to \$44,000 from without competitive bids.

The Authority has the responsibility of determining whether the expenditures in any category will exceed the statutory minimum within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the solicitor's opinion should be sought before a commitment is made. The results of our examination did not disclose any discrepancies.

Contracts and Agreements Required Solicitation of Quotations

The examination of expenditures revealed individual payments, contracts or agreements in excess of \$6,600 "for the performance of any work or the furnishing or hiring of any materials or supplies", other than those where bids had been previously sought by public advertisement or where a resolution had been previously adopted under the provision of (*N.J.S.A.40A:11-6.1*).

The supporting documentation indicated that quotes were requested for all items that required them.

Examination of Cash Receipts

A test check of cash receipts was performed. The results of the test did not disclose any discrepancies.

Examination of Bills

A test check of paid bills was made and each bill, upon proper approval, was considered as a separate and individual contract unless the records disclosed it to be a part payment or estimate. The results of the examination did not disclose any discrepancies with respect to signatures, certification or supporting documentation.

Examination of Payroll

The examination of the payroll account included the detailed computation of various deductions or other credits from the payroll of the Authority employees and ascertained that the accumulated withholdings were disbursed to the proper agencies.

Examination of Capital Assets

The capital asset subsidiary ledger was maintained properly and a reconciliation between the physical and perpetual inventory records was performed at year-end.

Budget Adoption

The State of New Jersey requires that the Authority's operating and capital budgets be approved and adopted for each fiscal year. The Authority approved its 2024 operating and capital budget on October 16, 2023, and adopted its operating and capital budget on November 20, 2023. The results of our tests disclosed instances of noncompliance as follows:

Current Year Findings:

Finding 2024-001: Budgetary Over Expenditures

Deficiency: State of New Jersey Statue 5:31-2.3 provides that the Authority shall adopt an annual budget by resolution of the Authority and any budget amendments or transfers must be adopted by resolution by the Authority in accordance with State of New Jersey Statute 5:31-2.8. The financial information for the year ended December 31, 2024, included budgetary over-expenditures in total appropriations that were results of ineffective cost monitoring.

Cause: Because these over-expenditures were not detected prior to the information being provided for audit, there is an indication that the monitoring and review of financial information by management, is not being effectively performed.

Recommendation: The Authority should implement a formal review and monitoring process at least on an annual basis to review costs against the budget to identify potential over-expenditures. Budget amendments should be made in accordance with State of New Jersey Statute 5:31-2.8 prior to committing funds.

Management's response: Management will ensure effective budgetary monitoring is in place and budget amendments are made in accordance with State of New Jersey Statues.

Finding 2024-002 General Ledger Maintenance

The Authority does not currently have a formal close process and does not maintain its general ledger in accordance with generally accepted accounting principles (GAAP). We specifically noted the following issues:

Capital Assets and Construction in Progress Tracking

Deficiency: Our review of the Authority's capital asset records, it was noted that capital assets and construction in progress tracking had not been correctly recorded in the Authority's records. Additionally, it was also noted that there were assets recorded on the Authority's records that were no longer in use.

Cause: The Authority had not prepared or reviewed the Authority's capital asset support prior to the financial information being turned over for audit.

Recommendation: A complete appraisal of capital assets, should be performed, which will be the best and most efficient method for developing an accurate listing of all capital assets. Additionally, the Authority should develop policies and procedures for tracking capital assets and construction in progress additions and deletions to ensure an accurate accounting for capital assets. Specifically, the listing should include the following data:

- Description of the asset;
- Cost, voucher number, and vendor name;
- Date placed in service;
- Estimated useful life;
- Depreciation method;
- Depreciation expense and accumulated depreciation for the year; and
- Date asset was retired and selling price if applicable.

Management's response: Management will ensure proper segregation of duties and enhanced oversight, providing improved internal controls. Financial procedures and standard operating procedures will be revised, formalized, and put into place.

Billings

Deficiency: During the audit, our procedures disclosed that certain revenue for services performed in 2024 were not properly accrued during the year under audit. A reliable cutoff is critical to the accuracy and reliability of the billings and the lack of adequate internal controls and procedures to ensure proper cutoff of revenue transactions may result in material financial statement misstatements.

Cause: Management did not implement a reliable cutoff process to ensure the accurate and timely recording of billings. Additionally, the absence of sufficient internal controls and procedures to properly manage the cutoff of revenue transactions increases the risk of material misstatements in the financial statements.

Recommendation: We recommend that the Authority put in place necessary controls and procedures that require that all revenue is recognized in the proper period.

Management's response: Management will enhance internal controls and review procedures to ensure proper recording of revenue transactions in accordance with established guidelines and regulations.

Follow-Up of Prior Years' Findings

In accordance with *government auditing standards* and audit requirements prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, our procedures included a review of all prior year's findings. During the current year, it was noted that the Authority had prior-year findings 2023-001 and 2023-002. Finding 2023-001 was corrected during the current year, while finding 2023-002 remains and has been reported as current year finding 2024-001.

Acknowledgment

We received the complete cooperation of all the Authority officials and employees and we greatly appreciate the courtesies extended to the members of the audit team.

During our audit we did not note any problems or weaknesses significant enough that would affect our ability to express an opinion on the financial statements taken as a whole. Should you have any questions, please feel free to reach out to us.

Holman Frenia Allison, P.C.

HOLMAN FRENIA ALLISON, P.C.

Certified Public Accountants

November 6, 2025
Lakewood, New Jersey