TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY

COUNTY OF SOMERSET NEW JERSEY

FINANCIAL REPORT MAY 31, 2019

HODULIK & MORRISON, P.A.

A division of PKF O'CONNOR DAVIES

ACCOUNTANTS AND ADVISORS

TOWNSHIP OF FRANKLIN
SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY

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HODULIK & MORRISON, P.A. A division of
PKF O'CONNOR DAVIES
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INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members of the
Township of Franklin Sewerage Authority
Somerset County, New Jersey

Report on Financial Statements

We have audited the accompanying statement of net position of the Township of Franklin Sewerage Authority ("Authority"), Somerset County, New Jersey as of and for the years ended May 31, 2019 and 2018, and the related notes to the financial statements and the related statements of revenues, expenses and changes in net position and cash flows for the periods ended, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

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An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Township of Franklin Sewerage Authority, Somerset County, New Jersey, as of May 31, 2019 and 2018, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in the notes to the financial statements, during the year ending May 31, 2019, the provisions of Statement Number 75 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75) became applicable to governmental entities reporting under accounting principles generally accepted in the United States of America. The Authority adopted this new accounting guidance as set forth within its financial statements. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information - Part I and Part II - Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Township of Franklin Sewerage Authority, Somerset County, New Jersey, basic financial statements.

The accompanying other supplementary information, Part III – Single Audit Section, consisting of the schedule of expenditures of federal financial assistance as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award (Uniform Guidance)* is presented for purposes of additional analysis and is not a required part of the financial statements.

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

The schedules and information contained in Part IV – Other Supplemental Information and Schedules, as listed in the table of contents, are presented for the purposes of additional analysis and are not a required part of the financial statements, have not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion, or provide any assurance on them.

Other Reporting Required by Governmental Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated on November 6, 2019 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Hodulik & Morrison, P.A

HODULIK & MORRISON, P.A.
A division of PKF O'Connor Davies
Certified Public Accountants
Registered Municipal Accountants

Andrew G. Hodulik
Registered Municipal Accountant
No. 406

Cranford, New Jersey
November 6, 2019

PART I - REQUIRED SUPPLEMENTARY INFORMATION

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

This section of The Township of Franklin Sewerage Authority's (the Authority) annual financial report presents the analysis of the Authority's financial performance during the fiscal year ended May 31, 2019.

FINANCIAL HIGHLIGHTS

- Operating revenues on a budgetary basis were $14,797,315.33 (Schedule 1) for the year ended May 31, 2019. This is -$337,735.84, or a 2.23% decrease, from the previous year.
- The Authority does not have any funds classified as investments as at May 31, 2019.
- Net Position increased by $1,384,249.34 or 2.34% over last year.
- The Authority's Capital Assets – Net increased by $3,894,322.70 or 5.61% over last year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority is a corporate and politic body organized under the laws of the State of New Jersey. The Comprehensive Annual Financial Report is presented in two sections: Financial Statements and Notes, Supplemental Schedules and comments. The Financial section includes Management's Discussion and Analysis and Financial Statements with notes. The Supplemental Schedules include detailed financial information along with general comments and recommendations from the Independent Auditor's Reports. The Authority adopted the Governmental Accounting Standards Board (GASB) Statement 34 for the fiscal period ended May 31, 2004. In addition, as indicated throughout this report, the Authority adopted Governmental Accounting Standards Board (GASB) Statement 75 for the fiscal period ended May 31, 2019, which resulted in a restatement of the financial statements for the year ended May 31, 2018 and the Authority's total net position at June 1, 2017.

REQUIRED FINANCIAL STATEMENTS

The financial statements report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities.

The **Statement of Net Position** includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority's creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

The **Statement of Revenues, Expenses and Changes in Net Position** accounts for all of the current year's revenues and expenses. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all of its costs through its user fees and other charges. This statement also measures the Authority's profit and credit worthiness.

The **Statement of Cash Flows** provides information about the Authority's cash receipts and cash payments during the reporting period. This statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing and financing activities. This statement provides the answers to such questions as "where did the cash come from, what was the cash used for, and what was the change in the cash balance during the reporting period?"

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

One of the most important questions asked about the Authority's finances is "Is the Authority, as a whole, better or worse off as a result of the year's activities?" The Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position report information about the Authority's activities in a way that will help answer this question. These two statements report the net position of the Authority, and changes in them. The Authority's net position – the difference between assets and liabilities – are a measurement of the financial health or financial position.

Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, customer growth and legislative mandates also need to be considered.

NET POSITION

The Authority's total net position increased from last year by 2.32%. The analysis, which follows focuses on the Authority's net position (Table A-1) and changes in in net position (Table A-2) during the year.

Table A-1
Net Position

	MAY 31,			2019-2018 INCREASE(DECREASE)		2018-2017 INCREASE(DECREASE)	
	2019	**2018**	**2017**	**$**	**%**	**$**	**%**
		(Restated)	(Restated)				
Current and Other Assets	$ 32,890,090.21	$ 37,083,342.15	$ 40,060,285.21	$ (4,193,251.94)	-12.75%	$ (2,976,943.06)	-7.43%
Capital Assets	69,398,241.54	65,503,918.84	60,450,643.26	3,894,322.70	5.61%	5,053,275.58	8.36%
Deferred Outflows	1,418,658.00	1,628,499.00	1,943,557.00	(209,841.00)	-14.79%	(315,058.00)	-16.21%
Total Assets and Deferred Outflows of Resources	$ 103,706,989.75	$ 104,215,759.99	$ 102,454,485.47	$ (298,929.24)	-0.29%	$ 1,761,274.52	1.72%
Long Term Liabilities	$ 27,590,523.95	$ 29,480,629.12	$ 27,125,870.93	$ (1,890,105.17)	-6.85%	$ 2,354,758.19	8.68%
Other Liabilities	13,657,780.17	15,468,039.58	19,814,952.39	(1,810,259.41)	-13.25%	(4,346,912.81)	-21.94%
Total Liabilities	41,248,304.12	44,948,668.70	46,940,823.32	(3,700,364.58)	-8.97%	(1,992,154.62)	-4.24%
Deferred Inflows	3,405,414.00	1,598,069.00	259,359.00	1,807,345.00	53.07%	1,338,710.00	516.16%
Total Liabilities and Deferred Inflows of Resources	44,653,718.12	46,546,737.70	47,200,182.32	(3,700,364.58)	-8.29%	(653,444.62)	-1.38%
Net Position							
Invested in Capital Assets, Net of Debt	49,304,829.35	47,936,696.37	45,543,647.28	1,368,132.98	2.77%	2,393,049.09	5.25%
Restricted	5,714,523.49	5,767,456.61	5,772,229.49	(52,933.12)	-0.93%	(4,772.88)	-0.08%
Unrestricted	4,033,918.79	3,964,869.31	3,938,426.38	69,049.48	1.71%	26,442.93	0.67%
Total Net Position	$ 59,053,271.63	$ 57,669,022.29	$ 55,254,303.15	$ 1,384,249.34	2.34%	$ 2,414,719.14	4.37%
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 103,706,989.75	$ 104,215,759.99	$ 102,454,485.47	$ 16,116.36	0.02%	$ 1,761,274.52	1.72%

CHANGES IN NET POSITION

Changes in the Authority's net position can be determined by reviewing the following condensed statement of revenues, expenses, and changes in net position for the year.

Table A-2
Statement of Revenues, Expenses, and Changes in Net Position

	MAY 31,			2019-2018 INCREASE(DECREASE)		2018-2017 INCREASE(DECREASE)	
	2019	2018 (Restated)	2017 (Restated)	$	%	$	%
REVENUES							
Operating Revenues:							
Service & Connect. Charges	$ 14,284,691.97	$ 14,789,000.31	$ 13,862,468.01	$ (504,308.34)	-3.53%	$ 926,532.30	6.68%
Interest on Delinquencies	182,576.56	190,925.13	177,156.99	(8,348.57)	-4.57%	13,768.14	7.77%
Other	41,662.50	43,493.05	40,445.20	(1,830.55)	-4.39%	3,047.85	7.54%
General Revenues:				-			
Contributed Capital	-	-	130,542.20	-	-	(130,542.20)	-100.00%
Interest Income	288,384.30	111,632.68	12,641.19	176,751.62	61.29%	98,991.49	783.09%
Total Revenues	14,797,315.33	15,135,051.17	14,223,253.59	(337,735.84)	-2.28%	911,797.58	6.41%
Program Expenses:							
Sewer	11,267,971.65	10,426,765.50	10,391,695.25	841,206.15	7.47%	35,070.25	0.34%
Depreciation	1,064,816.07	877,339.36	897,753.86	187,476.71	17.61%	(20,414.50)	-2.27%
Interest on Long Term Debt	252,590.27	161,438.02	136,447.89	91,152.25	36.09%	24,990.13	18.31%
Other	146,624.00	559,660.15	553,564.20	(413,036.15)	-281.70%	6,095.95	1.10%
Appropriation Township of Franklin	681,064.00	695,129.00	616,640.00	- (14,065.00)	100.00%	78,489.00	100.00%
Total Expenses	13,413,065.99	12,720,332.03	12,596,101.20	692,733.96	5.16%	124,230.83	0.99%
Increase(Decrease) in Net Position	$ 1,384,249.34	$ 2,414,719.14	$ 1,627,152.39	$ (1,030,469.80)	-74.44%	$ 787,566.75	48.40%

While the balance sheets show change in financial position of net position, the Statements of Revenues, Expenses, and Changes in Net Position, provide answers as to the nature and source of these changes. As can be seen in Table A-2 above, the change in net position of $1,384,249.34 was reported for fiscal year ended May 31, 2019.

REVENUES:

Table A-2 shows "Total Revenues" decreased by $337,735.84 or 2.28% to $14,797,315.33 for fiscal year ended May 31, 2019, as compared to $15,135,051.17 for fiscal year ended May 31, 2018, based upon fluctuations in service and connection charges. Upon closer review, you will notice "Operating Revenues - Service and Connection Charges" had a differential of ($504,308.34) or -3.53% versus last year.

EXPENSES:

A further review of Table A-2 reveals that "Total Expenses" increased by $692,733.96 or 5.16% for the fiscal year ended May 31, 2019.

BUDGETARY HIGHLIGHTS

The State of New Jersey requires local authorities to prepare and adopt annual budgets in accordance with the Local Authorities Fiscal Control Law and regulations adopted by the Local Finance Board pursuant to this statute and codified as N.J.A.C. 5:31-1 et seq. The statutory budget was designed to demonstrate to the Bureau of Authority Regulation of the Division of Local Government Services that the cash flows of the Authority for the coming year will be sufficient to cover operating expenses, interest accruing on bonded indebtedness and cash payments of maturing bond and loan principal.

Supplementary Schedule 1 shows that, on a budgetary basis, the Authority realized a favorable variance of $717,755.46, on budgeted expenses of $13,920,870.00, exclusive of budgeted renewal and replacement reserves, where applicable, for the period ended May 31, 2019. The Authority realized a favorable variance on the revenue side by $876,445.33. As shown by the reconciliation of the budgetary basis to GAAP on page 2 of the schedule, adjustments to the budgetary basis are required to:

- Eliminate Appropriated Retained Earnings from Revenues
- Eliminate Maturing Bond Principal from Expenses
- Eliminate Fixed Capital Acquired through Budgeted Capital Outlay from Expenses.
- Add Unrecorded Depreciation and Amortization Expenses.

In the event that current projected revenues lag behind budget amounts, adjustments to discretionary spending and/or rate impact analyses need to be performed. However, in order to present a true budgetary comparison, the statutory budget is amended only in instances wherein planned spending will exceed legal appropriation amounts.

Readers should be cautioned that the statutory operating results presented in supplementary schedule 1 are not intended to present and do not present financial results in accordance with GAAP.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At May 31, 2019, the Authority had $90,335,207.35 invested in a broad range of utility capital assets, including land, easements and rights of way, collection system, buildings and structures, and machinery and equipment, including construction in progress recorded by the Authority in the amount of $5,472,809.13. This amount represents a change (net of increases and decreases) of -$14,414,368.59, or -263.38% over amounts reported for construction in progress at May 31, 2018, relflective of projects completed and depreciation calculated.

The following table summarizes the Authority's capital assets and changes therein for the years ended May 31, 2019, 2018, and 2017. Capital asset detail information is presented in Note 4 to the financial statements.

Table A-3
Gross Capital Assets

	MAY 31,			2019-2018 INCREASE(DECREASE)		2018-2017 INCREASE(DECREASE)		
	2019	2018	2017	$	%	$	%	%
Land, Easements & Rights of Way	$ 962,823.70	$ 962,823.70	$ 962,823.70	$ -	0.00%	$ -	0.00%	0.00%
Collection System	74,733,428.77	55,372,974.76	55,372,974.76	19,360,454.01	25.91%	-	0.00%	0.00%
Building & Structures	4,868,951.18	4,868,951.18	4,868,951.18	-	0.00%	-	0.00%	0.00%
Machinery & Equipment	4,297,194.57	4,284,141.22	4,007,935.54	13,053.35	0.30%	276,205.68	6.89%	3.01%
Construction in Progress	5,472,809.13	19,887,177.72	14,232,768.46	(14,414,368.59)	-263.38%	5,654,409.26	39.73%	151.17%
	$ 90,335,207.35	$ 85,376,068.58	$ 79,445,453.64	$ 4,959,138.77	5.49%	$ 5,930,614.94	7.47%	12.27%

Additions during the year ended May 31, 2019, including reclassifications from construction in progress and other adjustments, were as follows:

Collection System	$ 19,360,454.01
Building & Structures	-
Machinery & Equipment	13,053.35
Construction in Progress	(14,414,368.59)

Debt Service

At May 31, 2019, the Authority had total debt outstanding in the amount of $21,723,199.26, consisting of loans.

The following table summarizes the Authority's debt service and changes therein for the years ended May 31.

Table A-4
Outstanding Debt
(Principal Only)

	MAY 31,			2019-2018 INCREASE(DECREASE)		2018-2017 INCREASE(DECREASE)		
	2019	2018	2017	$	%	$	%	%
Loan - NJEIT 2000	$ 843,406.08	$ 1,251,912.49	$ 1,650,406.06	$ (408,506.41)	-48.44%	$ (398,493.57)	-24.15%	-19.32%
Loan - NJEIT 2001	371,167.47	549,922.32	724,013.97	(178,754.85)	-48.16%	(174,091.65)	-24.05%	-21.15%
Loan - NJEIT 2007	3,483,515.21	4,091,520.32	4,689,256.75	(608,005.11)	-17.45%	(597,736.43)	-12.75%	-14.82%
Loan - NJEIT 2017	15,278,253.50	15,765,539.75	16,172,826.00	(487,286.25)	-3.19%	(407,286.25)	-	-
NJIBank Temp Loan 2019	1,746,857.00	-	-	1,746,857.00	100.00%	-	-	-
	$ 21,723,199.26	$ 21,658,894.88	$ 23,236,502.78	$ 64,304.38	0.30%	$ (1,577,607.90)	-6.79%	174.38%

The Authority secured a temporary loan from the NJEIT during the year ended May 31, 2019 in the amount of $1,746,857. Based upon loan funding utilization, the Trust has adjusted the amounts owed by the Authority to the Trust for the NJEIT Trust Loan Series - 2007 and NJEIT Loan - Series 2007.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Authority's 2019-2020 Budget will cover the fiscal year ending May 31, 2020. Based upon historical consumption data and the existing rate structure, projected revenues and retained earnings were sufficient to support budgeted expenses (budgetary basis) of $14,008,960. The Authority appropriated the amount of $650,000 to the Township of Franklin as compared to $681,064 appropriated during the year ended May 31, 2019.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the Authority's ratepayers, creditors and bond holders with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Authority's Executive Director at Franklin Township Sewerage Authority, 70 Commerce Drive, Somerset, NJ 08873.

FINANCIAL STATEMENTS

Exhibit - A

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY

BALANCE SHEET
MAY 31, 2019 AND 2018

ASSETS	2019	(Restated) 2018
Current Assets:		
Cash and Cash Equivalents	$ 7,971,433.70	$ 14,184,524.10
Accounts Receivable - Sewer Rents	5,614,385.92	5,622,583.94
Prepaid Expenses	510,702.02	478,793.46
Total Current Assets	14,096,521.64	20,285,901.50
Noncurrent Assets:		
Restricted Assets		
General Fund Account		
Cash and Cash Equivalents	1,234,574.89	1,836,183.91
Customer and Developer Account		
Cash and Cash Equivalents	3,927,245.26	3,635,948.37
Bond Reserve Account		
Cash and Cash Equivalents	4,101,604.51	2,105,074.77
Self Insurance Account		
Cash and Cash Equivalents	977,644.50	1,017,644.50
Unemployment Insurance Account		
Cash and Cash Equivalents	25,717.99	38,651.11
Construction Account		
Cash and Cash Equivalents	6,797,220.42	3,959,152.99
Loans Receivable - NJEIT	1,729,561.00	4,204,785.00
Total Restricted Assets	18,793,568.57	16,797,440.65
Captial Assets (Net)	69,398,241.54	65,503,918.84
Total Noncurrent Assets	88,191,810.11	82,301,359.49
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amount on Net Pension Liability	1,267,156.00	1,468,861.00
Deferred Amount on Net OPEB Liability	151,502.00	159,638.00
Total Deferred Outflows of Resources	1,418,658.00	1,628,499.00
Total Assets and Deferred Outflows of Resources	$ 103,706,989.75	$ 104,215,759.99

LIABILITIES AND FUND EQUITY	2019	(Restated) 2018
Current Liabilities:		
Accounts Payable and Accrued Expenses	$ 1,222,789.65	$ 2,886,401.43
Deferred Sewer Rent Revenue	6,561,031.03	6,314,735.72
Total Current Liabilities	7,783,820.68	9,201,137.15
Current Liabilities Payable from Restricted Assets:		
Customer and Developer Deposits	3,985,948.73	3,635,948.37
Accounts Payable	20,611.87	781,615.60
Bonds and Loans Payable - Current Portion	1,774,517.24	1,737,598.85
Accrued Interest Payable on Bonds	92,881.65	111,739.61
Total Current Liabilities Payable from Restricted Assets	5,873,959.49	6,266,902.43
Noncurrent Liabilities:		
Net Pension Liability	3,911,486.00	4,386,942.00
Net OPEB Liability	3,630,582.00	5,059,441.00
Long-Term Portion of Loans Payable	20,048,455.95	20,034,246.12
Total Noncurrent Liabilities	27,590,523.95	29,480,629.12
Total Liabilities	41,248,304.12	44,948,668.70
DEFERRED INFLOWS OF RESOURCES		
Deferred Amount on Net Pension Liability	1,427,463.00	1,036,514.00
Deferred Amount on Net OPEB Liability	1,977,951.00	561,555.00
Total Deferred Outflows of Resources	3,405,414.00	1,598,069.00
NET POSITION		
Net Investment in Capital Assets	49,304,829.35	47,936,696.37
Restricted for:		
Debt Service	2,039,961.00	2,039,961.00
Operating	2,671,200.00	2,671,200.00
Other	1,003,362.49	1,056,295.61
Unrestricted	4,033,918.79	3,964,869.31
Total Net Position	59,053,271.63	57,669,022.29
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 103,706,989.75	$ 104,215,759.99

Note: See Notes to Financial Statements

Exhibit - B

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY

STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED MAY 31, 2019 AND 2018

	2019	(Restated) 2018
Operating Revenues:		
Service Charges	$ 12,974,620.97	$ 13,093,930.31
Connection Charges	1,310,071.00	1,695,070.00
Other	41,662.50	43,493.05
Interest on Delinquencies	182,576.56	190,925.13
Total Operating Revenues	14,508,931.03	15,023,418.49
Operating Expenses:		
Personal Services	1,653,378.58	1,575,022.88
Employee Benefits	747,543.50	752,278.09
Administrative	445,090.93	441,811.21
Operations and Maintenance	8,421,958.64	7,657,653.32
Depreciation	1,064,816.07	877,339.36
Total Operating Expenses	12,332,787.72	11,304,104.86
Operating Income	2,176,143.31	3,719,313.63
Non-Operating Revenues (Expenses):		
Interest Income	288,384.30	111,632.68
Interest Expense	(252,590.27)	(161,438.02)
Appropriation to Township of Franklin	(681,064.00)	(695,129.00)
Net Pension Liability Adjustment	(117,198.00)	(164,608.00)
Additional GASB 68 Accrual Adjustment	(27,922.00)	(10,411.00)
Net OPEB Liability Adjustment	(1,504.00)	(253,125.00)
NJEIT Loan Savings Credits Adjustments	-	(131,516.15)
Net Non-Operating Revenues (Expenses)	(791,893.97)	(1,304,594.49)
Income (Loss) Before Contributions and Transfer	1,384,249.34	2,414,719.14
Change in Net Position	1,384,249.34	2,414,719.14
Net Position - Beginning	57,669,022.29	55,254,303.15
Net Position - Ending	$ 59,053,271.63	$ 57,669,022.29

Note: See Notes to Financial Statements

Exhibit - C

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY

COMPARATIVE STATEMENT OF CASH FLOWS INCREASE (DECREASE) IN CASH
FOR THE FISCAL YEARS ENDED MAY 31, 2019 AND 2018

	2019	2018 (Restated)
Cash Flows from Operating Activities:		
Cash Received from Customers	$ 14,517,129.05	$ 14,841,295.47
Developer Deposits and Related Interest - Net	350,000.36	(67,911.53)
Cash Payments for Goods and Services	(12,478,194.53)	(9,716,152.84)
Net Cash Provided by Operating Activities	2,388,934.88	5,057,231.10
Cash Flows from Noncapital Financing Activities:		
Payments to the Township of Franklin	-	(661,769.00)
Cash Flows from Capital and Related Financing Activities:		
Principal Paid on Revenue Bond Maturities/ Long Term Debt Maturities	(1,682,552.62)	(1,577,607.90)
Interest Paid on Revenue Bonds/Other	(252,590.27)	(161,438.02)
Loan Payments Received - Net	2,475,224.00	4,248,304.00
Net Cash Provided (Used) for Capital and Related Financing Activities	540,081.11	2,509,258.08
Cash Flows from Investing Activities:		
Acquis. and Constr. of Capital Assets	(4,959,138.77)	(5,930,614.94)
Interest on Investments and Deposits	288,384.30	111,632.68
Net Cash Used by Investing Activities	(4,670,754.47)	(5,818,982.26)
Net Increase (Decrease) in Cash and Cash Equiv.	(1,741,738.48)	1,085,737.92
Cash and Cash Equiv. at Beginning of Year	26,777,179.75	25,691,441.83
Cash and Cash Equiv. at End of Year	$ 25,035,441.27	$ 26,777,179.75
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	$ 1,384,249.34	$ 2,663,022.14
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Income:		
Depreciation	1,064,816.07	877,339.36
Change in Assets and Liabilities:		
Prepaid Expenses	(31,908.56)	(3,500.00)
Receivables/Deposits	8,198.02	(182,398.02)
Accounts Payable / Other Liabilities	(36,419.99)	1,702,767.62
Total Adjustments	1,004,685.54	2,394,208.96
Net Cash Provided by Operating Activities	$ 2,388,934.88	$ 5,057,231.10

Note: See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2019 AND 2018

Note 1: REPORTING ENTITY AND AUTHORIZING LEGISLATION

The Township of Franklin Sewerage Authority (the "Authority") is a public body politic and corporate, organized and existing under the Sewerage Authorities Law, constituting Chapter 138 of the P.L. 1946 of the State of New Jersey approved April 23, 1946 and the acts amendatory thereof or supplemental thereto, and was created by virtue of an ordinance adopted by the governing body of the Township of Franklin, in the County of Somerset, adopted on October 11, 1956.

The Authority was created for the purpose of providing sanitary sewer service to the Township of Franklin, New Jersey. The Authority does not operate or own a treatment plant but has a service agreement with the Middlesex County Utilities Authority for sanitary waste treatment.

The Authority also has service agreements with the City of New Brunswick and the Authority of South Bound Brook for the treatment of sanitary waste, which flows into their systems.

Revenue is provided primarily from annual service charges collected from customers using the system and initial connection charges.

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

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

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

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

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

A. BASIS OF PRESENTATION (CONT'D.)

The DCA has recognized the statements and interpretations of the Governmental Accounting Standards Board (GASB) as authoritative on application of generally accepted accounting principles (GAAP) for local authorities.

GASB Statement No. 34

The Authority adopted the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments during the fiscal year ended May 31, 2004. Statement 34 establishes standards for external financial reporting for all state and local governmental entities, which includes a Management's Discussion and Analysis section, a Balance Sheet, a Statement of Revenues, Expenses and Change in Net Position and a Statement of Cash Flows. It requires the classification of Net Position into three components – Invested in Capital Assets, net of related debt; Restricted for Debt Service; and Unrestricted.

The adoption of Statement 34 had little effect on the basic financial statements except for the classification of net position, the reflection of capital contributions as a change in net position, presentation of the Statement of Cash Flows using the direct method, and the inclusion of Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.

Implementation of Statements No. 68, 71 and 75of the Government Accounting Standards Board ("GASB 68 and GASB 71")

The Authority adopted the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, during the fiscal year ended May 31, 2016. The objective of this Statement is to improve the accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria.

GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68*, is to be applied simultaneously with the provisions of Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

The Authority adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, ("OPEB Benefits") during the fiscal year ended May 31, 2019. The objective of this Statement is to improve the accounting and financial reporting by state and local governments for postemployment benefits other than pensions.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

A. BASIS OF PRESENTATION (CONT'D.)

It also improves information provided by state and local governmental employers about financial support for postemployment benefits other than pensions that is provided by other entities. This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* As further discussed in these notes to the financial statements, the implementation of GASB 75 involved the restatement of certain reported postemployment benefit information for the year ended May 31, 2017.

B. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The Authority utilizes the accrual basis of accounting. Revenues are recognized when earned and measurable and expenses are recognized when incurred, if measurable.

Cash and Cash Equivalents - Cash and cash equivalents include petty cash, change funds, money market funds and short-term investments including certificates of deposit, with a maturity of three months or less carried at cost, which approximates market.

Investments - Investments consist of certificates of deposit and direct obligations of the U.S. Government or funds, which invest, in these types of obligations. Investments are stated at cost, which approximates market value.

Inventory - Inventory is stated at the lower of cost (weighted-average) or market, where applicable.

Bond discounts/ Issuance costs - Bond discounts and issuance costs are deferred and amortized over the term of the bonds using a straight-line method. Bond discounts are presented as a reduction of the face amount of the bonds payable, whereas issuance costs are recorded as other assets.

Comparative Data - Comparative amounts for the prior year have been presented in order to provide an understanding of changes on the Authority's financial position and operations.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Operating Revenues and Expenses – Operating revenues and expenses generally result from providing services related to the transmission of sewerage. The principal operating are charges to users of the transmission system. Operating expenses include the charges for sewer treatment costs by the treatment provider along with maintenance, repair, administrative and other related costs. Revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Accounts Receivable – Customer accounts receivable at May 31, 2019 and 2018 were reported at $5,614,385.92 and $5,622,583.94, respectively. Based on the Authority's ability to establish liens on uncollected amounts through the Township's lien sale process, no allowance amounts are recorded for doubtful accounts.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

B. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Deferred Revenue/Customer Billings – Based upon the January 1st timing of its billing practices to users, the Authority records deferred revenue for a portion of its recorded revenues at the May 31 fiscal year-end. Deferred revenues were reported in the amount of $6,561,031.03 and $6,314,735.72 at May 31, 2019 and 2018, respectively.

Loans Receivable – The Authority has participated in a series of loan financing program sponsored by the State of New Jersey Environmental Infrastructure Trust. The Trust provides for attractive financing rates for approved projects. Proceeds of these financings are drawn-down by the participants as expenses are incurred. The most recent program participation by the Authority was in 2007 with that financing having been completed this fiscal year. As a result, the Authority records NJ EIT Loans Receivable in the amounts of $1,729,561.00 and $4,204,785.00 at May 31, 2019 and 2018, respectively.

Prepaid Expenses – The Authority records prepaid expenses for amounts paid in advance of the actual costs to be incurred. These expenses are primarily associated with estimated payments to the sewerage treatment provider. The amounts recorded were $510,702.02 and $478,793.46 at May 31, 2019 and 2018, respectively.

Capital Assets – The collection system facilities and equipment are stated at cost.

Depreciation is determined on a straight-line basis over various economic lives, which are fixed by management.

Customer and Developer Deposits – The Authority collects escrow deposits from customers for expenses that may be required of the Authority. In addition, Developer contributions, based upon approved developments, are collected and recorded as liabilities, to be used for future system improvements. The Authority records a capital contribution upon completion of these improvements.

Connection Charges – Developer contributions for construction purposes paid in lieu of connection charges and credits for connection charges waived by the Authority for actual construction performed by developers is recorded as connection charge income.

Restricted Position/Accounts – In accordance with the Bond Resolution and supplemental resolutions, the Authority has established various cash and investment accounts with a trustee as described below. In addition, the Bond Resolution provides for certain restrictions on the use of funds in these accounts.

Revenue Account – The Revenue Account is established by the Bond Resolution to receive all revenues due to the Authority. Periodic withdrawals are made from the Revenue Account and transferred to other accounts in order to provide the financial resources necessary for other accounts to carry out their required activities. The Revenue Account is under the control of the trustee for the bondholders.

Interest Account – The Interest Account is used to pay interest to the bondholders as such obligations become due. The bond resolution requires the Revenue Account to turn over the required funds to the Interest Account. The Interest Account is under control of the trustee for the bondholders.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

B. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Sinking Account – The Sinking Account is used to pay the principal to the bondholders as such obligations become due. The bond resolution requires the Revenue Account to turn over the required funds to the Sinking Account. The Sinking Account is under control of the trustee for the bondholders.

Bond Reserve Account – The Bond Reserve Account provides additional security to the bondholders. This account is required to have a balance equal to the maximum amount of principal and interest due to the bondholders in any succeeding year. The Debt Service Reserve Account is under control of the trustee for the bondholders.

Prior Year Reclassifications – Reclassifications have been made to the 2018 financial statements to conform with classifications used in the 2019 financial statements.

General Account – The General Account is established to receive the excess revenues after the other accounts have been brought up to the amounts required by the bond resolution. If at any time there is not a sufficient amount in the other accounts to provide for any payment or reserve required by the bond resolution, the General Account may transfer funds to make up the difference.

The Authority may use funds in the General Account for major repairs, renewals, replacements or maintenance items of a type not recurring annually or the necessary costs of construction on or about the system for extensions, equipment, improvements or betterments.

If on any date the amount in every other account equals or exceeds the amount required, the trustee may, upon direction by resolution of the Authority, withdraw any and all moneys in the General Account and pay the same to the Authority for expenditure for any lawful corporate purpose.

Construction Account – The Construction Account is established to receive and disburse funds for construction of the Authority's various construction projects.

Deferred Outflows of Resources and Deferred Inflows of Resources - In addition to assets, the statement of net position may report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and will not be recorded as an outflow of resources (expenditure/expense) until that time. The current financial statements report deferred outflows for pension related reporting, including amounts related to differences between expected and actual experience; changes in assumptions and changes in proportion. In addition, if applicable, a deferred charge on refunding results will be reported from the difference in the carrying value of refunded debt and its reacquisition price. This amount is amortized over the shorter of the life of the refunded or refunding bonds.

In addition to liabilities, the statement of net position may report a separate section for deferred inflows of resources. This separate financial statement element represents a acquisition of net position that applies to a future period(s) and will not be recorded as an inflow of resources (revenue) until that time. The financial statements report pension related deferred inflows relating to the difference in projected and actual earning along with changes in proportion.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

B. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Reporting of and Disclosures About Pension Liabilities - The financial statements include information relating to the net pension liabilities of the state sponsored, cost-sharing, multiple employer defined benefit pension plan in which the Authority participates, including information presented in these notes to the financial statements and the accompanying required supplementary information.

Reporting of and Disclosures About OPEB Liabilities - The financial statements include information relating to the OPEB liabilities of the employer with respect to the N.J. State Health Benefits Plan (health benefits for retirees) in which the Authority participates, including information presented in these notes to the financial statements and the accompanying required supplementary information.

Recent Accounting Standards

GASB issued Statement No. 84 "Fiduciary Activities" in January 2017. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria of the criteria is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement is effective for reporting periods beginning after December 15, 2018, with earlier application encouraged.

GASB issued Statement No. 85 "Omnibus 2017" in March 2017. This Statement addresses practice issues that have been identified during implementation and application of certain GASB Statements including issues related to blending component units, goodwill, fair value measurement and application and postemployment benefits (pensions and other postemployment benefits (OPEB)). This Statement is effective for reporting periods beginning after June 15, 2017, with earlier application encouraged.

GASB issued Statement No. 86 "Certain Debt Extinguishment Issues" in May 2017. This Statement's primary objective is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources-resources other than the proceeds of refunding debt- are placed in an irrevocable trust for the sole purpose of extinguishing debt. The Statement also improves accounting and financial reporting for prepaid insurance on debt and notes to financial statements for debt that is defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017, with earlier application encouraged.

GASB issued Statement No. 87 "Leases" in June 2017. This Statement's objective is to better meet the information needs of the financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of government's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019, with earlier application encouraged.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

B. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

Recent Accounting Standards

GASB issued Statement No. 88 "Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements" in April 2018. This Statement's primary objective is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement is effective for reporting periods beginning after June 15, 2018, with earlier application encouraged.

GASB issued Statement No. 89 "Accounting for Interest Cost Incurred before the End of a Construction Period" in June 2018. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus.

GASB issued Statement No. 89 (Cont'd) - As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

GASB issued Statement No. 90 "Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61" in August 2018. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment.

The Authority prepares its financial statements in accordance with accounting principles generally accepted in the United States of America. The Authority is required to adopt these new standards in connection with the organization's financial statements.

Note 3: DEPOSITS, CASH AND CASH EQUIVALENTS AND INVESTMENTS

Deposits

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey that are insured by the Federal Deposit Insurance Corporation (FDIC), New Jersey's Governmental Unit Deposit Protection Act, by any other agencies of the United States that insures deposits or the State of New Jersey Cash Management Fund. The New Jersey Governmental Deposit Protection Act requires all banks doing business in the State of New Jersey to maintain collateral in the amount of 5% of the average public deposits and deposit these amounts with the Federal Reserve Bank for all deposits not covered by the FDIC.

Cash on deposit is partially insured by federal deposit insurance in the amount of $250,000.00 in each depository. Balances above the federal deposit insurance amount are insured by the Government Unit Deposit Protection Act (GUDPA), N.J.S.A. 17:941, et seq., which insures all New Jersey governmental units' deposits in excess of the federal deposit insurance maximums.

Based upon GASB criteria, the Authority considers cash and cash equivalents to include petty cash, change funds, demand deposits, money market accounts and short-term investments, including cash management money market mutual funds, and, depending upon length of investment maturity, any direct and general obligation of the United States of America or agency or certificates of deposit issued by any bank, savings and loan association or national banking association, if qualified to serve as a depository for public funds under the provisions of the Governmental Unit Depository Protection Act.

As of May 31, 2019 and 2018, the book value of the Authority's cash, cash equivalents and investments were $25,035,441.27 and $26,777,179.25. With respect to the amounts on deposit at May 31, 2019, of the cash and cash equivalents and investments, $250,000.00 was covered by federal depository insurance, $7,699,567.66 was covered under the provisions of NJGUDPA and the remaining $17,096,147.94, which is collateralized by the underlying securities, but not held in the Authority's name, is invested in money market mutual funds. The Authority does not accrue interest income on these funds.

The Authority has implemented the disclosure requirements of Governmental Accounting Standards Board Statement No. 40 "Deposits and Investment Risk Disclosures" (GASB 40) and accordingly the Authority has assessed the Custodial Risk, the Concentration of Credit Risk and Interest Rate Risk of its cash and investments.

(a) Custodial Credit Risk – The Authority's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are: uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but no in the depositor-governments name. The deposit risk is that, in the event of the failure of a depository financial institution, the Authority will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The Authority's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Authority and are held by either: the counterparty or the counterparty's trust department or agent but not in the Authority's name. The investment risk is that, in the event of the failure of the counterparty to a transaction, the Authority will not be able to recover the value of the investment or collateral securities that in possession of an outside party.

Note 3: DEPOSITS, CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONT'D.)

Deposits (Cont'd)

(b) Concentration of Credit Risk – This is the risk associated with the amount of investments that Authority has with any one issuer that exceeds 5 percent or more of its total investments. Investment issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

(c) Credit Risk – GASB 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government. This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In general, the Authority does not have an investment policy regarding Credit Risk except to the extent outlined under the Authority's investment policy. The New Jersey Cash Management Fund is not rated.

(d) Interest Rate Risk - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate fluctuations.

The Authority does not have a deposit policy for custodial risk. Based upon the existing deposit and investment practices, the Authority is generally not exposed to credit risks, custodial credit risks (FDIC and NJGUDPA coverage's) for its deposits and investments; concentration of credit risks and interest rate risks for its investments; nor is it exposed to foreign currency risks for its deposits and investments.

Investments

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

1. Bonds or other obligations of the United States of America or obligations guaranteed by the United States;

2. Government money market mutual funds;

3. Any obligation that a federal agency or a federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided such obligation bear a fixed rate of interest not dependent on any index or other external factor;

4. Bonds or other obligations of the local unit or bonds or other obligations of school districts of which the local unit is a part or within which the school district is located;

5. Bonds or other obligations, having a maturity date of not more than 397 days from the date of purchase, approved by the Division of Investment in the Department of the Treasury for investment by local units;

Note 3: DEPOSITS, CASH AND CASH EQUIVALENTS AND INVESTMENTS (CONT'D.)

Deposits (Cont'd)

6. Local government investment pools;

7. Deposits with the State of New Jersey Cash Management Fund established pursuant to Section 1 of P.L. 1997, c. 281 (C.52:18A-90.4); or

8. Agreements for the repurchase of fully collateralized securities, if:

    a. the underlying securities are permitted investments pursuant to paragraphs (1) and (3);

    b. the custody of collateral is transferred to a third party;

    c. the maturity of the agreement is not more than 30 days;

    d. the underlying securities are purchased through a public depository as defined in section of P.L. 1970, c. 236 (C.19:9-41) and for which a master repurchase agreement providing for the custody and security of collateral is executed.

During the year ended May 31, 2019, the Authority did not have any long-term investments.

Note 4: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost which includes the cost of construction and acquisition of such projects, engineering, administrative and financial expenses, interest on bonds and notes during construction, and organization expenses, less income earned on unexpended construction funds. No interest was capitalized in 2019 and 2018.

Following is a comparison of the changes in fixed assets for the year ending May 31, 2019 and 2018:

	Balance June 1, 2018	Increase	Decrease	Adjustment	Balance May 31, 2019
Land, Easements and Right-of-Way	$ 962,823.70				$ 962,823.70
Collection System	55,372,974.76	64,927.98		19,295,526.03	74,733,428.77
Building and Structures	4,868,951.18				4,868,951.18
Machinery and Equipment	4,284,141.22	13,053.35			4,297,194.57
Construction in Progress	19,887,177.72	4,881,157.44	-	(19,295,526.03)	5,472,809.13
Total	85,376,068.58	4,959,138.77	-	-	90,335,207.35
Less: Accumulated Depreciation	(19,872,149.74)	(1,064,816.07)			(20,936,965.81)
Net Total	$ 65,503,918.84	$ 3,894,322.70	$ -	$ -	$ 69,398,241.54

Note 4: PROPERTY, PLANT AND EQUIPMENT (CONT'D.)

	Balance June 1, 2017	Increase	Decrease	Adjustment	Balance May 31, 2018
Land, Easements and Right-of-Way	$ 962,823.70				$ 962,823.70
Collection System	55,372,974.76				55,372,974.76
Building and Structures	4,868,951.18				4,868,951.18
Machinery and Equipment	4,007,935.54	276,205.68			4,284,141.22
Construction in Progress	14,232,768.46	5,654,409.26	-		19,887,177.72
Total	79,445,453.64	5,930,614.94	-	-	85,376,068.58
Less: Accumulated Depreciation	(18,994,810.38)	(877,339.36)			(19,872,149.74)
Net Total	$ 60,450,643.26	$ 5,053,275.58	$ -	$ -	$ 65,503,918.84

Depreciation and amortization is calculated on a straight-line basis for each of the fixed assets categories.

Collection System	25 to 100 years
Buildings and Structures	30 years
Machinery and Equipment	7 to 20 years

Note 5: LEASES

The Authority entered into an operating lease agreement for copier equipment and postage machine during 2017, and accordingly there are future minimum lease payments of $534.00 for 48 months and $149.05 for 60 months respectively, starting in 2017 with escalations for changes built into the lease agreements. The future minimum lease payments, exclusive of any escalation changes, are as follows:

Fiscal Year Ended	Amount
2019	$8,196.60
2020	8,196.60
2021	3,924.60
2022	447.15
Total	$20,764.95

Note 6: BONDS AND LOANS PAYABLE

For the purpose of paying construction costs relating to the Authority's collection system, the Authority has issued bonds and has participated in the NJ IBank financing programs. Long-term liability activity for the year ended May 31, 2019, was as follows:

Debt Obligations:	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
NJEIT Loans	$ 21,658,894.88	$ 1,746,857.00	$ 1,682,552.62	$ 21,723,199.26	$ 1,774,517.24
	$ 21,658,894.88	$ 1,746,857.00	$ 1,682,552.62	$ 21,723,199.26	$ 1,774,517.24
	Paydown		$ 1,682,552.62		
	Trust Loan Adjustment (A)		-		
			$ 1,682,552.62		

Debt Obligations Outstanding:*	
NJEIT Trust Loan - Series 2000	$ 425,609.78
NJEIT Loan - Series 2000 - Principal Only	417,796.30
NJEIT Trust Loan - Series 2001	214,385.95
NJEIT Loan - Series 2001 - Principal Only	156,781.52
NJEIT Trust Loan - Series 2007	2,091,000.00
NJEIT Loan - Series 2007 - Principal Only	1,392,515.21
NJEIT Trust Loan - Series 2017	4,010,000.00
NJEIT Loan - Series 2017 - Principal Only	11,268,253.50
Subtotal	19,976,342.26
NJ Infrastructure Bank - Temporary Loan 2018-1	1,746,857.00
Subtotal	21,723,199.26
Unamortized Loan Premiums	99,773.93
	$ 21,822,973.19

The principal maturities and interest due on debt outstanding at May 31, 2019, are as follows:

Fiscal Year Ended 5-31	Principal	Interest	Total
2020	$ 1,774,517	$ 265,443	$ 2,039,960
2021	1,799,698	231,689	2,031,387
2022	1,199,625	202,931	1,402,556
2023	1,225,112	179,056	1,404,168
2024	1,000,180	155,487	1,155,667
2025	942,286	131,869	1,074,155
2026	647,286	114,694	761,980
2027	577,286	107,937	685,223
2028	582,286	105,131	687,417
2029	527,286	101,531	628,817
2030	532,286	97,856	630,142
2031	537,286	94,031	631,317
2032	542,286	90,056	632,342
2033	542,286	86,006	628,292
2034	547,286	81,794	629,080
2035	552,286	77,250	629,536
2036	557,286	72,456	629,742
2037	562,286	67,403	629,689
2038	567,286	62,088	629,374
2039	572,286	56,603	628,889
2040	577,286	50,950	628,236
2041	582,286	45,128	627,414
2042	592,286	38,938	631,224
2043	597,286	32,375	629,661
2044	602,286	25,638	627,924
2045	612,286	18,638	630,924
2046	617,286	11,375	628,661
2047	491,525	3,850	495,375
NJEIT Savings Credits	(484,607)	-	(484,607)
	$ 19,976,342	$ 2,608,203	$ 22,584,545

*Long-term debt maturity schedules are presented in Schedule 4 included within the Other Supplementary Section of this report.

7. PENSION PLANS

Description of Plans – The State of New Jersey, Division of Pension and Benefits (the Division) was created and exists pursuant to N.J.S.A. 52:18A to oversee and administer the pension trust and other postemployment benefit plans sponsored by the State of New Jersey (the State). According to the State of New Jersey Administrative Code, all obligations of the Systems will be assumed by the State of New Jersey should the plans terminate. Each defined benefit pension plan's designated purpose is to provide retirement, death and disability benefits to its members. The authority to amend the provision of plan rests with new legislation passed by the State of New Jersey. Pension reforms enacted pursuant to Chapter 78, P.L. 2011 included provisions creating special Pension Plan Design Committees for the public Employees Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS), once a Target Funded Ratio (TFR) is met, that will have the discretionary authority to modify certain plan design features, including member contribution rate; formula for calculation of final compensation or final salary; fraction used to calculate a retirement allowance; age at which a member may be eligible and the benefits for service or early retirement; and benefits provided for disability retirement. The committee will also have the authority to reactivate the cost of living adjustment (COLA) on pensions. However, modifications can only be made to the extent that the resulting impact does not cause the funded ratio to drop below the TFR in any one year of a 30-year projection period. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for each of the plans. This report may be accessed via the Division of Pensions and Benefits website, at www.state.nj.us/treasury/pensions, or may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625.

A. Public Employees Retirement System (PERS) - The Public Employee Retirement System is a cost-sharing, multiple employer defined benefit pension plan as defined in GASB Statement No. 68. The Plan is administered by The New Jersey Division of Pensions and Benefits (Division). The more significant aspects of the PERS Plan are as follows:

Plan Membership and Contributing Employers - Substantially all full-time employees of the State of New Jersey or any county, municipality, school district or public agency are enrolled in PERS, provided the employee is not required to be a member of another state-administered retirement system or other state pension fund or local jurisdiction's pension fund. Membership and contributing employers of the defined benefit pension plans consisted of the following at June 30, 2018 and 2017:

	2018	2017
Inactive plan members or beneficiaries currently receiving benefits	174,904	170,124
Inactive plan members entitled to but not yet receiving benefits	589	650
Active plan members	254,780	254,685
	430,273	425,459
Contributing Employers	1,708	1,705

Significant Legislation - Chapter 19, P.L. 2009, effective March 17, 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 an employer 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 PERS, 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 the assets.

7. PENSION PLANS (CONT'D.)

Pursuant to the provision of Chapter 78, P.L. 2011, COLA increases were suspended for all current and future retirees of PERS.

Payrolls and Covered Wages:
For the years ended December 31, 2018 and 2017, total Authority payroll was $1,625,678.93 and $1,536,330, respectively. Total PERS covered payroll was $1,418,143 and $1,511,198 for the periods April 1, 2018 to March 31, 2019 and April 1, 2017 to March 31, 2018 (PERS reporting period quarters), respectively. Covered payroll refers to pensionable compensation, rather than total compensation, paid by the Authority to active employees covered by the Plan.

Specific Contribution Requirements and benefit provisions – The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Pursuant to the provisions of P.L. 2011, C. 78, the active member contribution rate increased from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years beginning in July 2012. The member contribution rate was 7.34% in State fiscal year 2018 and increased to 7.50% for the State fiscal year 2019, commencing July 1, 2018. The most recent phase-in completed the phase-in referred to above. Employer contributions amounts are based upon an actuarially determined rate which includes the normal cost and unfunded accrued liability. retirement allowances and noncontributory death benefits. The Authority contributions are due and payable on April 1st in the second fiscal period subsequent to plan year for which the contributions requirements were calculated. Authority payments to PERS for the years ending May 31, 2019 and 2018 consisted of the following:

	2019	2018
Normal Cost	$ 24,693	$ 22,099
Amortization of Accrued Liability	163,923	137,619
Total Pensions	188,616	159,718
NCGI Premiums	8,985	8,184
Total Regular Billing	197,601	167,902
Long Term Disability	1,467	3,278
Ch. 19, P.L. 2009	6,051	6,017
Total PERS Payment	$ 205,119	$ 177,197

When applicable, Ch. 19, P.L. 2009 billings reflect the recoupment of the 50% deferral of normal and accrued liability costs due on April 1, 2009. The law set a fifteen-year repayment schedule for the deferred amount, with additional annual adjustments to reflect the return on investment of actuarial net assets of the plan on deferred principal balances.

The Authority recognizes liabilities to PERS and records expenditures for same in the fiscal period that bills become due. Also, in addition to the recognition of subsequent contributions offset by deferred outflows, the Authority records accruals for the estimated pension expense that based upon GASB 68, is recognized as a revenue by the pension system in the subsequent mesurement period similar to the subsequent contribution/deferred outflow amounts.

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, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS.

The following represents the membership tiers for PERS:

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 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.

7. PENSION PLANS (CONT'D.)

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and 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 years or more of service credit before age 62, and tier 5 with 30 years or more 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.

Pension Liabilities, Pension Expense, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pensions – The Authority recognizes liabilities to PERS and records expenditures for the cost of its participation in the PERS pension plan based upon the reporting guidelines as established by GASB Statement No. 68.

The following presents the PERS reported liability for its Non-State Employer Member Group; the Authority's proportionate share of the net pension liability for the Non-State Employer Group that is attributable to the Authority and its allocation percentage for the reported periods June 30, 2018 and 2017, respectively.

	2018	2017
PERS Non-State Employer Member Group Liability	$ 19,689,501,539	$ 23,278,401,588
Authority Proportionate Share of the PERS Non-State Employer Member Group Liability	3,911,486	4,219,040
Authority Proportionate Share Percentage	0.019866%	0.018124%

Actuarial Assumptions - The collective total pension liability for the June 30, 2018 measurement date was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018. This actuarial valuation used the following actuarial assumptions:

Inflation	2.25%
Salary Increases: Through 2026	1.64-4.15% Based on age
Thereafter	2.65-5.15% Based on age
Investment rate of return	7.00%

7. PENSION PLANS (CONT'D.)

Preretirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the Conduent modified 2014 projection scale. Postretirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from 2012 to 2013 using Projection Scale AA and using a generational approach based on the Conduent 2014 projection scale thereafter. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future finanical statements.

In accordance with State statute, the long-term expected rate of return on plan investments (7% at June 30, 2018) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

7. PENSION PLANS (CONT'D.)

Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2018 are summarized in the following table:

	Target Allocation	Long-Tern Expected Real Rate of Return
Absolute return/risk migration	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public high yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real estate	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. equity	30.00%	8.19%
Non-U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

Discount Rate – The discount rate used to measure the total pension liability was 5.66% as of June 30, 2018. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.87% as of June 30, 2018 based on 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. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 50% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. 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 through June 30, 2046. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through June 30, 2046 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

7. PENSION PLANS (CONT'D.)

Sensitivity of Net Pension Liability – the following presents the collective net pension liability of PERS participating employers as of June 30, 2018, calculated using the discount rates as disclosed above as well as what the collective net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage rate higher than the current rate:

	At 1% decrease (4.66%)	At current discount rate (5.66%)	At 1% increase (6.66%)
State	$ 27,413,044,035	$ 23,704,298,093	$ 20,597,322,253
Local	24,757,279,564	19,689,501,539	15,437,959,879
PERS Plan Total	$ 52,170,323,599	$ 43,393,799,632	$ 36,035,282,132
Authority's proportionate share of the net pension liability (Local)	$ 4,918,243	$ 3,911,486	$ 3,066,881

Components of Net Pension Liability – The components of the collective net pension liability for PERS, including the State of New Jersey, at June 30, 2018, are as follows:

	State	Local	Total
Total Pension Liability	$ 30,434,600,657	$ 42,431,573,511	$ 72,866,174,168
Plan Fiduciary Net Position	6,730,302,564	22,742,071,972	29,472,374,536
Net PERS Pension Liability	$ 23,704,298,093	$ 19,689,501,539	$ 43,393,799,632

At May 31, the Authority's deferred outflows of resources and deferred inflows of resources related to the PERS penison plan, are as follows:

	2019 Deferred Outlfows of Resources	2019 Deferred Inflows of Resources	2018 Deferred Outlfows of Resources	2018 Deferred Inflows of Resources
Difference between expected and actual experience	$ 74,593	$ 20,169	$ 99,344	
Changes of assumptions	644,548	1,250,685	849,991	
Net difference between projected and actual earnings on pension plan investments		36,690	28,729	846,875
Changes in proportion and differences between agency contributions and proportionate share of contributions	548,015	119,919	322,895	189,639
Subsequent contributions	205,119		177,197	
	$ 1,472,275	$ 1,427,463	$ 1,478,156	$ 1,036,514

7. PENSION PLANS (CONT'D.)

Collective Deferred Outflows of Resources and Deferred Inflows of Resources – Amounts reported as deferred outflows of resources and deferred inflows of resources (excluding employer specific amounts) related to pensions will be recognized in pension expense as follows:

Year ending		Amount
2019	$	108,290
2020		52,985
2021		(139,785)
2022		(150,476)
2023		(31,321)
Total	$	(160,307)

Additional Information:

Collective balances at June 30, 2018 - PERS Local Group		
Collective deferred outflows of resources	$	4,684,852,302
Collective deferred inflows of resources		7,646,736,226
Collective net pension liability - Local group		19,689,501,539
Authority's Proportion		0.019866%

B. Defined Contribution Retirement System (DCRP):

The Defined Contribution Retirement Plan (DCRP) is a multiple employer defined contribution plan as defined in GASB Statement No. 68. The Plan is administered by The New Jersey Division of Pensions and Benefits (Division). The more significant aspects of the DCRP are as follows:

Plan Membership and Contributing Employers- Enrollment in the DCRP is required for state or local officials, elected or appointed on or after July 1, 2007; employees enrolled in PFRS or PERS on or after July 1, 2007, who earn salary in excess of established "maximum compensation" limits; employees otherwise eligible to enroll in PFRS or PERS on or after November 2, 2008, who do not earn the minimum annual salary for tier 3 enrollment but who earn salary of at least $5,000 annually; and employees otherwise eligible to enroll in PFRS or PERS after May 21, 2010, who do not work the minimum number of hours per week required for tier 4 or tier 5 enrollment, but who earn salary of at least $5,000 annually. At June 30, 2016, the membership in the DCRP, based on the information within the Division's database, was 46,557.

Contribution Requirement and Benefit Provisions - State and local government employers contribute 3% of the employees' base salary. Active members contribute 5.5% of base salary.

The Auhtority have no employees currently enrolled in DCRP.

7. PENSION PLANS (CONT'D.)

C. PERS Employer Allocations

State of New Jersey Pension Systems' Schedules of Employer Allocations:

	Employer Contributions	Net Pension Liability	Deferred Outflows	Deferred Inflows	Total Pension Expense
PERS	205,119	3,911,486	$ 1,472,275	$ 1,427,463	$216,834
Total	$ 205,119	$ 3,911,486	$ 1,472,275	$ 1,427,463	$ 216,834

Note 8: DEFERRED COMPENSATION PLAN

The Authority maintains a Deferred Compensation Plan administered by the Lincoln Financial Group. The plan, available to eligible Authority employees, permits the deferral of a portion of earnings until future years. The plan is authorized under Internal Revenue Code Section 457, which requires that compensation deferred and income attributable to such deferred amounts, property or rights shall (until made available to the participant or beneficiary) be held in trust for the exclusive benefit of participants and their beneficiaries.

Note 9: COMPENSATED ABSENCES

The Authority has adopted policies regarding compensated absences. At year-end May 31, 2019 and 2018, the Authority has recorded $191,035 and $199,969 of compensated absences, respectively.

Note 10: POST EMPLOYMENT BENEFIT PLANS OTHER THAN PENISONS – HEALTH CARE BENEFITS

Plan Description: The Authority contributes to the State Health Benefits Program (SHBP), a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq., to provide health benefits to State employees, retirees, and their dependents.

Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. In order to receive health benefits, retirees must have been enrolled in the pension system for 25 years. All active full time employees are covered by the SHBP.

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website www.state.nj.us/treasury/pensions.

Note 10: POST EMPLOYMENT BENEFIT PLANS OTHER THAN PENISONS – HEALTH CARE BENEFITS (CONT'D)

Funding Policy: Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the plan have been funded on a pay-as-you-go basis since 1994.

Cost sharing requirements for retirees are as follows:

1. Any eligible employee who was retired as of June 28, 2011 (the effective date of Ch. 78, P.L. 2011) is not required to contribute to the cost of benefits.
2. Active employees who had accrued 25 years of service at June 28, 2011 will not be required to contribute to the costs of benefits upon retirement.
3. Active employees who had accrued 20 years of service at June 28, 2011 will be required to contribute 1.5% of their retirement benefit towards the cost of post-retirement health benefits.
4. Active employees who had not accrued 20 years of service at June 28, 2011 will, upon retirement continue to pay the applicable percentage of health care costs as set forth in the law. However, retiree contributions will be based upon the retirement benefit rather than the final active salary.

Plan Description and Benefits Provided:
P.L. 1987, c.384 and P.L. 1990, c.6. required the Public Employees Retirement System (PERS) to fund post-retirement medical benefits for those members who retire after accumulating a minimum of 25 years of credited service or on a disability retirement. Pursuant to P.L 2007, c.103, separate funds outside the pension plans were established for the funding and payment of post-retirement medical benefits for retired state employees and retired educational employees.

Coverage is provided at no cost to members of the PERS that had retired on a disability retirement or retired after accumulating 25 years of creditable service prior to June 28, 2011 and to those who had a minimum of 20 years of creditable service on June 28, 2011 and who subsequently retire after accumulating 25 years of credited service or on a disability retirement.

Employees who had less than 20 years of creditable service on June 28, 2011 and subsequently retire after accumulating a minimum of 25 years of creditable service are required by Chapter 78, P.L. 2011 to contribute a percentage of the cost of their health care coverage in retirement. The percentage of the premium that will be the responsibility of the retiree is determined based upon the retiree's annual retirement benefit and level of coverage. Chapter 78 retirees opting for single will make contributions that escalate from 4.5% for annual retirement allowance under $20,000 to 35.0% for annual retirement allowances exceeding $110,000 per annum. Chapter 78 retirees opting for family coverage will range from 3.43% for annual retirement allowances under $25,000 per annum to 35.0% for annual retirement allowances exceeding $110,000 per annum.

Nonspecial Funding Situation:
The State of New Jersey's Total OPEB Liability for nonspecial funding situation at June 30, 2018 and 2017, respectively, was as follows:

Nonspecial Funding Situation:	2018	2017
Net OPEB Liability - Nonspecial Funding Situation	$ 9,452,773,649	$ 11,720,375,604

Note 10: POST EMPLOYMENT BENEFIT PLANS OTHER THAN PENISONS – HEALTH CARE BENEFITS (CONT'D)

Components of Net OPEB Liability – The components of the collective net OPEB liability of the participating employers in the Plan, are as follows:

Total N.J. State Non-employer Net OPEB Liability:

	2018	2017
Total OPEB Liability	$ 15,981,103,227	$ 20,629,044,656
Plan Fiduciary Net Position	314,485,086	213,255,917
Net OPEB Liability	$ 15,666,618,141	$ 20,415,788,739
Plan fiduciary net position as a percentage of the total OPEB liability	1.97%	1.03%
Authority Allocation:		
Net OPEB Plan Liability allocated to the Authority	$ 3,630,582	$ 5,059,441
Allocation Percentage	0.023174%	0.024782%
Authority Participants (active and inactive/retired)	24	26

Actuarial Assumptions and Other Inputs:
The total OPEB liability as of June 30, 2018 and 2017 was determined by an actuarial valuation as of June 30, 2017 and 2016, which was rolled forward to June 30, 2018 and 2017. The actuarial assumptions vary for each plan member depending on the pension plan the member is enrolled in.

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

Inflation	2.50%
Salary Increases*:	
Through 2026	1.65%-8.98%
Thereafter	2.65%-9.98%

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

Note 10: POST EMPLOYMENT BENEFIT PLANS OTHER THAN PENISONS – HEALTH CARE BENEFITS (CONT'D)

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

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

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

Healthcare Trend Assumptions:
For pre-Medicare preferred provider organization (PPO) and health maintenance organization (HMO) medical benefits, the trend rate is initially 5.9% and decreases to a 5.0% long-term trend rate after nine years. For self-insured post-65 PPO and HMO medical benefits, the trend rate is 4.5%. For prescription drug benefits, the initial trend rate is 10.5% decreasing to a 5.0% long-term trend rate after eight years. For the Medicare Part B reimbursement, the trend rate is 5.0%. The Medicare Advantage trend rate is 4.5% and will continue in all future years.

Discount Rate:
The discount rate for June 30, 2018 and 2017 was 3.87% and 3.58%, respectively. This represents the municipal bond return rate as chosen by the State. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

Sensitivity of the State's Net OPEB Liability to Changes in the Discount Rate:

Sensitivity of the 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, 2018, 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:

	1% Decrease 2.87%	Current Rate 3.87%	1% Increase 4.87%
Net OPEB liability	$ 18,381,085,096	$ 15,666,618,141	$ 13,498,373,388
Authority Share	$ 4,259,633	$ 3,630,582	$ 3,128,113

Note 10: POST EMPLOYMENT BENEFIT PLANS OTHER THAN PENISONS – HEALTH CARE BENEFITS (CONT'D)

Sensitivity of the State's Net OPEB Liability to Changes in the Healthcare Cost Trend Rates:

Sensitivity of the Net OPEB liability to changes in the Healthcare Cost Trend rates:
The following presents the total OPEB liability of the Authority, as well as what the Authority's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease	Trend Rate	1% Increase
Net OPEB liability	$ 13,068,471,450	$ 15,666,618,141	$ 19,029,006,023
Authority Share	$ 3,028,488	$ 3,630,582	$ 4,409,782

At May 31, the Authority's deferred outflows of resources and deferred inflows of resources related to the OPEB plan, are as follows:

	2019 Deferred Outflows of Resources	2019 Deferred Inflows of Resources	2018 Deferred Outflows of Resources	2018 Deferred Inflows of Resources
Difference between expected and actual experience	$ -	$ 737,138	$ -	$ 561,555
Net difference between projected and actual earnings on OPEB plan investments investment earnings on OPEB plan investments	1,919		867	
Change in proportion	90,712	319,868	105,731	
Change in assumption	-	920,945	-	
Auth. contribs. subsequent to the measurement date	58,871		- 53,040	
	$ 151,502	$ 1,977,951	$ 159,638	$ 561,555

Note 10: POST EMPLOYMENT BENEFIT PLANS OTHER THAN PENISONS – HEALTH CARE BENEFITS (CONT'D)

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

		Total
Fiscal year ended May 31:		
2020	$	(273,760)
2021		(273,760)
2022		(273,760)
2023		(273,977)
2024		(274,294)
Thereafter		(515,769)
	$	(1,885,320)

Note 10: POST EMPLOYMENT BENEFIT PLANS OTHER THAN PENISONS – HEALTH CARE BENEFITS (CONT'D)

Changes in the Total and Net Plan OPEB Liability:

		2018		2017
Total OPEB Liability - Beginning	$	20,629,044,656	$	21,867,849,603
(Based on 6/30 Measurement Date)				
Changes for the year:				
Service cost		896,235,148		1,064,525,862
Interest cost		764,082,232		648,423,508
Difference between expected and actual experience		(3,626,384,047)		
Changes in assumptions		(2,314,240,675)		(2,587,850,974)
Contributions: Member		53,987,166		53,585,505
Gross benefit payments		(421,621,253)		(417,488,848)
Net changes		(4,647,941,429)		(1,238,804,947)
Total OPEB Liability - Ending	$	15,981,103,227	$	20,629,044,656
(Based on 6/30 Measurement Date)				
Plan Fiduciary Net Position				
Contributions: Employer	$	421,194,662	$	381,813,324
Contributions: Non-Employer contributing entities		53,548,285		53,064,311
Contributions: Member		53,987,166		53,585,505
Net investment income		2,320,422		791,049
Gross benefit payments		(421,621,253)		(417,488,848)
Administrative expenses		(8,200,113)		(8,894,576)
Other		-		-
Net Change in Plan Fiduciary Net Position	$	101,229,169	$	62,870,765
Plan Fiduciary Net Position (Beginning)	$	213,255,917		150,385,152
Plan Fiduciary Net Position (Ending)	$	314,485,086	$	213,255,917
Net OPEB Liability (Ending)	$	15,666,618,141	$	20,415,788,739
Plan Fiduciary Net Position as % of OPEB Liability		1.968%		1.034%
Covered Employee Payroll	$	4,646,915,753	$	4,336,016,376
Net OPEB Liability as a Percentage of Payroll		337%		471%

Net OPEB Liability Special and Nonspecial funding components:

The Net OPEB Liability at June 30, 2018 and 2017 can be further broken down into its special funding and non-special funding components as follows:

		2018		2017
Special Funding Situation	$	6,213,844,492	$	8,695,413,135
Non-special Funding Situation		9,452,773,649		11,720,375,604
Total Net OPEB Liability	$	15,666,618,141	$	20,415,788,739

Note 10: POST EMPLOYMENT BENEFIT PLANS OTHER THAN PENISONS – HEALTH CARE BENEFITS (CONT'D)

Special Funding Situation - Under Chapter 330, P.L. 1997, the State shall pay the premium or periodic charges for the qualified local police and firefighter retirees and dependents equal to 80 percent of the premium or periodic charge for the category of coverage elected by the qualified retiree under the State managed care plan or a health maintenance organization participating in the program providing the lowest premium or periodic charge. 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.

Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No 75 and the State is treated as a nonemployer contributing entity. Since the local participating employers do not contribute under this legislation directly to the plan, there is no net OPEB liability, deferred outflows of resources or deferred inflows of resources to report in the financial statements of the local participating employers related to this legislation.

The Authority does not participate in the special funding situation and as a result there is no amount allocable of the net OPEB liability for the special funding situation to the Authority.

Note 11: RISK MANAGEMENT

<u>New Jersey Unemployment Insurance</u> – The Authority has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". Under this plan, the Authority is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to former employees and charged to its account with the State. The Authority is billed quarterly for amounts due to the State.

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The Authority purchases traditional transfer of risk commercial insurance policies with the intent to retain minimal or no risk. In addition, the Authority has designated a portion of its retained earnings for other catastrophic risks that may arise. The restricted balance at May 31, 2019 is reported at $1,003,362.49.

Note 12: RESTRICTED NET POSITION

The Authority reports the following Restricted Net Position as of May 31, 2019.

<u>Restricted for Debt Service:</u>
The amount of $2,039,961, has been Restricted for Debt Service pursuant to the Debt Service Reserve Requirement, as set forth in the Bond Resolution.

<u>Restricted-Operating:</u>
The amount of $2,671,200 has been Restricted for operations pursuant to the Operating Reserve Requirement, as set forth in the Bond Resolution.

<u>Restricted- Other:</u>
<u>Self-Insurance Reserve</u> – The amount of $977,644.50 has been recorded as a component of Restricted Net Position– Other.
<u>Unemployment Insurance Reserve</u> – The amount of $25,717.99 represents funds restricted for the State Unemployment Insurance Benefit Coverage.

Note 13: DESIGNATION OF UNRESTRICTED NET POSITION

Of the Unrestricted Funds to the credit of the Authority at May 31, 2019, the Authority has internally designated $2,953,459.26 as a reserve for future maintenance, repairs and improvements to the sewer collection system. The remaining balance of $1,080,459.53 is undesignated.

2020 Operating Budget

The Authority has adopted its statutory annual operating budget for the fiscal year ending May 31, 2020. The budget appropriates and anticipates $650,000 of Unrestricted Net Position as a revenue balancing account for the fiscal year 2020 budget. The Authority's budget for the fiscal year ending May 31, 2020 includes an appropriation in the amount of $650,000 for utilization as an item of revenue in the Township of Franklin's municipal budget.

Note 14. UNRESTRICTED NET POSITION - BUDGETARY

The unrestricted net position as reported in the financial statements is comprised of the following components and is reconciled to the unrestricted net position utilized for budgetary purposes, as follows:

	2019	(Restated) 2018
Unrestricted Net Position	$ 4,033,918.79	$ 3,964,869.31
Adjusted by:		
Net Pension Liability, Deferred Inflows/Outflows	4,071,793.00	3,954,595.00
Net OPEB Liability, Deferred Inflows/Outflows	5,457,031.00	5,461,358.00
	$ 13,562,742.79	$ 13,380,822.31

Note 15: RESTATEMENT – GASB 75

For the year ended May 31, 2019, the Authority implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, ("OPEB Benefits"). The Authority has determined that the effect of implementing this accounting change on the financial statements previously reported as of May 31, 2017 was to recognize the Authority's postemployment benefits other than pension (OPEB) net OPEB liability and expense adjustment with a corresponding reduction in the unrestricted component of net position in the amount of $5,643,261.21, as follows:

	2017 - Restated
Unrestricted Net Position - May 31, 2017	$ 9,581,687.59
(originally stated)	
As Adjusted by:	
OPEB Liability	(5,261,273.00)
Expense Adjusted	(381,988.21)
Total Unrestricted Net Position - May 31, 2017 (Restated)	$ 3,938,426.38

Note 16: COMMITMENTS AND CONTINGENCIES

The Authority participates in a federal and state financial assistance grant program. Entitlement to the funds is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable regulations, including the expenditures of funds for eligible purposes. These programs are also subject to compliance and financial audits by the grantors or their representatives. As of May 31, 2019, the Authority does not believe that any material liabilities will result from such audits. In addition, in connection with the Authority's on-going infrastructure projects, the Authority has approximately $107,000.00 in outstanding commitments to contractors at May 31, 2019.

Note 17: PENDING LITIGATION

As at May 31, 2019 and the date of this report, the Authority is unaware of pending litigation or potential nondisclosed liabilities to the audit report date, that management believes would have a material effect on the financial statements.

Note 18: SUBSEQUENT EVENTS

Events subsequent to May 31, 2019 through to the date of this report have been evaluated with no subsequent events needing disclosure.

PART II – REQUIRED SUPPLEMENTAL SCHEDULES

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY

SUPPLEMENTAL SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET AND ACTUAL AND ACTUAL EXPENSES FOR THE PRIOR PERIOD (BUDGETARY BASIS) FOR THE FISCAL YEAR ENDED MAY 31, 2019

	FISCAL YEAR ENDED MAY 31, 2019 BUDGET	FISCAL YEAR ENDED MAY 31, 2019 ACTUAL	(Restated) FISCAL YEAR ENDED MAY 31, 2018 ACTUAL
Retained Earnings Appropriated	$ 681,064.00	$ 681,064.00	$ 661,769.00
Revenue			
User Charges	12,436,390.00	12,974,620.97	13,093,930.31
Connection Charges	1,234,480.00	1,310,071.00	1,695,070.00
Interest on Investments, Deposit and Delinquencie	195,000.00	470,960.86	302,557.81
Other	55,000.00	41,662.50	43,493.05
Total Revenues	13,920,870.00	14,797,315.33	15,135,051.17
Total Revenues - Budgetary Basis	**$ 14,601,934.00**	**$ 15,478,379.33**	**$ 15,796,820.17**
Operating Expenses			
Administration:			
Salaries & Wages	$ 625,000.00	$ 643,842.32	$ 650,570.75
Fringe Benefits	267,510.00	291,100.99	310,732.07
Other Expenses	876,700.00	445,090.93	441,811.21
Cost of Providing Services:			
Salaries & Wages	997,000.00	1,009,536.26	924,452.13
Fringe Benefits	417,174.00	456,442.51	441,546.02
Other Expenses	8,700,291.00	8,421,958.64	7,657,653.32
Total Operating Expenses	11,883,675.00	11,267,971.65	10,426,765.50
Debt Service:			
Bond Principal	1,737,599.00	1,682,552.62	1,577,607.90
Interest on Bonds	299,596.00	252,590.27	161,438.02
Total Debt Service	2,037,195.00	1,935,142.89	1,739,045.92

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY

SUPPLEMENTAL SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET AND ACTUAL AND ACTUAL EXPENSES FOR THE PRIOR PERIOD (BUDGETARY BASIS) FOR THE FISCAL YEAR ENDED MAY 31, 2019

	FISCAL YEAR ENDED MAY 31, 2019		(Restated) FISCAL YEAR ENDED MAY 31, 2018
	BUDGET	ACTUAL	ACTUAL
Municipality/County Appropriation:			
Franklin Township Appropriation	681,064.00	681,064.00	695,129.00
Total Municipal/County Appropriation	681,064.00	681,064.00	695,129.00
Total Expenses - Budgetary Basis	**14,601,934.00**	**13,884,178.54**	**12,860,940.42**
Budgetary Revenues Over/Under Expenditures	$ -	$ 1,594,200.79	$ 2,935,879.75
Reconciliaiton of Budgetary Basis to Change in Net Position:			
Budgetary Revenues Over/Under Expenditures Brought Forward		$ 1,594,200.79	$ 2,935,879.75
Adjustements to Budgetary Basis:			
Bond Principal		1,682,552.62	1,577,607.90
Contributed Capital			(131,516.15)
Appropriaton of Retained Earnings		(681,064.00)	(661,769.00)
Net Pension Liability Adjustment		(145,120.00)	(175,019.00)
Net OPEB Liability Adjustment		(1,504.00)	(253,125.00)
Depreciation Expense Not Budgeted		(1,064,816.07)	(877,339.36)
Total Adjustments - Net		(209,951.45)	(521,160.61)
Change in Net Position		**$ 1,384,249.34**	**$ 2,414,719.14**

Schedule 2

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY
SCHEDULE OF THE AUTHORITY'S SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT SYSTEM (Local Group)

Last 10 Fiscal Years*

	2014	2015	2016	2017	2018
Authority's Proportion of the Net Pension Liability	0.018319%	0.016247%	0.017920%	0.018124%	0.019866%
Authority's Proportionate Share of the Net Pension Liability	$3,429,836	$3,647,214	$5,307,399	$4,219,040	$3,911,486
Authority's Covered-Employee Payroll**	$1,244,193	$ 1,269,585	$ 1,308,361	$ 1,511,198	$ 1,418,143
Authority's Proportionate Share of the Net Pension Liability as a percentage of the Covered-Employee Payroll	275.67%	287.28%	405.65%	279.19%	275.82%
Local Plan Fiduciary Net Position as a percentage of the Total Pension Liability	48.72%	47.93%	40.14%	48.10%	53.60%

* Amounts presented for each year were determined as of June 30.
** As of calendar year-end.

Schedule 3

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY
SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT SYSTEM (Local Group)

Last 10 Fiscal Years*

	2014	2015	2016	2017	2018
Contractually Required Contribution	$ 156,861	$ 145,561	$ 166,786	$ 177,197	$ 205,119
Contribution in Relation to Contractually Required Contribution	$ (156,861)	$ (145,561)	$ (166,786)	$ (177,197)	$ (205,119)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Authority's Proportionate Share of the Payroll**	$ 1,244,193	$ 1,269,585	$ 1,308,361	$ 1,511,198	$ 1,418,143
Contributions as a percentage of Covered Employee Payroll	12.61%	11.47%	12.75%	11.73%	14.46%

* Amounts presented for each year were actuarilly determined as of June 30, of that year, based upon the previous June 30th year data.

** As of calendar year-end.

NOTES TO REQUIRED SUPPLEMENTARY PENSION INFORMATION
MAY 31, 2019

NOTE 1. CHANGES IN ASSUMPTIONS

The following information is as abstracted from the State of New Jersey, Division of Pension and Benefits, Financial Statements and Supplementary Schedules report as of June 30, 2018, dated April 16, 2019. This information pertains to the RSI schedules of changes in net pension liability contained in that report.

PERS

Changes in benefit terms - None

Changes in assumptions:

Discount rate	5.66%	5.00%	3.98%	4.90%	5.39%
Long-term expected rate of return	7.00%	7.00%	7.65%	7.90%	7.90%

For 2016, demographic assumptions were revised in accordance with the results of the July 1, 2011 - June 30, 2014 experience study and the mortality improvement scale incorporated the plan actuary's modified MP-2014 projection scale. Further, salary increases were assumed to increase between 1.65% and 4.15% (based on age) through fiscal year 2026 and 2.65% and 5.15% (based on age) for each fiscal year thereafter. For 2015, the social security wage base was set at $118,500 for 2015, increasing 4.00% per annum, compounded annually and the 401(a)(17) pay limit was set at $265,000 for 2015, increasing 3.00% per annum, compounded annually.

Schedule 4

FRANKLIN TOWNSHIP SEWAGE AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE AUTHORITY'S
NET OPEB LIABILITY AND RELATED RATIOS

Last 10 Fiscal Years*

Information as reported by the New Jersey State Health Benefits Plan for the overall Plan:
(Segmented information for the Frankin Township Sewerage Authority is not made available)

	2018	2017
Total OPEB Liability - Beginning	$20,629,044,656	$ 21,867,849,603
(Based on 6/30 Measurement Date)		
Changes for the year:		
Service cost	896,235,148	1,064,525,862
Interest cost	764,082,232	648,423,508
Difference between expected and actual experience	(3,626,384,047)	
Changes in assumptions	(2,314,240,675)	(2,587,850,974)
Contributions: Member	53,987,166	53,585,505
Gross benefit payments	(421,621,253)	(417,488,848)
Actuarial demographic (gain) or loss	-	-
Net changes	(4,647,941,429)	(1,238,804,947)
Total OPEB Liability - Ending	$15,981,103,227	$ 20,629,044,656
(Based on 6/30 Measurement Date)		
Plan Fiduciary Net Position		
Contributions: Employer	$ 421,194,662	$ 381,813,324
Contributions: Non-Employer contributing entities	53,548,285	53,064,311
Contributions: Member	53,987,166	53,585,505
Net investment income	2,320,422	791,049
Gross benefit payments	(421,621,253)	(417,488,848)
Administrative expenses	(8,200,113)	(8,894,576)
Other	-	-
Net Change in Plan Fiduciary Net Position	$ 101,229,169	$ 62,870,765
Plan Fiduciary Net Position (Beginning)	$ 213,255,917	150,385,152
Plan Fiduciary Net Position (Ending)	$ 314,485,086	$ 213,255,917
Net OPEB Liability (Ending)	$15,666,618,141	$ 20,415,788,739
Plan Fiduciary Net Position as % of OPEB Liability	1.968%	1.034%
Covered Employee Payroll	$ 4,646,915,753	$ 4,336,016,376
Net OPEB Liability as a Percentage of Payroll	337%	471%
Specific Authority Information:		
Authority's Allocated Net OPEB liability - ending	$ 3,630,582	$ 5,059,441
Authority Covered-employee payroll	$ 1,418,143	$ 1,511,198
Total Authority Allocated OPEB liability as a percentage of covered-employee payroll	256.01%	334.80%

* Schedule will be completed through results of subsequent years' activity

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
OPEB LIABILITY
MAY 31, 2019

Changes of benefit terms

None

Changes in assumptions

The mortality table projection scale was updated to MP-2018, the discount rate was revised to reflect current market rates, and the prescription drug trend rates were revised to incorporate current expected trend rates.

PART III – SINGLE AUDIT SECTION

HODULIK & MORRISON, P.A.
A division of PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

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 Franklin Sewerage Authority
Somerset County, New Jersey

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the Franklin Township Sewerage Authority, County of Somerset, New Jersey (the "Authority") as of May 31, 2019, and the related notes to the financial statements, and have issued our report thereon dated November 6, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting (internal control) to determine the 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 the internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of the laws, regulations, contacts 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Hodulik & Morrison, P.A.

HODULIK & MORRISON, P.A.
A division of PKF O'Connor Davies
Certified Public Accountants
Registered Municipal Accountants

Cranford, New Jersey
November 6, 2019

HODULIK & MORRISON, P.A.
A division of PKF O'CONNOR DAVIES
ACCOUNTANTS AND ADVISORS

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE
INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members of the
Township of Franklin Sewerage Authority
Somerset County, New Jersey

Report on Compliance for Each Major Federal Programs

We have audited the Township of Franklin Sewerage Authority, County of Somerset, New Jersey (the "Authority) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended May 31, 2019. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with state and federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and, *The Uniform Guidance*, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Authority, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended May 31, 2019.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with *The Uniform Guidance* but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Hodulik & Morrison, P.A.

HODULIK & MORRISON, P.A.
A division of PKF O'Connor Davies
Certified Public Accountants
Registered Municipal Accountants

Cranford, New Jersey
November 6, 2019

Schedule A

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MAY 31, 2019

FEDERAL GRANTOR/PASS - THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE	GRANT NUMBER	FEDERAL C.F.D.A. NUMBER	GRANT PERIOD	PASSED THROUGH ENTITY IDENTIFYING NUMBER	AWARD AMOUNT	PROGRAM RECEIPTS	DISBURSEMENTS/ EXPENDITURES
N.J. Department of Environmental Protection							
NJ Environmental Infrastructure Trust - 2017	Not Available	66.458	Indefinite	042-4860-711-010	$ 12,082,826.00	$ 3,080,764.00	$ 830,821.89
NJ Environmental Infrastructure Trust - 2019	Not Available	66.458	Indefinite	Not Available	1,729,561.00	-	1,446,610.85
						$ 3,080,764.00	$ 2,277,432.74

See Accompanying Notes to Schedule of Expenditures of Federal Financial Assistance

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED MAY 31, 2019

NOTE 1. GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of the federal financial assistance programs of the Franklin Township Sewerage Authority. The Authority is defined in Note 1 to the Authority's financial statements. All federal awards received directly from federal agencies, as well as federal awards passed through other government agencies is included on the schedule of expenditures of federal awards.

NOTE 2. BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting. The Authority also has not elected to use the 10 percent de minims indirect cost rate under the Uniform Guidance and has not charged any indirect costs to its funded programs.

NOTE 3. RELATIONSHIP TO FINANCIAL STATEMENTS

Amounts reported in the accompanying schedules agree with amounts reported in the Authority's financial statements.

NOTE 4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal financial reports, where applicable.

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED MAY 31, 2019

Section 1 – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on the financial statements: Unmodified

Internal Control over financial reporting:

1) Material weakness(es) identified? ____ yes __X__ no

2) Significant deficiencies identified? ____ yes __X__ None reported

Noncompliance material to basic financial statements noted? ____ yes __X__ no

Federal Awards

Internal Control over major programs:

1) Material weakness(es) identified? ____ yes __X__ no

2) Significant deficiencies identified? ____ yes __X__ None reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? ____ yes __X__ no

Identification of major federal programs:

CFDA Number	Name of Federal Program
66.458	Capitalization Grant for Clean Water State Revolving Funds

Dollar threshold used to distinguish between type A and type B programs: $750,000.00

Auditee qualified as low-risk auditee? __X__ yes ____ no

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED MAY 31, 2019

(continued)

Section II – Financial Statement Findings

Current Fiscal Year - NONE

Section III – Federal Awards Findings and Questioned Costs

Current Fiscal Year - NONE

Schedule C

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED MAY 31, 2019
(continued)

Section IV – Status of Prior Year Findings

No prior year findings were noted.

PART IV – OTHER SUPPLEMENTAL INFORMATION

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY

SCHEDULE OF BONDS AND LOANS PAYABLE

IAY 31, 2019

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS DATE	MATURITIES OF LOANS AMOUNT	BALANCE MAY 31, 2018	INCREASED	DECREASED	BALANCE MAY 31, 2019
	11/9/2000	$ 3,990,000.00				$ 624,619.00		$ 199,009.22	$ 425,609.78
NJEIT Infra Savings Credits		$ (647,576.63)	5.250%	8/1/2019	208,320.34				
			5.250%	8/1/2020	217,289.44				
			Fiscal Year	SEMI-ANNUAL PRINCIPAL					
			5/31	1-Aug	1-Feb				
	11/9/2000	$ 4,201,360.00							
NJEIT Infrastructure Water Fund Loan - Principal Only (Payable 8/1 and 2/1)						627,293.49		209,497.19	417,796.30
			2020	203,933.08	5,333.87				
			2021	208,529.35	-				
	11/8/2001	$ 1,410,000.00				314,340.95		99,955.00	214,385.95
NJEIT Infrastructure Water Trust Loan			5.000%	8/1/2019	110,000.00				
			4.750%	8/1/2020	115,000.00				
				Savings Credits	(10,614.05)				
			Fiscal Year	SEMI-ANNUAL PRINCIPAL					
	11/8/2001	$ 1,492,500.00	5/31	1-Aug	1-Feb				
NJEIT Infrastructure Water Fund Loan - Principal Only (Payable 8/1 and 2/1)						235,581.37		78,799.85	156,781.52
			2020	76,735.68	1,814.87				
			2021	78,230.97	-				

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY

SCHEDULE OF BONDS AND LOANS PAYABLE

1AY 31, 2019

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS DATE	MATURITIES OF LOANS AMOUNT	BALANCE MAY 31, 2018	INCREASED	DECREASED	BALANCE MAY 31, 2019
	11/8/2007	$ 6,475,000.00				2,371,000.00		280,000.00	2,091,000.00
NJEIT Infrastructure Water Trust Loan		$ (1,175,000.00)	4.000%	8/1/2019	350,000.00				
Defeased Principal			4.000%	8/1/2020	360,000.00				
			5.000%	8/1/2021	375,000.00				
			5.000%	8/1/2022	395,000.00				
			4.250%	8/1/2023	415,000.00				
			4.500%	8/1/2024	430,000.00				
			4.500%	8/1/2025	130,000.00				
			4.500%	8/1/2026	55,000.00				
			4.250%	8/1/2027	55,000.00				
				Savings Credits	(474,000.00)				

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	Fiscal Year 5/31	SEMI-ANNUAL PRINCIPAL 1-Aug	SEMI-ANNUAL PRINCIPAL 1-Feb	BALANCE MAY 31, 2018	INCREASED	DECREASED	BALANCE MAY 31, 2019
	11/8/2007	$ 6,250,000.00							
NJEIT Infrastructure Water Fund Loan						1,720,520.32		328,005.11	1,392,515.21
- Principal Fund Loan Decrease		$ (1,558,418.00)	2020	281,582.55	49,510.60				
			2021	283,532.74	44,829.91				
			2022	288,603.22	38,735.57				
			2023	295,510.13	32,316.21				
			2024	77,894.28	-				
			2025	-	-				
			2026	-	-				
			2027	-	-				
			2028	-	-				

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY

SCHEDULE OF BONDS AND LOANS PAYABLE

1AY 31, 2019

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS DATE	MATURITIES OF LOANS AMOUNT	BALANCE MAY 31, 2018	INCREASED	DECREASED	BALANCE MAY 31, 2019
	5/25/2017	$ 4,090,000.00				4,090,000.00		80,000.00	4,010,000.00
NJEIT Infrastructure Water Loan			5.000%	8/1/2019	80,000.00				
(Trust Loan Agreement)			5.000%	8/1/2020	85,000.00				
			5.000%	8/1/2021	90,000.00				
			5.000%	8/1/2022	95,000.00				
			5.000%	8/1/2023	100,000.00				
			5.000%	8/1/2024	105,000.00				
			5.000%	8/1/2025	110,000.00				
			3.000%	8/1/2026	115,000.00				
			3.000%	8/1/2027	120,000.00				
			3.000%	8/1/2028	120,000.00				
			3.000%	8/1/2029	125,000.00				
			3.000%	8/1/1930	130,000.00				
			3.000%	8/1/1931	135,000.00				
			3.000%	8/1/1932	135,000.00				
			3.125%	8/1/1933	140,000.00				
			3.250%	8/1/1934	145,000.00				
			3.250%	8/1/1935	150,000.00				
			3.375%	8/1/1936	155,000.00				
			3.375%	8/1/1937	160,000.00				
			3.375%	8/1/1938	165,000.00				
			3.375%	8/1/1939	170,000.00				
			3.375%	8/1/1940	175,000.00				
			3.500%	8/1/1941	185,000.00				
			3.500%	8/1/1942	190,000.00				
			3.500%	8/1/1943	195,000.00				
			3.500%	8/1/1944	205,000.00				
			3.500%	8/1/1945	210,000.00				
			3.500%	8/1/1946	220,000.00				

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY

SCHEDULE OF BONDS AND LOANS PAYABLE

1AY 31, 2019

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS DATE	MATURITIES OF LOANS AMOUNT	BALANCE MAY 31, 2018	INCREASED	DECREASED	BALANCE MAY 31, 2019
			Fiscal Year 5/31	SEMI-ANNUAL PRINCIPAL 1-Aug	1-Feb				
	5/25/2017	$ 12,082,826.00							
NJEIT Infrastructure Water Loan						11,675,539.75		407,286.25	11,268,253.50
- Principal Only (Payable 8/1 and 2/1) (Fund Loan Agreement)			2020	271,524.17	135,762.08				
			2021	271,524.17	135,762.08				
			2022	271,524.17	135,762.08				
			2023	271,524.17	135,762.08				
			2024	271,524.17	135,762.08				
			2025	271,524.17	135,762.08				
			2026	271,524.17	135,762.08				
			2027	271,524.17	135,762.08				
			2028	271,524.17	135,762.08				
			2029	271,524.17	135,762.08				
			2030	271,524.17	135,762.08				
			2031	271,524.17	135,762.08				
			2032	271,524.17	135,762.08				
			2033	271,524.17	135,762.08				
			2034	271,524.17	135,762.08				
			2035	271,524.17	135,762.08				
			2036	271,524.17	135,762.08				
			2037	271,524.17	135,762.08				
			2038	271,524.17	135,762.08				
			2039	271,524.17	135,762.08				
			2040	271,524.17	135,762.08				
			2041	271,524.17	135,762.08				
			2042	271,524.17	135,762.08				
			2043	271,524.17	135,762.08				
			2044	271,524.17	135,762.08				
			2045	271,524.17	135,762.08				
			2046	271,524.17	135,762.08				
			2047	271,524.75					

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY

SCHEDULE OF BONDS AND LOANS PAYABLE

[M]AY 31, 2019

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS DATE	MATURITIES OF LOANS AMOUNT	BALANCE MAY 31, 2018	INCREASED	DECREASED	BALANCE MAY 31, 2019
NJ Infrastructure Bank Construction Financing Loan Program 2018-1 Temporary loan anticipated to be included in future permanent financing.	12/18/2018	$ 1,746,857.00	0.000%				1,746,857.00	-	1,746,857.00
						$ 21,658,894.88	$ 1,746,857.00	$ 1,682,552.62	$ 21,723,199.26

Bonds and Loans		$ 21,723,199.26
Unamortized Loan Premiums		99,773.93
		$ 21,822,973.19
Paydown	$ 1,682,552.62	
Trust Loan Adjustment	-	19,976,342.26
	$ 1,682,552.62	

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY
INSURANCE AND SURETY BOND COVERAGE
(Unaudited)

The following information was provided to the Authority by the Authority's insurance agent.

COVERAGE	LIMITS	
Property Policy		
Blanket Limit	$ 150,000,000.00	
Deductible	25,000.00	
Automobile Physical Damage Policy		
Comprehensive Deductible	10,000.00	
Collision Deductible	10,000.00	
Hired Car Physical Damage Limit	160,000.00	
Hired Car Physical Damage Deductible	10,000.00	
Public Officials & Employment Liability Policy		
Limits of Liability		
Combined Single Limit Per Claim and Aggregate	2,000,000.00	
For Defense Only of Claims based on Civil Union or Marriage	25,000.00	
Combined over Monetary and Injunctive Relief Claims	100,000.00	
Retention	25,000.00	
Package Policy		
Section I - General Liability		
Limit of Liability	300,000.00	
Section II - Employee Benefits Liability		
Each Employee	300,000.00	
Aggregate	300,000.00	
Deductible	1,000.00	
Section III - Automobile Liability		
Limit of Liability	300,000.00	
Auto Medical Payments	10,000.00	
Uninsured Motorist Coverage	15,000.00	Each Person
	30,000.00	Each Accident
Medical Expense Deductible	2,500.00	
Section IV - Workers Compensation		
Part I - Workers Compensation	300,000.00	
Part II - Employers Liability	300,000.00	Each Accident
	300,000.00	Each Employee
	300,000.00	Policy Limit
Section IV - Environmental Legal Liability		
Limit of Liability		
Each Incident (Coverage A)	1,000,000.00	
Each Corrective Action (Cov. B)	1,000,000.00	
Aggregate	1,000,000.00	
Aggregate Defense Limit	100,000.00	
Deductible	5,000.00	

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY
INSURANCE AND SURETY BOND COVERAGE
(Unaudited)

The following information was provided to the Authority by the Authority's insurance agent.

COVERAGE	LIMITS
(Continued)	
Section V - Crime	
Forgery or Alteration	$ 50,000.00
Theft, Disappearance & Destruction	50,000.00
Robbery & Safe Burglary	50,000.00
Computer Fraud	50,000.00
Public Employee Dishonesty	50,000.00
Deductible	1,000.00
Section VI - Excess Crime	
Forgery or Alteration	950,000.00
Theft, Disappearance & Destruction	950,000.00
Robbery & Safe Burglary	950,000.00
Computer Fraud	950,000.00
Public Employee Dishonesty	950,000.00
Excess Public Official Bond	1,000,000.00
Statutory Position Bond	1,000,000.00
Deductible	1,000.00
Section VII - Excess Liability	
Limit of Liability	700,000.00
Section VIII - Excess WC	
Part I - Workers Compensation	1,700,000.00
Part II - Employers Liability	1,700,000.00
Property Limit	150,000,000.00
Cyber Liability Policy	
Each Claim	3,000,000.00
Aggregate	6,000,000.00
Aggregate Sublimit	1,000,000.00
Deductible	10,000.00
Excess Casualty Policy	
General Liability Each Occurrence	10,000,000
Automobile Liability	10,000,000
Public Officials Employment Practices Liability	10,000,000

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY

OFFICIALS IN OFFICE

The following officials were in office at May 31, 2019:

William Galtieri	Chairman
Bryana DeVeaux	Vice Chairman
Surendra Tiwari	Secretary/Treasurer
Sivaraman "Ram" Anbarasan	Assistant Secretary/Treasurer
Chernor "Ben" Jalloh	Commissioner
Open	Commissioner - Alternate #1
Teresa Ford	Commissioner - Alternate #2
Brian G. Regan	Executive Director

TOWNSHIP OF FRANKIN SEWERAGE AUTHORITY
COUNTY OF SOMERSET, NEW JERSEY
FISCAL YEAR ENDED MAY 31, 2019

GENERAL COMMENTS

An audit of the financial accounts and transactions of the Township of Franklin Sewerage Authority, County of Somerset, New Jersey, for the fiscal year ended May 31, 2019, has been completed. The General Comments are herewith set forth:

Scope of Audit

The audit covered the financial transactions of the Finance Department of the Franklin Township Sewerage Authority, County of Somerset, New Jersey.

The audit did not and could not determine the character of services rendered for which payment had been made or for which reserves had been set up, nor could it determine the character, proper price or quantity of materials supplied for which claims had been passed. These details were necessarily covered by the internal review and control before approval of such claims by the Governing Body. Cash on hand was counted and cash and investment balances were reconciled with independent certifications obtained directly from the depositories. Revenues and receipts were established and verified as to source and amount insofar as the records permitted.

INTERNAL CONTROL MATTERS

Control Deficiencies:

Documentation of Components of Internal Control

As required by Statement on Auditing Standards No. 115, entities subject to audit are required to provide documentation of the various components of its internal controls.

The Authority should consider documenting the various components of its internal controls, including the documentation of the review of risks associated with the entity by management.

With respect to the reporting of internal control matters, standards require that only a significant deficiency and/or a material weakness need be reported in writing to management and those charged with governance. A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects an entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles or other applicable accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

GENERAL COMMENTS

INTERNAL CONTROL MATTERS (cont'd.)

Documentation of Components of Internal Control (cont'd.)

A material weakness is a significant deficiency, or a combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

The control deficiency reported above is not considered to be significant deficiency nor material weaknesses. In addition, control deficiencies are not required to be reported in writing, however, control deficiencies are presented to management and those charged with governance in this report as a means to present those matters identified in review of the Authority's internal controls and as a means to inform management and those charged with governance as to the auditing standards requirements with respect to internal controls.

OTHER MATTERS

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

N.J.S.A. 40A:11-4 states "every contract or agreement for the performance of any work or the furnishing or hiring of any materials or supplies, the cost of 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 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 of $17,500.00 except by contract or agreement."

On September 28, 2015, the Local Public Contracts Law was amended, effective on July 1, 2015. The amendment addresses the bid threshold (Section 7, N.J.S.A. 40A:11-3), thereby increasing the amount from $36,000.00 to $40,000.00 under which a contract may be awarded without public advertising for those governmental units that have appointed a Qualified Purchasing Agent. The maximum bid threshold remains at $17,500.00 for those entities that do not have a Qualified Purchasing Agent. Currently the Authority does have a Qualified Purchasing Agent.

The Commissioners and Executive Director of the Franklin Township Sewerage Authority have the responsibility of determining whether the expenditures in any category will exceed the bid threshold within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of this statute, the Authority Counsel's opinion should be sought before a commitment is made.

The official minutes of the Authority indicate that bids were requested by public advertising for the items tested during the fiscal year 2019.

GENERAL COMMENTS

Contracts and Agreements Required to be Advertised for N.J.S.A. 40A:11-4 (Cont'd)

In as much as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear cut violations existed.

The examination of expenditures did not reveal any individual payments, contracts or agreements over the $40,000 bid thresholds, "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 advertising or where a resolution had been previously adopted under the provisions of N.J.S.A. 40A: 11-4.

The minutes indicated that resolutions were adopted and advertised authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S.A. 40A:11-5.

Payment of Claims and Purchase Order/Encumbrance Accounting System

Claims were examined on a test basis for the year under review. Compliance was adequate.

The Authority utilizes an encumbrance accounting system within its general ledger accounting system. This system provides for the development and implementation of accounting transactions that includes the capability to reflect the commitment of funds at the point of commitment. In minor instances, the use of confirming orders was noted.

Fixed Asset Accounting and Reporting System

The Authority implemented in recent periods fixed asset accounting and reporting system in order to provide a subsidiary record of its recorded fixed assets. The fixed asset system is functional and provides the necessary subsidiary information with respect to fixed assets. It was noted however, that the fixed asset system does not allow for the deletion of assets no longer in use, requiring manual adjustments to its reporting function. In addition, the subsidiary information was not always in agreement with the general ledger for certain asset categories.

Condition of Records - Finance Department

The Authority maintains a computerized general ledger system for the financial accounting and reporting and for compliance with requirements applicable to Authorities. Adjustments were required in order to allow the system to be utilized as the basis for financial statement preparation.

GENERAL COMMENTS

Administration and Accounting of State & Federal Grants

The Authority participated in a loan program during fiscal year 2019, which was apparently funded in whole or in part by federal and/or state loan assistance. These assistance programs often vary as to the application and approval process; matching funds requirements, grant periods, required approvals for modification of budgets and the timing and frequency of financial reporting. As part of the acceptance of these funds, the Authority is required to make assurances to the grantor agency that it will comply, in its general operations as well as in the operation of grant funded programs, with various laws and regulations. In addition, the individual grant contracts impose specific compliance requirements for the operations of each program. Based upon the myriad compliance and reporting requirements for grant awards, the Authority should continue to maintain sound administrative functions over grant programs.

The acceptance of grant funds also places additional requirements upon the Authority with respect to the Authority's system of internal controls. Based upon the matrix of requirements applicable to a specific grant, the Authority's internal controls are required to include systems and policies and procedures designed to ensure compliance with the applicable requirements.

The grant administration process also requires the Authority to prepare schedule(s) of financial assistance. As with other local entities, weaknesses in the identification process by grantors with respect to accurate pass-through source assistance continues. Matters related to the proper funding source identification can impact the accuracy of the assistance schedules.

We suggest that the Authority continue to review applicable grant requirements and the Authority's system of internal controls in order to ensure the Authority's internal controls are functioning at the requisite levels to meet with the various compliance requirements along with the accurate reporting of pass-through funding sources.

RECOMMENDATIONS

None

* * * * * * * * * *

ACKNOWLEDGMENT

During the course of our engagement we received the complete cooperation of the various officials and employees of the Authority, and the courtesies extended to us were greatly appreciated.

Very truly yours,

HODULIK & MORRISON, P.A.

Andrew G. Hodulik, CPA, RMA
No. 406