



**FRANKLIN TOWNSHIP  
SEWERAGE AUTHORITY**

**COUNTY OF SOMERSET  
NEW JERSEY**

**FINANCIAL REPORT  
MAY 31, 2020**

**HODULIK & MORRISON, P.A.**

*A division of*



**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY  
SOMERSET COUNTY, NEW JERSEY  
For the years ended May 31, 2020 and 2019**

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**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY  
SOMERSET COUNTY, NEW JERSEY  
For the years ended May 31, 2020 and 2019**

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## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on Financial Statements**

We have audited the accompanying financial statements of the business-type activities of the Franklin Township Sewerage Authority ("Authority"), County of Somerset, State of New Jersey as of and for the fiscal years ended May 31, 2020 and 2019, and the related notes to the financial statements, 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 in compliance with the audit standards prescribed by the Local Finance Board and 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 Authority'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 Authority's internal control. Accordingly, we express no such opinion. 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.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Franklin Township Sewerage Authority, County of Somerset, State of New Jersey, as of May 31, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, 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 Franklin Township Sewerage Authority's basic financial statements. The introductory section and other supplemental information, such as the statistical information, are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of revenues and expenses compared to budget is presented for purposes of additional analysis as required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is also presented for purposes of additional analysis and is not a required part of the financial statements.

The accompanying schedule of revenues and expenses compared to budget and schedule of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the audited 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 themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying schedule of revenues and expenses compared to budget and the schedule of

federal awards is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Governmental Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2021 on our consideration of the Franklin Township Sewerage Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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* in considering Franklin Township Sewerage Authority's internal control over financial reporting and compliance.

Respectfully Submitted,

HODULIK & MORRISON, P.A.  
A division of PKF O'Connor Davies



Andrew G. Hodulik  
Certified Public Accountant  
Registered Municipal Accountant  
No. 406

January 4, 2021  
Cranford, New Jersey

**REQUIRED SUPPLEMENTARY INFORMATION**

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY**  
**SOMERSET COUNTY, NEW JERSEY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(Unaudited)**

This section of The Franklin Township Sewerage Authority's (the Authority) annual financial report presents the analysis of the Authority's financial performance during the fiscal year ended May 31, 2020.

**FINANCIAL HIGHLIGHTS**

- Operating revenues on a budgetary basis were \$14,920,259 (Schedule V) for the year ended May 31, 2020. This is a \$(558,121), or a 3.60% decrease, from the previous year.
- The Authority does not have any funds classified as investments as at May 31, 2020.
- Net Position decreased by \$473,851 or -0.80% over last year.
- The Authority's Capital Assets – Net increased by \$2,296,028 or 3.31% 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.

**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 **Statements of Net Position** include all of the Authority's assets, deferred outflows, liabilities, and deferred inflows 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 **Statements 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 **Statements 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 decreased from last year by 0.80%. The analysis, which follows focuses on the Authority's net position (Table A-1) and changes in net position (Table A-2) during the year.

**Table A-1**  
**Net Position**

	2020	2019	MAY 31, 2018 (Restated)	2020-2019 INCREASE(DECREASE)		2019-2018 INCREASE(DECREASE)	
				\$	%	\$	%
Current and Other Assets	\$ 28,434,557	\$ 32,890,091	\$ 37,083,342	\$ (4,455,534)	-13.55%	\$ (4,193,251)	-11.31%
Capital Assets	71,694,269	69,398,241	65,503,919	2,296,028	3.31%	3,894,322	5.95%
Deferred Outflows	1,017,116	1,418,658	1,628,499	(401,542)	-28.30%	(209,841)	-12.89%
Total Assets and Deferred Outflows of Resources	\$ 101,145,942	\$ 103,706,990	\$ 104,215,760	\$ (2,159,506)	-2.08%	\$ (508,770)	-0.49%
Long Term Liabilities	\$ 24,789,828	\$ 27,590,524	\$ 29,480,629	\$ (2,800,696)	-10.15%	\$ (1,890,105)	-6.41%
Other Liabilities	13,965,906	13,657,780	15,468,040	308,126	2.26%	(1,810,260)	-11.70%
Total Liabilities	38,755,734	41,248,304	44,948,669	(2,492,570)	-6.04%	(3,700,365)	-8.23%
Deferred Inflows	3,810,787	3,405,414	1,598,069	405,373	11.90%	1,807,345	113.10%
Total Liabilities and Deferred Inflows of Resources	42,566,521	44,653,718	46,546,738	(2,492,570)	-5.58%	(1,893,020)	-4.07%
Net Position							
Invested in Capital Assets, Net of Debt	51,617,533	49,304,829	47,936,696	2,312,704	4.69%	1,368,133	2.85%
Restricted	6,028,500	5,714,524	5,767,457	313,976	5.49%	(52,933)	-0.92%
Unrestricted	933,388	4,033,919	3,964,869	(3,100,531)	-76.86%	69,050	1.74%
Total Net Position	\$ 58,579,421	\$ 59,053,272	\$ 57,669,022	\$ (473,851)	-0.80%	\$ 1,384,250	2.40%
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 101,145,942	\$ 103,706,990	\$ 104,215,760	\$ (2,786,555)	-2.69%	\$ (508,770)	-0.49%

**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,		2018	2020-2019		2019-2018	
	2020	2019		INCREASE(DECREASE)	INCREASE(DECREASE)		
			(Restated)	\$	%	\$	%
<b>REVENUES</b>							
Operating Revenues:							
Service & Connect. Charges	\$ 14,130,514	\$ 14,284,692	\$ 14,789,000	\$ (154,178)	-1.09%	\$ (504,308)	-3.41%
Interest on Delinquencies	133,082	182,577	190,925	(49,495)	-37.19%	(8,348)	-4.37%
Other	61,399	41,663	43,493	19,736	32.14%	(1,830)	-4.21%
General Revenues:							
Interest Income	226,328	288,384	111,633	(62,056)	-27.42%	176,751	158.33%
<b>Total Revenues</b>	<b>14,551,323</b>	<b>14,797,316</b>	<b>15,135,051</b>	<b>(245,993)</b>	<b>-1.69%</b>	<b>(337,735)</b>	<b>-2.23%</b>
Program Expenses:							
Sewer	13,404,334	11,267,973	10,426,766	2,136,361	15.94%	841,207	8.07%
Depreciation	1,194,697	1,064,816	877,339	129,881	10.87%	187,477	21.37%
Interest on Long Term Debt	198,421	252,590	161,438	(54,169)	-27.30%	91,152	56.46%
Other	(141,214)	146,624	559,660	(287,838)	203.83%	(413,036)	-73.80%
Appropriation Township of Franklin	368,936	681,064	695,129	(312,128)	-84.60%	(14,065)	-2.02%
<b>Total Expenses</b>	<b>15,025,174</b>	<b>13,413,067</b>	<b>12,720,332</b>	<b>1,612,107</b>	<b>10.73%</b>	<b>692,735</b>	<b>5.45%</b>
Increase(Decrease) in Net Position	\$ (473,851)	\$ 1,384,249	\$ 2,414,719	\$ (1,858,100)	-392.13%	\$ (1,030,470)	-42.67%

While the statements of net position 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 \$(473,851) was reported for fiscal year ended May 31, 2020.

**REVENUES:**

Table A-2 shows "Total Revenues" decreased by \$245,993 or 1.69% to \$14,551,323 for fiscal year ended May 31, 2020, as compared to \$14,797,316 for fiscal year ended May 31, 2019, based upon fluctuations in service and connection charges. Upon closer review, you will notice "Operating Revenues - Service and Connection Charges" had a differential of (\$154,178) or -1.09% versus last year.

**EXPENSES:**

A further review of Table A-2 reveals that "Total Expenses" increased by \$1,612,107 or 10.73% for the fiscal year ended May 31, 2020.

## **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.

The schedule of revenues and expenses compared to budget shows that, on a budgetary basis, the Authority realized an unfavorable variance of \$2,085,334, on budgeted expenses of \$11,319,000, exclusive of budgeted renewal and replacement reserves, where applicable, for the period ended May 31, 2020. The Authority realized a favorable variance on the revenue side by \$494,259. As shown by the reconciliation of the budgetary basis to GAAP on page 2 of the schedule of revenues and expenses compared to budget, 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 Net Pension Expense and Other Postemployment Benefit Expense
- 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 the schedule of revenues and expenses compared to budget 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, 2020, the Authority had \$93,825,932 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 \$8,611,452. This amount represents a change (net of increases and decreases) of \$3,138,642, or 57% over amounts reported for construction in progress at May 31, 2019, reflective of projects completed and depreciation calculated.

The following table summarizes the Authority's capital assets and changes therein for the years ended May 31, 2020, 2019, and 2018. Capital asset detail information is presented in Note 4 to the financial statements.

**Table A-3  
Gross Capital Assets**

	MAY 31,			2020-2019		2019-2018		
	2020	2019	2018	INCREASE(DECREASE)		INCREASE(DECREASE)		
				\$	%	\$	%	%
Land, Easements & Rights of Way	\$ 962,824	\$ 962,824	\$ 962,824	\$ -	0.00%	\$ -	0.00%	0.00%
Collection System	74,763,049	74,733,429	55,372,975	29,620	0.04%	19,360,454	34.96%	0.00%
Building & Structures	4,881,883	4,868,951	4,868,951	12,932	0.26%	-	0.00%	0.00%
Machinery & Equipment	4,606,725	4,297,193	4,284,141	309,532	6.72%	13,052	0.30%	10.11%
Construction in Progress	8,611,451	5,472,810	19,887,178	3,138,641	36.45%	(14,414,368)	-72.48%	250.96%
	<u>\$ 93,825,932</u>	<u>\$ 90,335,207</u>	<u>\$ 85,376,069</u>	<u>\$ 3,490,725</u>	<u>3.72%</u>	<u>\$ 4,959,138</u>	<u>5.81%</u>	<u>20.65%</u>

Additions during the year ended May 31, 2020 were as follows:

Collection System	\$ 29,620
Building & Structures	12,932
Machinery & Equipment	309,531
Construction in Progress	3,138,642

**Debt Service**

At May 31, 2020, the Authority had total debt outstanding in the amount of \$19,946,684, 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,			2020-2019		2019-2018		
	2020	2019	2018	INCREASE(DECREASE)		INCREASE(DECREASE)		
				\$	%	\$	%	%
Loan - NJIBank 2000	\$ 425,820	\$ 843,406	\$ 1,251,913	\$ (417,586)	-49.51%	\$ (408,507)	-32.63%	-38.80%
Loan - NJIBank 2001	187,825	371,168	549,922	(183,343)	-49.40%	(178,754)	-32.51%	-40.11%
Loan - NJIBank 2007	2,853,422	3,483,515	4,091,520	(630,093)	-18.09%	(608,005)	-14.86%	-25.67%
Loan - NJIBank 2017	14,790,968	15,278,254	15,765,540	(487,286)	-3.19%	(487,286)	-3.09%	-
NJIBank Temp Loan 2019	-	1,746,857	-	(1,746,857)	-100.00%	1,746,857	-	-
Loan - NJIBank 2020	1,688,649	-	-	1,688,649	100.00%	-	-	-
	<u>\$ 19,946,684</u>	<u>\$ 21,723,200</u>	<u>\$ 21,658,895</u>	<u>\$ (1,776,516)</u>	<u>-8.18%</u>	<u>\$ 64,305</u>	<u>0.30%</u>	<u>155.75%</u>

The Authority secured a temporary loan from the NJIBank 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 NJIBank Trust Loan Series - 2007 and NJIBank Loan - Series 2007.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The Authority's 2020-2021 Budget will cover the fiscal year ending May 31, 2021. Based upon historical consumption data and the existing rate structure, projected revenues and retained earnings were sufficient to support budgeted expenses (budgetary basis) of \$12,586,800. The Authority appropriated the amount of \$500,000 to the Township of Franklin during the year ended May 31, 2021.

## **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.

**BASIC FINANCIAL STATEMENTS**

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY  
SOMERSET COUNTY, NEW JERSEY**

**STATEMENTS OF NET POSITION  
MAY 31, 2020 AND 2019**

<u>ASSETS</u>	<u>2020</u>	<u>2019</u>	<u>LIABILITIES</u>	<u>2020</u>	<u>2019</u>
Current Assets:			Current Liabilities:		
Cash and Cash Equivalents	\$ 9,118,296	\$ 7,971,434	Accounts Payable and Accrued Expenses	\$ 1,396,953	\$ 1,222,790
Accounts Receivable - Sewer Rents	5,905,741	5,614,386	Unearned Sewer Rent Revenue	6,658,186	6,561,031
Prepaid Expenses	517,891	510,702			
	<hr/>	<hr/>	Total Current Liabilities	<hr/>	<hr/>
Total Current Assets	15,541,928	14,096,522		8,055,139	7,783,821
Noncurrent Assets:			Current Liabilities Payable from Restricted Assets:		
Restricted Assets			Customer and Developer Deposits	4,018,773	3,985,948
General Fund Account			Accounts Payable	-	20,612
Cash and Cash Equivalents	1,884	1,234,575	Bonds and Loans Payable - Current Portion	1,809,563	1,774,517
Customer and Developer Account			Accrued Interest Payable on Bonds	82,431	92,882
Cash and Cash Equivalents	3,924,661	3,927,245			
Bond Reserve Account			Total Current Liabilities Payable from Restricted Assets	<hr/>	<hr/>
Cash and Cash Equivalents	2,137,831	4,101,605		5,910,767	5,873,959
Self Insurance Account			Noncurrent Liabilities:		
Cash and Cash Equivalents	977,645	977,645	Net Pension Liability	3,373,329	3,911,486
Unemployment Insurance Account			Net OPEB Liability	3,149,326	3,630,582
Cash and Cash Equivalents	25,718	25,718	Long-Term Portion of Loans Payable	18,267,173	20,048,456
Construction Account					
Cash and Cash Equivalents	5,824,890	6,797,220	Total Noncurrent Liabilities	<hr/>	<hr/>
Loans Receivable - NJIB	-	1,729,561		24,789,828	27,590,524
	<hr/>	<hr/>	Total Liabilities	<hr/>	<hr/>
Total Restricted Assets	12,892,629	18,793,569		38,755,734	41,248,304
Capital Assets (Net)	71,694,269	69,398,241	<u>DEFERRED INFLOW OF RESOURCES</u>		
	<hr/>	<hr/>	Deferred Inflows Related to Pensions	1,498,681	1,427,463
Total Noncurrent Assets	84,586,898	88,191,810	Deferred Inflows Related to Other Post-Employment Benefits	2,312,106	1,977,951
<u>DEFERRED OUTFLOW OF RESOURCES</u>			Total Deferred Inflow of Resources	<hr/>	<hr/>
Deferred Outflows Related to Pensions	872,286	1,267,156		3,810,787	3,405,414
Deferred Outflows Related to Other Post-Employment Benefits	144,830	151,502	<u>NET POSITION</u>		
	<hr/>	<hr/>	Net Investment in Capital Assets	51,617,533	49,304,829
Total Deferred Outflow of Resources	1,017,116	1,418,658	Restricted for:		
	<hr/>	<hr/>	Debt Service	2,108,438	2,039,961
			Operating	2,916,700	2,671,200
			Other	1,003,362	1,003,363
			Unrestricted	933,388	4,033,919
				<hr/>	<hr/>
			Total Net Position	<hr/>	<hr/>
				58,579,421	59,053,272
Total Assets and Deferred Outflows of Resources	<hr/>	<hr/>	Total Liabilities, Deferred Inflows of Resources and Net Position	<hr/>	<hr/>
	\$ 101,145,942	\$ 103,706,990		101,145,942	\$ 103,706,990

The accompanying notes are an integral part of this statement.



**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY**  
**SOMERSET COUNTY, NEW JERSEY**

**STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET POSITION**  
**FOR THE FISCAL YEARS ENDED MAY 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
Operating Revenues:		
Service Charges	\$ 13,444,275	\$ 12,974,621
Connection Charges	686,239	1,310,071
Other	61,399	41,662
Interest on Delinquencies	133,082	182,577
	14,324,995	14,508,931
 Operating Expenses:		
Personal Services	1,771,125	1,653,379
Employee Benefits	715,755	747,543
Administrative	573,094	445,091
Operations and Maintenance	10,344,360	8,421,959
Appropriation to Township of Franklin	368,936	681,064
Depreciation	1,194,697	1,064,816
	14,967,967	13,013,852
 Operating Income	(642,972)	1,495,079
 Non-Operating Revenues (Expenses):		
Interest Income	226,328	288,385
Interest Expense	(198,421)	(252,590)
Net Pension Liability Adjustment	(6,528)	(117,198)
Additional GASB 68 Accrual Adjustment	-	(27,922)
Net OPEB Liability Adjustment	147,742	(1,504)
	169,121	(110,829)
 Net Non-Operating Revenues (Expenses)	169,121	(110,829)
 Net Income Before Contributions	(473,851)	1,384,250
 Change in Net Position	(473,851)	1,384,250
 Net Position - Beginning	59,053,272	57,669,022
 Net Position - Ending	\$ 58,579,421	\$ 59,053,272

The accompanying notes are an integral part of this statement.

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY**  
**SOMERSET COUNTY, NEW JERSEY**

**STATEMENTS OF CASH FLOWS**  
**FOR THE FISCAL YEARS ENDED MAY 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>Cash Flows from Operating Activities:</b>		
Cash Received from Customers	\$ 14,033,640	\$ 14,517,129
Developer Deposits and Related Interest - Net	-	350,000
Cash Payments for Goods and Services	<u>(13,568,212)</u>	<u>(12,478,194)</u>
Net Cash Flows from Operating Activities	<u>465,428</u>	<u>2,388,935</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Principal Paid on Revenue Bond Maturities/ Long Term Debt Maturities	(1,746,237)	(1,682,553)
Interest Paid on Revenue Bonds/Other	(208,872)	(252,589)
Loan Payments Received - Net	1,729,561	2,475,224
Acquisition and Construction of Capital Assets	<u>(3,490,725)</u>	<u>(4,959,139)</u>
Net Cash Flows from Capital and Related Financing Activities	<u>(3,716,273)</u>	<u>(4,419,057)</u>
<b>Cash Flows from Investing Activities:</b>		
Interest on Investments and Deposits	<u>226,328</u>	<u>288,384</u>
Net Cash Flows from Investing Activities	<u>226,328</u>	<u>288,384</u>
Change in Cash and Cash Equivalents	(3,024,517)	(1,741,738)
Cash and Cash Equivalents, Beginning of Year	<u>25,035,442</u>	<u>26,777,180</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 22,010,925</u></u>	<u><u>\$ 25,035,442</u></u>
<b>Reconciliation to Statements of Net Position:</b>		
Current unrestricted cash and cash equivalents	\$ 9,118,296	\$ 7,971,434
Noncurrent restricted assets:		
General Fund Account		
Cash and Cash Equivalents	1,884	1,234,575
Customer and Developer Account		
Cash and Cash Equivalents	3,924,661	3,927,245
Bond Reserve Account		
Cash and Cash Equivalents	2,137,831	4,101,605
Self Insurance Account		
Cash and Cash Equivalents	977,645	977,645
Unemployment Insurance Account		
Cash and Cash Equivalents	25,718	25,718
Construction Account		
Cash and Cash Equivalents	<u>5,824,890</u>	<u>6,797,220</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 22,010,925</u></u>	<u><u>\$ 25,035,442</u></u>

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY**  
**SOMERSET COUNTY, NEW JERSEY**

**STATEMENTS OF CASH FLOWS (continued)**  
**FOR THE FISCAL YEARS ENDED MAY 31, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
<b>Reconciliation of Operating Income to Cash Flows from Operating Activities:</b>		
Operating Income	\$ (642,972)	\$ 1,384,249
<b>Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:</b>		
Depreciation	1,194,697	1,064,816
Change in Operating Assets and Liabilities:		
Prepaid Expenses	(7,189)	(31,909)
Receivables/Deposits	(291,355)	8,198
Accounts Payable / Other Liabilities	<u>212,247</u>	<u>(36,419)</u>
Total Adjustments	<u>1,108,400</u>	<u>1,004,686</u>
Net Cash Flows from Operating Activities	<u>\$ 465,428</u>	<u>\$ 2,388,935</u>

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY**  
**SOMERSET COUNTY, NEW JERSEY**

**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED MAY 31, 2020 AND 2019**

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 (the “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 Statement of Net Position, 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.

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.

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

B. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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, particularly given the significant social and economic disruptions and uncertainties associated with the ongoing COVID-19 (“Coronavirus”) pandemic and the mitigation responses, and such differences may be material. (See Note 15).

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, 2020 and 2019 were reported at \$5,905,741 and \$5,614,386, 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.

Unearned Revenue/Customer Billings – Based upon the January 1<sup>st</sup> timing of its billing practices to users, the Authority records unearned revenue for a portion of its recorded revenues at the May 31 fiscal year-end. Unearned revenues were reported in the amount of \$6,658,186 and \$6,561,031 at May 31, 2020 and 2019, respectively.

Loans Receivable – The Authority has participated in a series of loan financing program sponsored by the State of New Jersey Infrastructure Bank. The Bank 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 NJIB Loans Receivable in the amounts of \$0 and \$1,729,561 at May 31, 2020 and 2019, 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 \$517,891 and \$510,702 at May 31, 2020 and 2019, 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.

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

B. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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.

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 – Certain reclassifications have been made to the prior year’s financial statements to conform to current year presentation of the current year financial statements. The reclassifications have no effect on the change in net position for the prior year.

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.

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

## B. SIGNIFICANT ACCOUNTING POLICIES (CONT'D.)

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.

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. 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

In May 2019, the GASB issued Statement No. 91, Conduit Debt Obligations, which is effective for fiscal years beginning after December 15, 2020. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The Authority has determined that GASB 91 will not impact its financial statements.

In January 2020, the GASB issued Statement No. 92, Omnibus 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics and the majority of topics are effective for fiscal years beginning after June 15, 2020. The Authority has not yet completed the process of evaluating the impact of GASB 92 on its financial statements.

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 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

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

Deposits (Cont'd)

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, 2020 and 2019, the book value of the Authority's cash, cash equivalents and investments were \$22,010,925 and \$25,035,442. With respect to the amounts on deposit at May 31, 2020, of the cash and cash equivalents and investments, \$250,000 was covered by federal depository insurance, \$7,140,886 was covered under the provisions of NJGUDPA and the remaining \$14,586,920, 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.
- (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.

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

Deposits (Cont'd)

- (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;
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;

NOTES TO FINANCIAL STATEMENTS

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

Deposits (Cont'd)

- 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 years ended May 31, 2020 and 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 2020 and 2019.

Following is a comparison of the changes in fixed assets for the years ending May 31, 2020 and 2019:

	Balance <u>June 1, 2019</u>	<u>Increase</u>	<u>Decrease</u>	<u>Adjustment</u>	Balance <u>May 31, 2020</u>
Land, Easements and Right-of-Way	\$ 962,824	\$ -	\$ -	\$ -	\$ 962,824
Collection System	74,733,429	29,620	-	-	74,763,049
Building and Structures	4,868,951	12,932	-	-	4,881,883
Machinery and Equipment	4,297,193	309,531	-	-	4,606,724
Construction in Progress	5,472,810	3,138,642	-	-	8,611,452
<b>Total</b>	<b>90,335,207</b>	<b>3,490,725</b>	<b>-</b>	<b>-</b>	<b>93,825,932</b>
Less: Accumulated Depreciation	(20,936,966)	(1,194,697)	-	-	(22,131,663)
<b>Net Total</b>	<b>\$ 69,398,241</b>	<b>\$ 2,296,028</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 71,694,269</b>

  

	Balance <u>June 1, 2018</u>	<u>Increase</u>	<u>Decrease</u>	<u>Adjustment</u>	Balance <u>May 31, 2019</u>
Land, Easements and Right-of-Way	\$ 962,824	\$ -	\$ -	\$ -	\$ 962,824
Collection System	55,372,975	64,928	-	19,295,526	74,733,429
Building and Structures	4,868,951	-	-	-	4,868,951
Machinery and Equipment	4,284,141	13,052	-	-	4,297,193
Construction in Progress	19,887,178	4,881,158	-	(19,295,526)	5,472,810
<b>Total</b>	<b>85,376,069</b>	<b>4,959,138</b>	<b>-</b>	<b>-</b>	<b>90,335,207</b>
Less: Accumulated Depreciation	(19,872,150)	(1,064,816)	-	-	(20,936,966)
<b>Net Total</b>	<b>\$ 65,503,919</b>	<b>\$ 3,894,322</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 69,398,241</b>

NOTES TO FINANCIAL STATEMENTS

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

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 for 48 months and \$149 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
2020	\$ 8,197
2021	3,925
2022	447
	<u>\$ 12,569</u>

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 years ended May 31, 2020 and 2019, were as follows:

	Balance June 1, 2019	Additions	Reductions	Balance May 31, 2020	Due Within One Year
<u>Debt Obligations:</u>					
NJ IBank Loans	\$ 21,723,199	\$ 1,688,649	\$ 3,465,164	\$ 19,946,684	\$ 1,809,563
	<u>\$ 21,723,199</u>	<u>\$ 1,688,649</u>	<u>\$ 3,465,164</u>	<u>\$ 19,946,684</u>	<u>\$ 1,809,563</u>
		Paydown	\$ 1,718,308		
Conversion of Construction Loan to Permanent Financing			1,746,856		
			<u>\$ 3,465,164</u>		
	Balance June 1, 2018	Additions	Reductions	Balance May 31, 2019	Due Within One Year
<u>Debt Obligations:</u>					
NJ IBank Loans	\$ 21,658,895	\$ 1,746,857	\$ 1,682,553	\$ 21,723,199	\$ 1,774,517
	<u>\$ 21,658,895</u>	<u>\$ 1,746,857</u>	<u>\$ 1,682,553</u>	<u>\$ 21,723,199</u>	<u>\$ 1,774,517</u>
		Paydown	<u>\$ 1,682,553</u>		

NOTES TO FINANCIAL STATEMENTS

Note 6: BONDS AND LOANS PAYABLE (CONT'D.)

<u>Debt Obligations Outstanding:</u> *	Balance	Balance
	<u>May 31, 2020</u>	<u>May 31, 2019</u>
NJ IBank Trust Loan - Series 2000	\$ 217,291	\$ 425,610
NJ IBank Loan - Series 2000 - Principal Only	208,529	417,796
NJ IBank Trust Loan - Series 2001	109,594	214,386
NJ IBank Loan - Series 2001 - Principal Only	78,231	156,782
NJ IBank Trust Loan - Series 2007	1,792,000	2,091,000
NJ IBank Loan - Series 2007 - Principal Only	1,061,422	1,392,515
NJ IBank Trust Loan - Series 2017	3,930,000	4,010,000
NJ IBank Loan - Series 2017 - Principal Only	10,860,968	11,268,254
NJ IBank Trust Loan - Series 2020	405,000	-
NJ IBank Loan - Series 2020 - Principal Only	1,283,649	-
Subtotal	<u>19,946,684</u>	<u>19,976,343</u>
NJ IBank - Temporary Loan 2018-1	-	1,746,856
Subtotal	19,946,684	21,723,199
Unamortized Loan Premiums	130,052	99,774
	<u>\$ 20,076,736</u>	<u>\$ 21,822,973</u>

The principal maturities and interest due outstanding at May 31, 2020 are as follows:

<u>Fiscal Year</u> <u>Ended 5-31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2021	1,864,969	243,469	2,108,438
2022	1,279,896	217,282	1,497,178
2023	1,305,383	192,656	1,498,039
2024	1,080,451	168,337	1,248,788
2025	1,022,557	143,969	1,166,526
2026	727,557	126,044	853,601
2027	662,557	118,412	780,969
2028	667,557	114,606	782,163
2029	612,557	110,006	722,563
2030	617,557	105,331	722,888
2031	622,557	100,506	723,063
2032	632,557	95,531	728,088
2033	632,557	90,715	723,272
2034	637,557	85,956	723,513
2035	642,557	80,834	723,391
2036	647,557	75,445	723,002
2037	652,557	69,783	722,340
2038	657,557	63,843	721,400
2039	662,557	57,718	720,275
2040	650,799	51,344	702,143
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	491,521	3,850	495,371
NJEIT Savings Credits	<u>(428,406)</u>	-	<u>(428,406)</u>
	<u>\$ 19,946,684</u>	<u>\$ 2,487,729</u>	<u>\$ 22,434,413</u>

\*Long-term debt maturity schedules are presented in Schedule 6 included within the Other Supplementary Section of this report.

Note 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](http://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 other jurisdiction’s pension fund.

Membership and contributing employers of the defined benefit pension plans consisted of the following at June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Inactive plan members or beneficiaries currently receiving benefits	178,748	174,904
Inactive plan members entitled to but not yet receiving benefits	609	589
Active plan members	<u>252,598</u>	<u>254,780</u>
	<u>431,955</u>	<u>430,273</u>
Contributing Employers	1,697	1,708

## Note 7. PENSION PLANS (CONT'D.)

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

For the year ended May 31, 2020 and 2019 the Authority's total and covered payroll for all employees was \$1,537,883 and \$1,418,143. Covered payroll refers to pensionable compensation, rather than total compensation, paid by the Commission to active employees covered by the Plan.

*Specific Contribution Requirements and Benefit Provisions* – The contribution policy is set by N.J.S.A 43:15 and requires contributions by active members and contributing employers. State legislation has modified the amount that is contributed by the State. The State's pension contributions are based on an amortization of the unfunded accrued liability. Funding for noncontributory group insurance benefits is based on actual claims paid. For fiscal year 2019, the State's pension contribution was less than the actuarial determined amount.

Employers' contribution amounts are based on an actuarially determined rate. The annual employer contributions include funding for basic retirement allowances and noncontributory death benefits. 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.

It is assumed that the Local employers will contribute 100% of their actuarially determined contribution and 100% of their Non-Contributory Group Insurance Premium Fund (NCGIPF) contribution while the State will contribute 70% of its actuarially determined contribution and 100% of its NCGIPF contribution. The 70% contribution rate is the actual total State contribution rate paid in fiscal year ending June 30, 2019 with respect to the actuarially determined contribution for the fiscal year ending June 30, 2019 for all State administered retirement systems.

In accordance with Chapter 98, P.L. 2017, PERS receives 21.02% of the proceeds of the Lottery Enterprise for a period of 30 years. Revenues received from lottery proceeds are assumed to be contributed to the System on a monthly basis.

The Authority's contributions are due and payable on April 1st in the second fiscal period subsequent to plan year for which the contributions requirements were calculated. The Authority's payments to PERS during the years ending May 31, 2020 and 2019 consisted of the following:



NOTES TO FINANCIAL STATEMENTS

Note 7. PENSION PLANS (CONT'D.)

	<u>2020</u>	<u>2019</u>
Normal Cost	\$ 16,852	\$ 24,693
Amortization of Accrued Liability	155,943	163,923
	<hr/>	<hr/>
Total Pensions	172,795	188,616
NCGI Premiums	9,311	8,985
	<hr/>	<hr/>
Total Regular Billing	182,106	197,601
Long Term Disability	938	1,467
Ch. 19, P.L. 2009	6,100	6,051
	<hr/>	<hr/>
Total PERS Payment	\$ 189,144	\$ 205,119

The vesting and benefit provisions are set by N.J.S.A. 43:15. 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.

A service retirement benefit of 1/55th of final average salary for each year of service credit is available to tier 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 tier 1 and 2 members before reaching age 60, to tier 3 and 4 members before age 62 and tier 5 members with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the retirement age of his/her respective tier. 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.

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* – At June 30, 2019, the PERS reported a net pension liability of \$18,143,832,135 for its Non-State Employer Member Group. The Authority’s proportionate share of the net pension liability for the Non-State Employer Member Group that is attributable to the Authority was \$3,373,329 or 0.018721%, which was an increase of 0.001144% from its proportion measured as of June 30, 2019.

NOTES TO FINANCIAL STATEMENTS

Note 7. PENSION PLANS (CONT'D.)

At June 30, 2018, the PERS reported a net pension liability of \$19,689,501,539 for its Non-State Employer Member Group. The Authority's proportionate share of the net pension liability for the Non-State Employer Member Group that is attributable to the Authority was \$3,911,486 or 0.019866%.

The following presents a summary of the proportionate share of the Authority changes in the collective deferred outflows of resources and deferred inflows of resources attributable to the Authority for the year ended June 30, 2019 and 2018:

	<u>2020</u> Deferred Outflows of Resources	<u>2020</u> Deferred Inflows of Resources	<u>2019</u> Deferred Outflows of Resources	<u>2019</u> Deferred Inflows of Resources
Difference between expected and actual experience	\$ 60,547	\$ 14,902	\$ 74,593	20,169
Changes of assumptions	336,839	1,170,872	644,548	1,250,685
Net difference between projected and actual earnings on pension plan investments		53,249		36,690
Changes in proportion and differences between agency contributions and proportionate share of contributions	380,328	259,659	548,015	119,919
Subsequent contributions	94,572		-	
	<u>\$ 872,286</u>	<u>\$ 1,498,682</u>	<u>\$ 1,267,156</u>	<u>\$ 1,427,463</u>

\$94,572 is reflected above as deferred outflows of resources related to PERS resulting from Authority contributions subsequent to the measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to PERS will be recognized as a reduction of the net pension liability as follows:

<u>Year ending</u>	<u>Amount</u>
2020	\$ (15,992)
2021	(259,860)
2022	(270,546)
2023	(151,396)
2024	(23,174)
Total	<u>\$ (720,968)</u>

*Actuarial Assumptions-* The total pension liability in the June 30, 2019 and June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Note 7. PENSION PLANS (CONT'D.)

<u>June 30, 2019</u>	
Inflation rate:	
Price	2.75%
Wage	3.25%
Salary Increases:	
Through 2026	2.00 - 6.00%
	based on years of service
Thereafter	3.00 - 7.00%
	based on years of service
Investment rate of return	7.00%
 <u>June 30, 2018</u>	
Inflation	2.25%
Salary Increases (2012 - 2021)	1.65 - 4.15% based on age
Thereafter	2.65 - 5.15% based on age
Investment rate of return	7.00%

Pre-retirement mortality rates were based on the Pub-2010 General Below-Median Income Employee mortality table with an 82.2% adjustment for males and a 101.4% adjustment for females, with future improvement from the base year of 2010 on a generational basis. Post-retirement mortality rates were based on Pub-2010 General Below-Median Income Healthy Retiree mortality table with a 91.4% adjustment for males and a 97.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2010 Non-Safety Disabled Retiree mortality table with a 127.7% adjustment for males and a 117.2% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.

The actuarial assumptions used in the July 1, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2014 to June 30, 2018. It is likely that future experiences 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 financial statements.

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 financial statements.

In accordance with State statute, the long-term expected rate of return on pension plan investments (7.00% at June 30, 2019) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions, 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 rate of return (expected returns, net of pension plans 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

NOTES TO FINANCIAL STATEMENTS

Note 7. PENSION PLANS (CONT'D.)

allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2019 and 2018 are summarized in the following tables:

2019		
Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Risk Mitigation Strategies	3.00%	4.67%
Cash Equivalents	5.00%	2.00%
U.S. Treasuries	5.00%	2.68%
Investment Grade Credit	10.00%	4.25%
High Yield	2.00%	5.37%
Private Credit	6.00%	7.92%
Real Assets	2.50%	9.31%
Real Estate	7.50%	8.33%
US Equity	28.00%	8.26%
Non-U.S. Developed Markets Equity	12.50%	9.00%
Emerging Markets Equity	6.50%	11.37%
Private Equity	12.00%	10.85%

2018		
Asset Class	Target Allocation	Long Term Expected Real Rate of Return
Cash Equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
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 Asset	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%
Absolute Return/Risk Mitigation	5.00%	5.51%
Investment Grade Credit	10.00%	3.78%
Public High Yield	2.50%	6.82%

Note 7. PENSION PLANS (CONT'D.)

*Discount Rate* – The discount rate used to measure the total pension liability as of June 30, 2018 was 5.66% and as of June 30, 2019 was 6.28%. 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 3.50% as of June 30, 2019 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 based on 70% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for the local employers. Based on those assumptions, the plan’s fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2057. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2057 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

*Sensitivity of Net Pension Liability* – the following presents the net pension liability of PERS calculated using the discount rates as disclosed above as well as what the 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:

**June 30, 2019**

	<u>At 1% Decrease</u>	<u>At Current Discount Rate</u>	<u>At 1% Increase</u>
PERS	\$ 4,261,063	\$ 3,373,329	\$ 2,625,288

**June 30, 2018**

	<u>At 1% Decrease</u>	<u>At Current Discount Rate</u>	<u>At 1% Increase</u>
PERS	\$ 4,918,243	\$ 3,911,486	\$ 3,066,881

*Plan Fiduciary Net Position* – The plan fiduciary net position for PERS, including the State of New Jersey, at June 30, 2019 and 2018 were \$29,847,977,666 and \$29,472,374,536, respectively. The portion of the Plan Fiduciary Net Position that was allocable to the Local (Non-State) Group at June 30, 2019 and 2018 was \$23,347,631,751 and \$22,742,071,972, respectively.

*Additional information*

Collective Local Group balances at June 30, 2019 are as follows:

Collective deferred outflows of resources	\$ 3,149,522,616
Collective deferred inflows of resources	7,645,087,574
Collective net pension liability	18,143,832,135
Authority's Proportion	0.0187211495%

## Note 7. PENSION PLANS (CONT'D.)

Collective Local Group pension expense for the Local Group for the measurement period ended June 30, 2019 and 2018 was \$974,471,686 and \$1,099,708,157, respectively. The average of the expected remaining service lives of all plan members is 5.21, 5.63, 5.48, 5.57, 5.72 and 6.44 years for the 2019, 2018, 2017, 2016, 2015, and 2014 amounts, respectively.

**State Contribution Payable Dates**

Prior to July 1, 2018 valuation, it is assumed the State will make pension contributions the June 30<sup>th</sup> following the valuation date. Effective with the July 1, 2018 valuation Chapter 83 P.L. 2017 requires the State to make pension contributions on a quarterly basis at least 25% by September 30, at least 50% by December 31, at least 75% by March 31, and at least 100% by June 30.

**Receivable Contributions**

The Fiduciary Net Position (FNP), includes Local employers' contributions receivable as reported in the financial statements provided by the Division of Pensions and Benefits. In determining the discount rate, the FNP at the beginning of each year does not reflect receivable contributions as those amounts are not available at the beginning of the year to pay benefits. The receivable contributions for the years ended June 30, 2019 and June 30, 2018 are \$1,038,092,124 and \$1,073,054,740, respectively.

**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 Authority does not have any employees currently enrolled in DCRP.

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, 2020 and 2019, the Authority has recorded \$203,691 and \$191,035 of compensated absences, respectively.

Note 10: POST EMPLOYMENT BENEFIT PLANS OTHER THAN PENSIONS – 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](http://www.state.nj.us/treasury/pensions).

**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.

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

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 was \$8,020,352,361 and \$9,452,773,649 at June 30, 2019 and 2018, respectively.

The amounts of the State's Non-employer OPEB Liability that are attributable to employees and retirees of the Authority was \$3,149,326 and \$3,630,582 at June 30, 2019 and 2018, respectively. These allocated liabilities represent 0.023249% and 0.023174% of the State's Total Non-employer OPEB Liability for June 30, 2019 and 2018, respectively.



NOTES TO FINANCIAL STATEMENTS

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:

<i>Nonspecial Funding Situation:</i>	<u>2019</u>	<u>2018</u>
Net OPEB Liability - Nonspecial Funding Situation	\$ 8,020,352,361	\$ 9,452,773,649
 <i>Total N.J. State Non-employer Net OPEB Liability:</i>		
	<u>2019</u>	<u>2018</u>
Total OPEB Liability	\$ 13,819,244,582	\$ 15,981,103,227
Plan Fiduciary Net Position	273,173,482	314,485,086
Net OPEB Liability	<u>\$ 13,546,071,100</u>	<u>\$ 15,666,618,141</u>
 Plan fiduciary net position as a percentage of the total OPEB liability	 <u>1.98%</u>	 <u>1.97%</u>

*Actuarial Assumptions and Other Inputs:*

The total OPEB liability as of June 30, 2019 was determined by an actuarial valuation as of June 30, 2018, which was rolled forward to June 30, 2019. 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 rate	2.50%
Salary Increases*:	
Public Employees' Retirement Systems (PERS)	
Initial fiscal year applied	
Rate through 2026	2.00 - 6.00%
Rate thereafter	3.00 - 7.00%
Mortality:	
PERS	Pub-2010 General classification headcount weighted mortality with fully generational mortality improvement projections from the central year using Scale MP-2019

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

Actuarial assumptions used in the July 1, 2018 valuation were based on the results of the PERS experience study prepared for July 1, 2014 to June 30, 2018.

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

NOTES TO FINANCIAL STATEMENTS

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

Healthcare Trend Assumptions:

For pre-Medicare medical benefits, the trend is initially 5.7% and decreases to a 4.5% long-term trend rate after eight years. For post-65 medical benefits, the actual fully-insured Medicare Advantage trend rates for fiscal year 2020 are reflected. The assumed post-65 medical trend is 4.5% for all future years. For prescription drug benefits, the initial trend rate is 7.5% and decreases to a 4.5% long-term trend rate after eight years.

Discount Rate:

The discount rate for June 30, 2019 and 2018 was 3.50% and 3.87%, 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:

The following presents the collective net OPEB liability of the participating employers as of June 30, 2019 and 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:

	June 30, 2019		
	1% Decrease <u>2.50%</u>	Current Rate <u>3.50%</u>	1% Increase <u>4.50%</u>
Net OPEB liability	\$ 15,662,704,137	\$ 13,546,071,100	\$ 11,826,026,995
Authority Share	\$ 3,641,422	\$ 3,149,326	\$ 2,749,433
	June 30, 2018		
	1% Decrease <u>2.87%</u>	Current Rate <u>3.87%</u>	1% Increase <u>4.87%</u>
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

NOTES TO FINANCIAL STATEMENTS

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:

The following presents the net OPEB liability as of June 30, 2019 and 2018, calculated using the healthcare trend rate as disclosed above as well as what the net OPEB liability would be if it was calculated using a healthcare trend rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	June 30, 2019		
	<u>1% Decrease</u>	<u>Trend Rate</u>	<u>1% Increase</u>
Net OPEB liability	\$ 11,431,214,644	\$ 13,546,071,100	\$ 16,243,926,531
Authority Share	\$ 2,657,643	\$ 3,149,326	\$ 3,776,550
	June 30, 2018		
	<u>1% Decrease</u>	<u>Trend Rate</u>	<u>1% Increase</u>
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 June 30, 2019 and 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>2020 Deferred Outflows of Resources</u>	<u>2020 Deferred Inflows of Resources</u>	<u>2019 Deferred Outflows of Resources</u>	<u>2019 Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	\$ 920,986	\$ -	\$ 737,138
Net difference between projected and actual earnings on OPEB plan investments investment earnings on OPEB plan investments	2,594		1,919	
Change in proportion	90,678	275,069	90,712	319,868
Change in assumption	-	1,116,051	-	920,945
Auth. contribs. subsequent to the measurement date	51,558		58,871	
	<u>\$ 144,830</u>	<u>\$ 2,312,106</u>	<u>\$ 151,502</u>	<u>\$ 1,977,951</u>

NOTES TO FINANCIAL STATEMENTS

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

*Collective Deferred Outflows of Resources and Deferred Inflows of Resources* – Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

	<u>Total</u>
Fiscal year ended May 31:	
2020	\$ (340,311)
2021	(340,313)
2022	(366,962)
2023	(370,130)
2024	(377,747)
2025	(301,174)
Thereafter	<u>(122,197)</u>
	<u>\$ (2,218,834)</u>

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

Note 11: RISK MANAGEMENT

New Jersey Unemployment Insurance – The Authority has elected to fund its New Jersey Unemployment Compensation Insurance under the “Benefit Reimbursement Method”. Under this plan, the Authority is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to 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 balances at May 31, 2020 and 2019 are reported at \$1,003,363 and \$1,003,363, respectively.

Note 12: RESTRICTED NET POSITION

The Authority reports the following Restricted Net Position as of May 31, 2020.

Restricted for Debt Service:

The amount of \$2,108,438 has been Restricted for Debt Service pursuant to the Debt Service Reserve Requirement, as set forth in the Bond Resolution.

Restricted-Operating:

The amount of \$2,916,700 has been Restricted for operations pursuant to the Operating Reserve Requirement, as set forth in the Bond Resolution.

Restricted- Other:

Self-Insurance Reserve – The amount of \$977,645 has been recorded as a component of Restricted Net Position– Other.

Unemployment Insurance Reserve – The amount of \$25,717 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, 2020, the Authority has internally designated \$500,000 as a reserve for future maintenance, repairs and improvements to the sewer collection system. The remaining balance of \$433,388 is undesignated.

2021 Operating Budget

The Authority has adopted its statutory annual operating budget for the fiscal year ending May 31, 2021. The budget appropriates and anticipates \$611,387 of Unrestricted Net Position as a revenue balancing account for the fiscal year 2021 budget. The Authority's budget for the fiscal year ending May 31, 2021 includes an appropriation in the amount of \$500,000 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:

NOTES TO FINANCIAL STATEMENTS

Note 14. UNRESTRICTED NET POSITION – BUDGETARY (CONT'D.)

	<u>2020</u>	<u>2019</u>
Unrestricted Net Position	\$ 933,388	\$ 4,033,919
Adjusted by:		
Net Pension Liability, Deferred Inflows/Outflows	3,999,724	4,071,793
Net OPEB Liability, Deferred Inflows/Outflows	5,316,602	5,457,031
	<u>\$ 10,249,714</u>	<u>\$ 13,562,743</u>

Note 15: 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, 2020, 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 \$1,983,918 in outstanding commitments to contractors at May 31, 2020.

COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "*Pandemic*") by the World Health Organization and is currently affecting many parts of the world, including the United States and the State of New Jersey. On January 31, 2020, the Secretary of the United States Department of Health and Human Services declared a public health emergency for the United States and, on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

In New Jersey, Governor Murphy declared a state of emergency on March 9, 2020, and has since issued multiple Executive Orders regarding the Pandemic. The District expects ongoing actions will be taken by State, federal and local governments and private entities to mitigate the spread and impacts of the Pandemic. The Pandemic has negatively affected travel, commerce and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide.

The Authority cannot reasonably predict how long the Pandemic in New Jersey is expected to last, how the outbreak may impact the financial condition or operations of the Authority.

Note 16: PENDING LITIGATION

As at May 31, 2020 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.

## NOTES TO FINANCIAL STATEMENTS

### Note 17: SUBSEQUENT EVENTS

Events subsequent to May 31, 2020 through to the date of this report have been evaluated with no subsequent events needing disclosure.

**OTHER REQUIRED SUPPLEMENTARY INFORMATION**



**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY**  
**SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
**PUBLIC EMPLOYEES' RETIREMENT SYSTEM**  
**Last Ten Fiscal Years**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Authority's Proportion of the Net Pension Liability	0.018319%	0.016247%	0.017920%	0.018124%	0.019866%	0.018721%
Authority's Proportionate Share of the Net Pension Liability	\$ 3,429,836	\$ 3,647,214	\$ 5,307,399	\$ 4,219,040	\$ 3,911,486	\$ 3,373,329
Authority's Covered Payroll	\$ 1,244,193	\$ 1,269,585	\$ 1,308,361	\$ 1,511,198	\$ 1,418,143	\$ 1,537,883
Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	275.67%	287.28%	405.65%	279.19%	275.82%	219.35%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	48.72%	47.93%	40.14%	48.10%	53.60%	56.27%

\* Amounts presented for each year were determined as of June 30.

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

Note to Required Supplementary Information

Benefit Changes

There were none.

Changes of Assumptions

The discount rate changed from 5.66% as of June 30, 2018 to 6.28% as of June 30, 2019.

**Schedule II**

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY  
SCHEDULE OF AUTHORITY CONTRIBUTIONS  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
Last Ten Fiscal Years**

	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Contractually Required Contribution	\$ 156,861	\$ 145,561	\$ 166,786	\$ 177,197	\$ 205,119	\$ 189,144
Contribution in Relation to the Contractually Required Contribution	<u>\$ (156,861)</u>	<u>\$ (145,561)</u>	<u>\$ (166,786)</u>	<u>\$ (177,197)</u>	<u>\$ (205,119)</u>	<u>\$ (189,144)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's Covered Payroll	\$ 1,244,193	\$ 1,269,585	\$ 1,308,361	\$ 1,511,198	\$ 1,418,143	\$ 1,537,883
Contributions as a Percentage of Covered Payroll	12.61%	11.47%	12.75%	11.73%	14.46%	12.30%

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

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

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY**  
**SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET OTHER POST EMPLOYMENT BENEFITS LIABILITY**  
**STATE HEALTH BENEFIT LOCAL GOVERNMENT RETIRED EMPLOYEES PLAN**  
**Last Ten Fiscal Years**

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Authority's Net Proportion of the Other Post Employment Benefit Liability	0.024226%	0.024782%	0.023174%	0.023249%
Authority's Proportionate Share of the Net Other Post Employment Benefit Liability (Asset)	\$ 5,261,273	\$ 5,059,441	\$ 3,630,582	\$ 3,149,326
Authority's Covered Payroll	\$ 1,308,361	\$ 1,511,198	\$ 1,418,143	\$ 1,537,883
Authority's Proportionate Share of the Net Other Post Employment Benefit Liability as a Percentage of the Covered Payroll	402.13%	334.80%	256.01%	204.78%
Local Plan Fiduciary Net Position as a Percentage of the Total Other Post Employment Benefit Liability	0.69%	1.03%	1.97%	1.98%

\* Amounts presented for each year were determined as of June 30.

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

Note to Required Supplementary Information

Benefit Changes

There were none.

Changes of Assumptions

The discount rate changed from 3.87% as of June 30, 2018 to 3.50% as of June 30, 2019.

**Schedule IV**

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY  
SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS  
STATE HEALTH BENEFIT LOCAL GOVERNMENT RETIRED EMPLOYEES PLAN  
Last Ten Fiscal Years**

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Contractually Required Contribution	\$ 58,870	\$ 58,870	\$ 61,874	\$ 56,200
Contribution in Relation to the Contractually Required Contribution	<u>\$ (58,870)</u>	<u>\$ (58,870)</u>	<u>\$ (61,874)</u>	<u>\$ (56,200)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's Covered Payroll	\$ 1,308,361	\$ 1,511,198	\$ 1,418,143	\$ 1,537,883
Contributions as a Percentage of Covered Payroll	4.50%	3.90%	4.36%	3.65%

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

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

**OTHER SUPPLEMENTARY INFORMATION**

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY

SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET  
(BUDGETARY BASIS)  
FOR THE FISCAL YEARS ENDED MAY 31, 2020 AND 2019

	FISCAL YEAR ENDED MAY 31, 2020		FISCAL YEAR ENDED MAY 31, 2019	
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>BUDGET</u>	<u>ACTUAL</u>
<u>Revenues</u>				
Retained Earnings Appropriated	\$ 650,000	\$ 368,936	\$ 681,064	\$ 681,064
User Charges	12,530,000	13,444,275	12,436,390	12,974,621
Connection Charges	1,000,000	686,239	1,234,480	1,310,071
Interest on Investments, Deposit and Delinquencies	201,000	359,410	195,000	470,961
Other	45,000	61,399	55,000	41,663
<b>Total Revenues - Budgetary Basis</b>	<b><u>14,426,000</u></b>	<b><u>14,920,259</u></b>	<b><u>14,601,934</u></b>	<b><u>15,478,380</u></b>
<u>Operating Expenses</u>				
Administration:				
Salaries & Wages	700,000	711,096	625,000	643,842
Fringe Benefits	300,000	287,371	267,510	291,101
Other Expenses	670,000	573,094	876,700	445,091
Cost of Providing Services:				
Salaries & Wages	955,000	1,060,029	997,000	1,009,536
Fringe Benefits	495,000	428,384	417,174	456,443
Other Expenses	8,199,000	10,344,360	8,700,291	8,421,959
<b>Total Operating Expenses</b>	<b><u>11,319,000</u></b>	<b><u>13,404,334</u></b>	<b><u>11,883,675</u></b>	<b><u>11,267,972</u></b>
Debt Service:				
Bond Principal	1,774,517	1,746,237	1,737,599	1,682,553
Interest on Bonds	265,443	198,421	299,596	252,590
<b>Total Debt Service</b>	<b><u>2,039,960</u></b>	<b><u>1,944,658</u></b>	<b><u>2,037,195</u></b>	<b><u>1,935,143</u></b>
Municipality/County Appropriation:				
Franklin Township Appropriation	650,000	368,936	681,064	681,064
<b>Total Municipal/County Appropriation</b>	<b><u>650,000</u></b>	<b><u>368,936</u></b>	<b><u>681,064</u></b>	<b><u>681,064</u></b>
<b>Total Expenses - Budgetary Basis</b>	<b><u>14,008,960</u></b>	<b><u>15,717,928</u></b>	<b><u>14,601,934</u></b>	<b><u>13,884,179</u></b>
<b>Budgetary Revenues Over/Under Expenditures</b>	<b><u>\$ 417,040</u></b>	<b><u>\$ (797,669)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,594,201</u></b>

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY

SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET  
(BUDGETARY BASIS)  
FOR THE FISCAL YEARS ENDED MAY 31, 2020 AND 2019

Reconciliation of Budgetary Basis to  
Change in Net Position:

Budgetary Revenues Over/Under Expenditures Brought Forward	\$ (797,669)	\$ 1,594,201
Adjustments to Budgetary Basis:		
Bond Principal	1,746,237	1,682,553
Appropriation of Retained Earnings	(368,936)	(681,064)
Net Pension Liability Adjustment	(6,528)	(145,120)
Net OPEB Liability Adjustment	147,742	(1,504)
Depreciation Expense Not Budgeted	<u>(1,194,697)</u>	<u>(1,064,816)</u>
Total Adjustments - Net	<u>323,818</u>	<u>(209,951)</u>
<b>Change in Net Position</b>	<b><u><u>\$ (473,851)</u></u></b>	<b><u><u>\$ 1,384,250</u></u></b>

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY  
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE  
FOR THE YEAR ENDED MAY 31, 2020**

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS		BALANCE MAY 31, 2019	INCREASED	DECREASED	BALANCE MAY 31, 2020	
				DATE	AMOUNT					
NJIB Infrastructure Water Trust Loan Savings Credits	11/9/2000	\$ 3,990,000	5.250%	8/1/2020	217,289	\$ 425,610	\$ -	\$ 208,319	\$ 217,291	
		\$ (647,577)								
NJIB Infrastructure Water Fund Loan - Principal Only (Payable 8/1 and 2/1)	11/9/2000	\$ 4,201,360	Fiscal Year 5/31	SEMI-ANNUAL PRINCIPAL		417,796	-	209,267	208,529	
				2021	208,529.00					-
NJIB Infrastructure Water Trust Loan	11/8/2001	\$ 1,410,000	4.750%	8/1/2020	115,000	214,386	-	104,792	109,594	
				Savings Credits	(5,406)					
NJIB Infrastructure Water Fund Loan - Principal Only (Payable 8/1 and 2/1)	11/8/2001	\$ 1,492,500	Fiscal Year 5/31	SEMI-ANNUAL PRINCIPAL		156,782	-	78,551	78,231	
				2021	78,231					-
NJIB Infrastructure Water Trust Loan Deceased Principal	11/8/2007	\$ 6,475,000 \$ (1,175,000)	4.000%	8/1/2020	360,000	2,091,000	-	299,000	1,792,000	
				5.000%	8/1/2021					375,000
				5.000%	8/1/2022					395,000
				4.250%	8/1/2023					415,000
				4.500%	8/1/2024					430,000
				4.500%	8/1/2025					130,000
				4.500%	8/1/2026					55,000
				4.250%	8/1/2027					55,000
				Savings Credits	(423,000)					
NJIB Infrastructure Water Fund Loan - Principal Only (Payable 8/1 and 2/1)	11/8/2007	\$ 6,250,000 \$ (1,558,418)	Fiscal Year 5/31	SEMI-ANNUAL PRINCIPAL		1,392,515	-	331,093	1,061,422	
				2021	283,533					44,830
				2022	288,603					38,736
				2023	295,510					32,316
				2024	77,894					-



**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY  
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE  
FOR THE YEAR ENDED MAY 31, 2020**

<u>PROJECT DESCRIPTION</u>	<u>DATE</u>	<u>AMOUNT OF LOAN</u>	<u>INTEREST RATE</u>	<u>MATURITIES OF LOANS</u>		<u>BALANCE MAY 31, 2019</u>	<u>INCREASED</u>	<u>DECREASED</u>	<u>BALANCE MAY 31, 2020</u>
				<u>DATE</u>	<u>AMOUNT</u>				
NJIB Infrastructure Water Loan (Trust Loan Agreement)	5/25/2017	\$ 4,090,000				4,010,000	-	80,000	3,930,000
			5.000%	8/1/2020	85,000				
			5.000%	8/1/2021	90,000				
			5.000%	8/1/2022	95,000				
			5.000%	8/1/2023	100,000				
			5.000%	8/1/2024	105,000				
			5.000%	8/1/2025	110,000				
			3.000%	8/1/2026	115,000				
			3.000%	8/1/2027	120,000				
			3.000%	8/1/2028	120,000				
			3.000%	8/1/2029	125,000				
			3.000%	8/1/2030	130,000				
			3.000%	8/1/2031	135,000				
			3.000%	8/1/2032	135,000				
			3.125%	8/1/2033	140,000				
			3.250%	8/1/2034	145,000				
			3.250%	8/1/2035	150,000				
			3.375%	8/1/2036	155,000				
			3.375%	8/1/2037	160,000				
			3.375%	8/1/2038	165,000				
			3.375%	8/1/2039	170,000				
			3.375%	8/1/2040	175,000				
			3.500%	8/1/2041	185,000				
			3.500%	8/1/2042	190,000				
			3.500%	8/1/2043	195,000				
			3.500%	8/1/2044	205,000				
			3.500%	8/1/2045	210,000				
			3.500%	8/1/2046	220,000				

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY  
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE  
FOR THE YEAR ENDED MAY 31, 2020**

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS		BALANCE MAY 31, 2019	INCREASED	DECREASED	BALANCE MAY 31, 2020
				DATE	AMOUNT				
				Fiscal Year 5/31	SEMI-ANNUAL PRINCIPAL				
				1-Aug	1-Feb				
NJIB Infrastructure Water Loan - Principal Only (Payable 8/1 and 2/1) (Fund Loan Agreement)	5/25/2017	\$ 12,082,826				11,268,254	-	407,286	10,860,968
			2021	271,524	135,762				
			2022	271,524	135,762				
			2023	271,524	135,762				
			2024	271,524	135,762				
			2025	271,524	135,762				
			2026	271,524	135,762				
			2027	271,524	135,762				
			2028	271,524	135,762				
			2029	271,524	135,762				
			2030	271,524	135,762				
			2031	271,524	135,762				
			2032	271,524	135,762				
			2033	271,524	135,762				
			2034	271,524	135,762				
			2035	271,524	135,762				
			2036	271,524	135,762				
			2037	271,524	135,762				
			2038	271,524	135,762				
			2039	271,524	135,762				
			2040	271,524	135,762				
			2041	271,524	135,762				
			2042	271,524	135,762				
			2043	271,524	135,762				
			2044	271,525	135,762				
			2045	271,525	135,762				
			2046	271,525	135,762				
			2047	271,525					

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY  
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE  
FOR THE YEAR ENDED MAY 31, 2020**

<u>PROJECT DESCRIPTION</u>	<u>DATE</u>	<u>AMOUNT OF LOAN</u>	<u>INTEREST RATE</u>	<u>MATURITIES OF LOANS</u>		<u>BALANCE MAY 31, 2019</u>	<u>INCREASED</u>	<u>DECREASED</u>	<u>BALANCE MAY 31, 2020</u>
				<u>DATE</u>	<u>AMOUNT</u>				
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	0.000%			1,746,856	-	1,746,856	-
	5/13/2020	\$ 405,000				-	405,000	-	405,000
NJIB Infrastructure Water Loan (Trust Loan Agreement)			5.000%	8/1/2020	-				
			5.000%	8/1/2021	15,000				
			5.000%	8/1/2022	15,000				
			5.000%	8/1/2023	15,000				
			5.000%	8/1/2024	15,000				
			5.000%	8/1/2025	15,000				
			3.000%	8/1/2026	20,000				
			3.000%	8/1/2027	20,000				
			3.000%	8/1/2028	20,000				
			3.000%	8/1/2029	20,000				
			3.000%	8/1/2030	20,000				
			4.000%	8/1/2031	25,000				
			2.125%	8/1/2032	25,000				
			2.250%	8/1/2033	25,000				
			2.375%	8/1/2034	25,000				
			2.375%	8/1/2035	25,000				
			2.500%	8/1/2036	25,000				
		2.500%	8/1/2037	25,000					
		2.625%	8/1/2038	25,000					
		2.625%	8/1/2039	30,000					

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY  
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE  
FOR THE YEAR ENDED MAY 31, 2020**

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS		BALANCE MAY 31, 2019	INCREASED	DECREASED	BALANCE MAY 31, 2020
				DATE	AMOUNT				
				Fiscal Year 5/31	SEMI-ANNUAL PRINCIPAL				
				1-Aug	1-Feb				
NJIB Infrastructure Water Loan - Principal Only (Payable 8/1 and 2/1) (Fund Loan Agreement)	5/13/2020	\$ 1,283,649				-	1,283,649	-	1,283,649
			2021	43,514	21,757				
			2022	43,514	21,757				
			2023	43,514	21,757				
			2024	43,514	21,757				
			2025	43,514	21,757				
			2026	43,514	21,757				
			2027	43,513	21,757				
			2028	43,513	21,757				
			2029	43,513	21,757				
			2030	43,513	21,757				
			2031	43,513	21,757				
			2032	43,513	21,757				
			2033	43,513	21,757				
			2034	43,513	21,757				
			2035	43,513	21,757				
			2036	43,513	21,757				
			2037	43,513	21,757				
			2038	43,513	21,757				
			2039	43,513	21,757				
			2040	43,513	-				
						<u>\$ 21,723,199</u>	<u>\$ 1,688,649</u>	<u>\$ 3,465,164</u>	<u>\$ 19,946,684</u>
									\$ 19,946,684
									\$ 130,052
									<u>\$ 20,076,736</u>
								\$ 1,718,308	
								<u>1,746,856</u>	19,946,684
								<u>\$ 3,465,164</u>	

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY**  
**INSURANCE COVERAGE**  
**(Unaudited)**

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

<u>COVERAGE</u>	<u>LIMITS</u>
Property Policy	
Blanket Limit	\$ 150,000,000
Deductible	25,000
Automobile Physical Damage Policy	
Comprehensive Deductible	10,000
Collision Deductible	10,000
Hired Car Physical Damage Limit	160,000
Hired Car Physical Damage Deductible	10,000
Public Officials & Employment Liability Policy	
Limits of Liability	
Combined Single Limit Per Claim and Aggregate	2,000,000
For Defense Only of Claims based on Civil Union or Marriage	25,000
Combined over Monetary and Injunctive Relief Claims	100,000
Retention	25,000
Package Policy	
Section I - General Liability	
Limit of Liability	300,000
Section II - Employee Benefits Liability	
Each Employee	300,000
Aggregate	300,000
Deductible	1,000
Section III - Automobile Liability	
Limit of Liability	300,000
Auto Medical Payments	10,000
Uninsured Motorist Coverage	15,000 Each Person
	30,000 Each Accident
Medical Expense Deductible	2,500
Section IV - Workers Compensation	
Part I - Workers Compensation	300,000
Part II - Employers Liability	300,000 Each Accident
	300,000 Each Employee
	300,000 Policy Limit
Section IV - Environmental Legal Liability	
Limit of Liability	
Each Incident (Coverage A)	1,000,000
Each Corrective Action (Coverage B)	1,000,000
Aggregate	1,000,000
Aggregate Defense Limit	100,000
Deductible	5,000

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY**  
**INSURANCE COVERAGE**  
**(Unaudited)**

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

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

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY**  
**SOMERSET COUNTY, NEW JERSEY**

OFFICIALS IN OFFICE

The following officials were in office at May 31, 2020:

William Galtieri	Chairman
Bryana DeVeaux	Vice Chairman
Surendra Tiwari	Secretary/Treasurer
Teresa Ford	Commissioner Assistant Secretary/Treasurer
Sivaraman "Ram" Anbarasan	Commissioner
Jesus Alcazar	Commissioner - Alternate #1
Arnold Schmidt	Commissioner - Alternate #2
Brian G. Regan	Executive Director

**SINGLE AUDIT SECTION**



**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  
Franklin Township 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 Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the business-type activities of the Franklin Township Sewerage Authority, County of Somerset, State of New Jersey (the "Authority") as of May 31, 2020, and the related notes to the financial statements, which collectively comprise the Franklin Township Sewerage Authority's basic financial statements and have issued our report thereon dated January 4, 2021.

**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.

## **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, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and audit requirements as prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

## **Purpose of this Report**

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

*Hodulik & Morrison, P.A.*

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

January 4, 2021  
Cranford, New Jersey

## HODULIK & MORRISON, P.A.



### INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

#### **Report on Compliance for Each Major Federal Program**

We have audited the Franklin Township Sewerage Authority's (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, 2020. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### **Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants 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 as prescribed by the Office of School Finance, Department of Education, State of New Jersey; 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.

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 on the Authority's compliance with those requirements.

### ***Opinion on each Major Federal Program***

In our opinion, the Franklin Township Sewerage 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, 2020.

### **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 program 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 Franklin Township Sewerage 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 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 significant deficiencies or material weaknesses. 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.

### **Purpose of this Report**

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 upon the requirements of the Uniform Guidance. 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

January 4, 2021  
Cranford, New Jersey

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED MAY 31, 2020**

<u>FEDERAL GRANTOR/PASS - THROUGH GRANTOR/PROGRAM OR CLUSTER TITLE</u>	<u>GRANT NUMBER</u>	<u>FEDERAL C.F.D.A. NUMBER</u>	<u>GRANT PERIOD</u>	<u>PASS-THROUGH GRANTOR'S NUMBER</u>	<u>AWARD AMOUNT</u>	<u>PROGRAM RECEIPTS</u>	<u>SUB RECIPIENT EXPENDITURES</u>	<u>CURRENT YEAR EXPENDITURES</u>
<b>United States Environmental Protection Agency</b>								
<u>Passed through: New Jersey Infrastructure Bank</u>								
Capitalization Grant for Clean Water State Revolving Funds - 2017	Not Available	66.458	Indefinite	Not Applicable	\$ 16,110,434	\$ -	\$ -	\$ 2,341,452
Capitalization Grant for Clean Water State Revolving Funds - 2019	Not Available	66.458	Indefinite	Not Applicable	1,151,839	<u>1,151,839</u>	<u>-</u>	<u>-</u>
						<u>\$ 1,151,839</u>	<u>\$ -</u>	<u>\$ 2,341,452</u>

See Accompanying Notes to Schedule of Expenditures of Federal Awards

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY  
NOTES TO THE SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS  
MAY 31, 2020

NOTE 1. GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards of Franklin Township Sewerage Authority (the "Authority"). The Authority is defined in Note 1 to the Authority's basic 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 on the accrual basis of accounting. The Authority did not elect the 10-percent de minimus indirect cost rate under the Uniform Guidance and has not charged any indirect costs to its funded programs.

NOTE 3. RELATIONSHIP TO BASIC 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.

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED MAY 31, 2020

Section 1 - Summary of Auditor's Results

**Financial Statements**

Type of auditor's report issued: Unmodified

Internal Control over financial reporting:

1) Material weakness(es) identified? \_\_\_\_\_ Yes  X  No

2) Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ Yes  X  No

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 that are not considered to be material weaknesses? \_\_\_\_\_ Yes  X  No

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200 section .516(a)? \_\_\_\_\_ Yes  X  No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
66.458	Capitalization Grant for Clean Water State Revolving Funds

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

Auditee qualified as low-risk auditee?  X  Yes \_\_\_\_\_ No

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE FISCAL YEAR ENDED MAY 31, 2020

Section II - Financial Statement Findings

NONE

Section III - Federal Awards Findings and Questioned Costs

NONE



FRANKLIN TOWNSHIP SEWERAGE AUTHORITY  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
AND QUESTIONED COSTS AS PREPARED BY MANAGEMENT  
FOR THE FISCAL YEAR ENDED MAY 31, 2020

STATUS OF PRIOR YEAR AUDIT FINDINGS

Not Applicable- No prior year findings or questioned costs.

## **GENERAL COMMENTS AND RECOMMENDATIONS**

**TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY**  
**COUNTY OF SOMERSET, NEW JERSEY**  
**FISCAL YEAR ENDED MAY 31, 2020**

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, 2020, 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 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 to \$40,000 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 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 2020.

## 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 2020, 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.  
A division of PKF O'Connor Davies  
Certified Public Accountants  
Registered Municipal Accountants

*Andrew G. Hodulik*

Andrew G. Hodulik, CPA, RMA  
No. 406

RECOMMENDATIONS

None

\* \* \* \* \*

ACKNOWLEDGMENT

The above summary or synopsis was prepared from the Report of Audit of the Township of Franklin Sewerage Authority for the fiscal year ended May 31, 2020. This Report of Audit, submitted by Andrew G. Hodulik, Registered Municipal Accountant, is on file at the Office of the Executive Director, of the Township of Franklin Sewerage Authority, 70 Commerce Drive, Somerset, New Jersey 08873, and may be inspected by any interested person.

Joseph Danielsen  
Interim Executive Director