



**FRANKLIN TOWNSHIP
SEWERAGE AUTHORITY**

**COUNTY OF SOMERSET
NEW JERSEY**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED MAY 31, 2023 AND 2022

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY
For the years ended May 31, 2023 and 2022

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1 - 4
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>	
Management's Discussion and Analysis	5 - 10
<u>BASIC FINANCIAL STATEMENTS</u>	
Statements of Net Position	11
Statements of Revenues, Expenses, and Changes in Net Position	12
Statements of Cash Flows	13 - 14
Notes to Financial Statements	15 - 41
<u>OTHER REQUIRED SUPPLEMENTARY INFORMATION</u>	
Schedule I - Schedule of Authority's Proportionate Share of the Net Pension Liability – Public Employees' Retirement System	42
Schedule II – Schedule of Authority Contributions – Public Employees' Retirement System	43
Schedule III – Schedule of Authority's Proportionate Share of the Net OPEB Liability – State Health Benefit Local Government Retired Employees Plan	44
Schedule IV – Schedule of Authority's OPEB Contributions – State Health Benefit Local Government Retired Employees Plan	45
<u>OTHER SUPPLEMENTARY INFORMATION</u>	
Schedule V - Schedule of Revenues and Expenses Compared to Budget (Budgetary Basis)	46 - 47
Schedule VI - Schedule of Revenue Serial Bonds Payable For the year ended May 31, 2023	48 - 55

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY
For the years ended May 31, 2023 and 2022

TABLE OF CONTENTS (continued)

SINGLE AUDIT SECTION

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	56 - 57
Independent Auditors' Report on Compliance For Each Major Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of Federal Awards and State Financial Assistance Required by the Uniform Guidance and NJ OMB 15-08	58 – 60
Schedule of Expenditures of Federal Awards and State Financial Assistance	
Schedule of Expenditures of Federal Awards	61
Schedule of Expenditures of State Financial Assistance	62
Notes to Schedule of Expenditures of Federal Awards and State Financial Assistance	63 - 64
Schedule of Findings and Questioned Costs	65 - 66

OTHER INFORMATION

Schedule of Insurance Coverage	67 - 68
Officials in Office	69
General Comments and Recommendations	70 - 72

INDEPENDENT AUDITORS' REPORT

**Management and Commissioners of
Franklin Township Sewerage Authority
Somerset County, New Jersey**

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the business-type activities of the Franklin Township Sewerage Authority, Somerset County, New Jersey (the "Authority"), as of and for the years ended May 31, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Authority, as of May 31, 2023 and 2022, and the changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in compliance with the audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Authority, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

**Management and Commissioners of
Franklin Township Sewerage Authority
Somerset County, New Jersey**
Page 3

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

Required Supplementary Information

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

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information, such as the schedule of revenues and expenses compared to budget and the schedule of revenue serial bonds payable are presented for purposes of additional analysis and are also not a required part of the basic financial statements. The accompanying schedules of expenditures of federal awards and state financial assistance, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance) and New Jersey OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, respectively, are also presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

**Management and Commissioners of
Franklin Township Sewerage Authority
Somerset County, New Jersey**

Page 4

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 31, 2024 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

PKF O'Connor Davies, LLP

Cranford, New Jersey
January 31, 2024

Anthony Branco

Anthony Branco
Certified Public Accountant

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, 2023.

Management's Discussion and Analysis (MD&A) is Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34, *Basic Financial Statements-Management's Discussion and Analysis for Local Governments*.

FINANCIAL HIGHLIGHTS

- Operating revenues on a budgetary basis were \$16,120,404 (Schedule V) for the year ended May 31, 2023. This is a \$903,089 or a 5.93% increase, from the previous year.
- Net Position increased by \$2,454,392 or 3.79% over last year.
- The Authority's Capital Assets – Net increased by \$1,539,192 or 1.96% over last year.
- The Authority executed a construction loan with the New Jersey Infrastructure Bank during the 2023 fiscal year to finance the Marcy Street Sanitary Sewer Rehabilitation project. The loan had a balance of \$2,683,154 at May 31, 2023. During the fiscal year ended May 31, 2023, the Authority converted the Hamilton Street Pump Station construction loan to permanent financing in the amount of \$3,737,363.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority is a public body politic and corporate, organized under the laws of the State of New Jersey. The 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 Auditors' Reports.

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 increased from last year by 3.79%. The analysis, which follows below, 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**

	MAY 31,			2023-2022		2022-2021	
			(Restated)	INCREASE(DECREASE)		INCREASE(DECREASE)	
	2023	2022	2021	\$	%	\$	%
Current and Other Assets	\$ 28,417,981	\$ 26,677,421	\$ 28,678,715	\$ 1,740,560	6.52%	\$ (2,001,294)	-6.98%
Capital Assets, Net	80,127,793	78,588,601	73,709,450	1,539,192	1.96%	4,879,151	6.62%
Deferred Outflows	2,084,391	2,262,513	2,763,923	(178,122)	-7.87%	(501,410)	-18.14%
Total Assets and Deferred Outflows of Resources	\$ 110,630,165	\$ 107,528,535	\$ 105,152,088	\$ 3,101,630	2.88%	\$ 2,376,447	2.26%
Long Term Liabilities	\$ 26,650,081	\$ 23,935,004	\$ 25,376,209	\$ 2,715,077	11.34%	\$ (1,441,205)	-5.68%
Other Liabilities	13,665,253	15,007,105	14,841,682	(1,341,852)	-8.94%	165,423	1.11%
Total Liabilities	40,315,334	38,942,109	40,217,891	1,373,225	3.53%	(1,275,782)	-3.17%
Deferred Inflows	3,047,957	3,773,944	3,767,421	(725,987)	-19.24%	6,523	0.17%
Total Liabilities and Deferred Inflows of Resources	43,363,291	42,716,053	43,985,312	647,238	1.52%	(1,269,259)	-2.89%
Net Position							
Net Investment in Capital Assets	57,221,058	57,069,009	52,256,322	152,049	0.27%	4,812,687	9.21%
Restricted	5,603,748	5,313,171	4,861,493	290,577	5.47%	451,678	9.29%
Unrestricted	4,442,068	2,430,302	4,048,961	2,011,766	82.78%	(1,618,659)	-39.98%
Total Net Position	\$ 67,266,874	\$ 64,812,482	\$ 61,166,776	\$ 2,454,392	3.79%	\$ 3,645,706	5.96%
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 110,630,165	\$ 107,528,535	\$ 105,152,088	\$ 3,101,630	2.88%	\$ 2,376,447	2.26%

Table A-1 shows current and other assets increased by \$1,740,560 during the year ended May 31, 2023, in comparison to 2022. The majority of this increase is due to an increase in current cash as the Authority recognized an increase in cash flows from operating activities in 2023. Capital assets increased by \$1,539,192 as the Authority continues ongoing construction in progress projects. Some of the major construction in progress activities during the year ended May 31, 2023 were the High Bay Garage project, the East Millstone pump station rehabilitation, Marcy Street sanitary sewer rehabilitation and administrative building window and door replacement. Long term liabilities increased \$2,715,077 in fiscal year 2023 due to increases associated with the net pension liability and new loan issuances. Finally, the net position increased in the fiscal year 2023 by \$2,454,392 due to the net income noted in Table A-2 on the following page. Net investment in capital assets increased \$152,049 as the Authority's capital project balances continued to increase in fiscal year 2023. Unrestricted net position increased \$2,011,766 as the operational revenues of the Authority have increased.

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

	YEAR ENDED MAY 31,			2023-2022		2022-2021	
	2023	2022	(Restated)	INCREASE(DECREASE)		INCREASE(DECREASE)	
			2021	\$	%	\$	%
REVENUES							
Operating Revenues:							
Service & Connect. Charges \$	15,614,599	\$ 15,037,311	\$ 14,309,009	\$ 577,288	3.84%	\$ 728,302	5.09%
Interest on Delinquencies	154,540	134,383	59,886	20,157	15.00%	74,497	124.40%
Other	66,745	44,601	46,269	22,144	49.65%	(1,668)	-3.61%
General Revenues:							
Contributed Capital	18,213	1,907,088	1,394,928	(1,888,875)	-99.04%	512,160	36.72%
Interest Income	284,520	1,020	5,076	283,500	27794.12%	(4,056)	-79.91%
Total Revenues	16,138,617	17,124,403	15,815,168	(985,786)	-5.76%	1,309,235	8.28%
Program Expenses:							
Sewer	12,107,782	11,985,517	11,828,663	122,265	1.02%	156,854	1.33%
Depreciation	1,323,831	1,294,981	1,190,276	28,850	2.23%	104,705	8.80%
Interest on Long Term Debt	252,612	198,199	208,874	54,413	27.45%	(10,675)	-5.11%
Total Expenses	13,684,225	13,478,697	13,227,813	205,528	1.52%	250,884	1.90%
Increase in Net Position	<u>\$ 2,454,392</u>	<u>\$ 3,645,706</u>	<u>\$ 2,587,355</u>	<u>\$ (1,191,314)</u>	<u>-32.68%</u>	<u>\$ 1,058,351</u>	<u>40.90%</u>

While the statements of net position show change in financial position of net position, the Statements of Revenues, Expenses, and Changes in Net Position, provides 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 \$2,454,392 was reported for fiscal year ended May 31, 2023.

REVENUES

Table A-2 shows "Total Revenues" decreased by \$985,786 or 5.76% to \$16,138,617 for fiscal year ended May 31, 2023, as compared to \$17,124,403 for fiscal year ended May 31, 2022, based upon fluctuations in service charges, connection fees, and interest income. Upon closer review, you will notice "Service and Connection Charges" had a differential of \$577,288 or 3.84% versus last year. Additionally, you will notice "Interest Income" had a differential of \$283,500 or 27,794.12% versus last year.

EXPENSES

A further review of Table A-2 reveals that "Total Expenses" increased by \$205,528 or 1.52% for the fiscal year ended May 31, 2023.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets:

At May 31, 2023, the Authority had \$105,978,554 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 \$10,044,998. This amount represents an increase of \$2,656,142 or 35.95% over amounts reported for construction in progress at May 31, 2022, 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, 2023, 2022, and 2021. Capital asset detail information is presented in Note 3 to the financial statements.

Table A-3
Gross Capital Assets

	MAY 31,			2023-2022		2022-2021	
	2023	2022	2021	INCREASE(DECREASE)	INCREASE(DECREASE)	INCREASE(DECREASE)	INCREASE(DECREASE)
				\$	%	\$	%
Land, Easements & Rights of Way	\$ 1,033,879	\$ 1,033,879	\$ 962,824	\$		\$ 71,055	7.38%
Collection System	84,500,961	84,410,806	84,255,512	90,155	0.11%	155,294	0.18%
Building & Structures	5,252,942	5,252,942	4,884,244			368,698	7.55%
Machinery & Equipment	5,145,774	5,029,048	4,712,992	116,726	2.32%	316,056	6.71%
Construction in Progress	10,044,998	7,388,856	2,215,817	2,656,142	35.95%	5,173,039	233.46%
	<u>\$ 105,978,554</u>	<u>\$ 103,115,531</u>	<u>\$ 97,031,389</u>	<u>\$ 2,863,023</u>	<u>2.78%</u>	<u>\$ 6,084,142</u>	<u>6.27%</u>

Additions during the year ended May 31, 2023 were as follows:

Collection System	\$ 90,155
Machinery & Equipment	116,726
Construction in Progress	2,656,142

Long term Debt:

At May 31, 2023, the Authority had total debt outstanding in the amount of \$22,708,652 consisting of revenue bonds payable and a construction loan. The following table summarizes the Authority's outstanding debt and changes therein for the years ended May 31, 2023, 2022, and 2021.

Table A-4
Outstanding Debt
(Principal Only)

	MAY 31,			2023-2022		2022-2021	
	2023	2022	2021	INCREASE(DECREASE)	INCREASE(DECREASE)	INCREASE(DECREASE)	INCREASE(DECREASE)
				\$	%	\$	%
Loan - NJIBank 2007	\$ 890,895	\$ 1,561,720	\$ 2,215,059	(670,825)	-42.95%	(653,339)	-29.50%
Loan - NJIBank 2017	13,299,110	13,801,396	14,298,682	(502,286)	-3.64%	(497,286)	-3.48%
Loan - NJIBank 2020	1,462,836	1,543,107	1,623,378	(80,271)	-5.20%	(80,271)	-4.94%
Loan - NJIBank 2021	726,964	750,075		(23,111)	-3.08%	750,075	100.00%
Loan - NJIBank 2022	3,645,693			3,645,693	100.00%		
NJIBank Temp Loan 2021		3,737,363	3,198,424	(3,737,363)	-100.00%	538,939	16.85%
NJIBank Temp Loan 2022	2,683,154			2,683,154	100.00%		
	<u>\$ 22,708,652</u>	<u>\$ 21,393,661</u>	<u>\$ 21,335,543</u>	<u>\$ 1,314,991</u>	<u>6.15%</u>	<u>\$ 58,118</u>	<u>0.27%</u>

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 the budget shows that, on a budgetary basis, the Authority realized a favorable variance of \$1,226,919 on budgeted expenses of \$15,292,444, exclusive of budgeted renewal and replacement reserves, where applicable, for the period ended May 31, 2023. The favorable variance related to the expenditures coming in under budget for payroll and cost of providing services expenses. The Authority realized an unfavorable variance on the revenue side by \$163,931. 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 Expenses
- Add Unrecorded Depreciation and Amortization Expenses.
- Add Capital Contributions

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 the budget are not intended to present and do not present financial results in accordance with GAAP.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Authority's 2023-2024 Budget will cover the fiscal year ending May 31, 2024. Based upon historical consumption data and the existing rate structure, projected revenues and net position were sufficient to support budgeted expenses (budgetary basis) of \$16,606,066. The Authority budgeted to appropriate funds in the amount of \$600,000 to the Township of Franklin during the year ended May 31, 2024.

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, 2023 AND 2022**

<u>ASSETS</u>	<u>2023</u>	<u>2022</u>	<u>LIABILITIES</u>	<u>2023</u>	<u>2022</u>
Current Assets:			Current Liabilities Payable from Unrestricted Assets:		
Cash and Cash Equivalents	\$ 9,513,916	\$ 11,403,996	Accounts Payable and Accrued Expenses	\$ 724,391	\$ 1,896,765
Accounts Receivable - Sewer Rents	6,268,780	5,932,981	Unearned Sewer Rent Revenue	<u>7,592,238</u>	<u>6,883,178</u>
Prepaid Expenses	<u>640,547</u>	<u>618,668</u>			
Total Current Assets	<u>16,423,243</u>	<u>17,955,645</u>	Total Current Liabilities Payable from Unrestricted Assets	<u>8,316,629</u>	<u>8,779,943</u>
Noncurrent Assets:			Current Liabilities Payable from Restricted Assets:		
Restricted Assets			Customer and Developer Deposits	1,414,767	1,132,661
General Fund Account			NJIB Temporary Construction Loan	2,683,154	3,737,363
Cash and Cash Equivalents	44,885	1,902	Bonds and Loans Payable - Current Portion	1,163,949	1,286,623
Customer and Developer Account			Accrued Interest Payable on Bonds	<u>86,754</u>	<u>70,515</u>
Cash and Cash Equivalents	1,469,945	1,160,091			
Bond Reserve Account			Total Current Liabilities Payable from Restricted Assets	<u>5,348,624</u>	<u>6,227,162</u>
Cash and Cash Equivalents	1,885,448	1,705,726			
Self Insurance Account			Noncurrent Liabilities:		
Cash and Cash Equivalents	727,615	727,615	Compensated Absences Payable	245,850	221,599
Unemployment Insurance Account			Net Pension Liability	3,240,825	2,613,275
Cash and Cash Equivalents	25,718	25,718	Net Other Postemployment Benefits Liability	4,103,774	4,604,524
Construction Account			Long-Term Portion of Bonds and Loans Payable	<u>19,059,632</u>	<u>16,495,606</u>
Cash and Cash Equivalents	<u>7,841,127</u>	<u>5,100,724</u>			
Total Restricted Assets	<u>11,994,738</u>	<u>8,721,776</u>	Total Noncurrent Liabilities	<u>26,650,081</u>	<u>23,935,004</u>
Capital Assets (Net)	<u>80,127,793</u>	<u>78,588,601</u>	Total Liabilities	<u>40,315,334</u>	<u>38,942,109</u>
Total Noncurrent Assets	<u>92,122,531</u>	<u>87,310,377</u>	<u>DEFERRED INFLOWS OF RESOURCES</u>		
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			Deferred Inflows Related to Pensions	655,268	1,747,408
Deferred Outflows Related to Pensions	795,759	909,224	Deferred Inflows Related to		
Deferred Outflows Related to			Other Postemployment Benefits	<u>2,392,689</u>	<u>2,026,536</u>
Other Postemployment Benefits	<u>1,288,632</u>	<u>1,353,289</u>	Total Deferred Inflows of Resources	<u>3,047,957</u>	<u>3,773,944</u>
Total Deferred Outflows of Resources	<u>2,084,391</u>	<u>2,262,513</u>	<u>NET POSITION</u>		
Total Assets and Deferred Outflows of Resources	<u>\$ 110,630,165</u>	<u>\$ 107,528,535</u>	Net Investment in Capital Assets	57,221,058	57,069,009
			Restricted for:		
			Debt Service	1,512,895	1,587,224
			Operating	4,090,853	3,725,947
			Unrestricted	<u>4,442,068</u>	<u>2,430,302</u>
			Total Net Position	<u>67,266,874</u>	<u>64,812,482</u>
			Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 110,630,165</u>	<u>\$ 107,528,535</u>

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, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Operating Revenues:		
Service Charges	\$ 15,086,616	\$ 14,613,919
Connection Charges	527,983	423,392
Other	66,745	44,601
Interest on Delinquencies	154,540	134,383
	<hr/>	<hr/>
Total Operating Revenues	15,835,884	15,216,295
	<hr/>	<hr/>
Operating Expenses:		
Salaries and Wages	1,837,241	1,869,677
Employee Benefits	496,210	359,724
Administrative	1,118,974	807,453
Operations and Maintenance	8,655,357	8,948,663
Depreciation	1,323,831	1,294,981
	<hr/>	<hr/>
Total Operating Expenses	13,431,613	13,280,498
	<hr/>	<hr/>
Operating Income	2,404,271	1,935,797
	<hr/>	<hr/>
Non-Operating Revenues (Expenses):		
Interest Income	284,520	1,020
Interest Expense	(252,612)	(198,199)
	<hr/>	<hr/>
Net Non-Operating Revenues (Expenses)	31,908	(197,179)
	<hr/>	<hr/>
Net Income Before Contributions	2,436,179	1,738,618
	<hr/>	<hr/>
Capital Contributions	18,213	1,907,088
	<hr/>	<hr/>
Change in Net Position	2,454,392	3,645,706
	<hr/>	<hr/>
Net Position - Beginning	64,812,482	61,166,776
	<hr/>	<hr/>
Net Position - Ending	\$ 67,266,874	\$ 64,812,482
	<hr/> <hr/>	<hr/> <hr/>

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, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 16,209,145	\$ 14,999,893
Cash Paid to Employees	(2,730,265)	(2,645,427)
Cash Payments for Goods and Services	<u>(10,668,265)</u>	<u>(8,506,140)</u>
Net Cash Flows from Operating Activities	<u>2,810,615</u>	<u>3,848,326</u>
Cash Flows from Capital and Related Financing Activities:		
Principal and Premium Paid on Revenue Bond Maturities/		
Long Term Debt Maturities	(1,339,483)	(472,475)
Interest Paid on Revenue Bonds/Other	(249,958)	(202,419)
Proceeds from Loan Issuance	2,740,211	538,939
Acquisition and Construction of Capital Assets	<u>(2,863,023)</u>	<u>(6,174,132)</u>
Net Cash Flows from Capital and Related Financing Activities	<u>(1,712,253)</u>	<u>(6,310,087)</u>
Cash Flows from Investing Activities:		
Interest on Investments and Deposits	<u>284,520</u>	<u>1,020</u>
Net Cash Flows from Investing Activities	<u>284,520</u>	<u>1,020</u>
Change in Cash and Cash Equivalents	1,382,882	(2,460,741)
Cash and Cash Equivalents, Beginning of Year	<u>20,125,772</u>	<u>22,586,513</u>
Cash and Cash Equivalents, End of Year	<u>\$ 21,508,654</u>	<u>\$ 20,125,772</u>
Reconciliation to Statements of Net Position:		
Current unrestricted cash and cash equivalents	\$ 9,513,916	\$ 11,403,996
Noncurrent restricted assets:		
General Fund Account		
Cash and Cash Equivalents	44,885	1,902
Customer and Developer Account		
Cash and Cash Equivalents	1,469,945	1,160,091
Bond Reserve Account		
Cash and Cash Equivalents	1,885,448	1,705,726
Self Insurance Account		
Cash and Cash Equivalents	727,615	727,615
Unemployment Insurance Account		
Cash and Cash Equivalents	25,718	25,718
Construction Account		
Cash and Cash Equivalents	<u>7,841,127</u>	<u>5,100,724</u>
Cash and Cash Equivalents, End of Year	<u>\$ 21,508,654</u>	<u>\$ 20,125,772</u>

The accompanying notes are an integral part of this statement.

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

**STATEMENTS OF CASH FLOWS (continued)
FOR THE FISCAL YEARS ENDED MAY 31, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
Reconciliation of Operating Income to Cash Flows from Operating Activities:		
Operating Income	\$ 2,404,271	\$ 1,935,797
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:		
Depreciation	1,323,831	1,294,981
Change in Operating Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources:		
Prepaid Expenses	(21,879)	(42,145)
Receivables/Deposits	(335,799)	(417,302)
Accounts Payable / Other Liabilities	(872,055)	1,292,121
Unearned Revenue	709,060	200,900
Compensated Absences	24,251	7,260
Net Pension Liability	627,550	(885,417)
Net OPEB Liability	(500,750)	(45,802)
Deferred Outflow - Pension Deferrals	113,465	377,761
Deferred Outflow - OPEB Deferrals	64,657	123,649
Deferred Inflow - Pension Deferrals	(1,092,140)	110,395
Deferred Inflow - OPEB Deferrals	366,153	(103,872)
	406,344	1,912,529
Total Adjustments	406,344	1,912,529
Net Cash Flows from Operating Activities	\$ 2,810,615	\$ 3,848,326

The accompanying notes are an integral part of this statement.

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022

1. Summary of Significant Accounting Policies

The financial statements of the Board of Commissioners (“Board”) of the Township of Franklin Sewerage Authority (“Authority”) have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”) as applied to local governments. The Governmental Accounting Standards Board (“GASB”) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority’s accounting policies are described below.

A. Reporting Entity:

The Township of Franklin Sewerage 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

1. Summary of Significant Accounting Policies – (Continued)

B. Basis of Presentation, Basis of Accounting:

Basis of Presentation

The operations of the Authority are accounted for as a proprietary fund. The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America applicable to proprietary funds as defined by the Governmental Accounting Standards Board (GASB). All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets, deferred outflows of resources and all liabilities and deferred inflows of resources, whether current or non-current, associated with their activity are included on the Statement of Net Position. Their reported fund equity (net position) is segregated into net investment in capital assets and restricted and unrestricted net position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position. Depreciation of all exhaustive capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the proprietary fund Statement of Net Position as an offset to capital assets-net of depreciation. Depreciation has been provided over the estimated useful lives using the straight-line method.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

The accrual basis of accounting is used for measuring financial position and operating results of proprietary fund types. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized when they are incurred.

C. Assets, Liabilities and Net Position:

Cash and Cash Equivalents:

Amounts include petty cash and change funds, interest-bearing checking accounts and short-term investments with an original maturity date of three months or less from the date of purchase, carried at cost, which equals fair value.

Accounts Receivable:

User charges are established by the Board annually. The charges are subject to adjustment by the Board and a public hearing must be advertised and held prior to adjustment. Customer accounts receivable on May 31, 2023 and 2022 were reported at \$6,268,780 and \$5,932,981, respectively. Receivables are evaluated periodically for collectability. 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

1. Summary of Significant Accounting Policies – (Continued)

C. Assets, Liabilities and Net Position – (Continued)

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 \$640,547 and \$618,668 at May 31, 2023 and 2022, respectively.

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.

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.

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.

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 Bond Reserve Account is under control of the trustee for the bondholders.

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

1. Summary of Significant Accounting Policies – (Continued)

C. Assets, Liabilities and Net Position – (Continued)

Construction Account:

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

Loans Receivable:

The Authority has participated in a series of loan financing programs 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 2023 and the project is in progress as of May 31, 2023.

Capital Assets:

Capital assets, which include land, collection systems, buildings and structures, machinery and equipment, and construction in progress, are reported in the financial statements. The Authority has established a formal system of accounting for its capital assets. Purchased or constructed capital assets are reported at cost. Donated capital assets are recorded at acquisition value at the date of acquisition. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized. The capitalization threshold used by Authorities in the State of New Jersey is \$2,000.

All reported capital assets except for land and construction in progress are depreciated. Depreciation is computed using the straight-line method under the half-year convention over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Collection Systems	25-100 Years
Buildings and Structures	30 Years
Machinery and Equipment	7-20 Years

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 assets 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 and OPEB 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 outflow 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

1. Summary of Significant Accounting Policies – (Continued)

C. Assets, Liabilities and Net Position – (Continued)

Deferred Outflows of Resources and Deferred Inflows of Resources (continued):

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 an acquisition of net assets 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 and OPEB related deferred inflows relating to the difference in projected and actual earnings along with changes in proportion.

Unearned Revenue/Customer Billings:

Based upon the January 1st 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 \$7,592,238 and \$6,883,178 at May 31, 2023 and 2022, respectively.

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.

Other Postemployment Benefits 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.

Net Position:

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position - net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Designations of unrestricted net position are imposed by action of the Authority's Board.

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

1. Summary of Significant Accounting Policies – (Continued)

D. Revenues, Operating Revenues and Expenses:

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on an accrual basis when the exchange takes place. On the accrual basis, revenue from system user charges is recognized in the fiscal year for which the user fees are levied.

Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Operating Revenues and Expenses:

Operating revenues and expenses generally result from providing services related to the transmission of sewerage. The principal operating revenues 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.

Developer Contributions:

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 are recorded as connection charge income.

Nonoperating Revenues and Expenses:

Nonoperating revenues are those revenues that are generated indirectly from the primary activity of the Authority. These nonoperating revenues are from interest income and other miscellaneous sources. Nonoperating expenses are costs incurred that are not directly related to the current year's primary activity of the Authority such as interest on revenue bonds outstanding.

E. 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.

F. Management Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources and disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022

1. Summary of Significant Accounting Policies – (Continued)

G. Adopted and Recent Pronouncements:

The GASB issued Statement No. 87, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement became effective for the Authority's May 31, 2023 financial statements. Management has evaluated the impact of this GASB Statement on the financial statements and determined it did not have a material impact on the Authority's financial statements.

In May 2020, the GASB issued Statement No. 96, "*Subscription-Based Information Technology Arrangements*". The requirements of this Statement will become effective for the Authority's May 31, 2024 financial statements. The objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, "Leases", as amended. Management is in the process of evaluating the impact of GASB Statement No. 96 on the Authority's financial statements.

In April 2022, the GASB issued Statement No. 99, "*Omnibus 2022*". The requirements of this Statement will become effective for the Authority's May 31, 2024 financial statements. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. Management is in the process of evaluating the impact of GASB Statement No. 99 on the Authority's financial statements.

In June 2022, the GASB issued Statement No. 101, "*Compensated Absences*". The requirements of this Statement will become effective for the Authority's May 31, 2025 financial statements. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. Management is in the process of evaluating the impact of GASB Statement No. 101 on the Authority's 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.

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022

2. Deposits 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 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, 2023 and 2022, the book value of the Authority's cash and cash equivalents were \$21,508,654 and \$20,125,772. With respect to the amounts on deposit at May 31, 2023, of the cash and cash equivalents, \$250,000 was covered by federal depository insurance, \$8,604,959 was covered under the provisions of NJGUDPA and the remaining \$12,869,560, which is collateralized by the underlying securities, but not held in the Authority's name, is invested in money market mutual funds. With respect to the amounts on deposit at May 31, 2022, of the cash and cash equivalents, \$250,000 was covered by federal depository insurance, \$4,719,570 was covered under the provisions of NJGUDPA and the remaining \$15,117,974, which is collateralized by the underlying securities, but not held in the Authority's name, is invested in money market mutual 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

2. Deposits and Investments (Continued)

Deposits (Continued):

- (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 are in possession of an outside party.
- (b) Concentration of Credit Risk – This is the risk associated with the amount of investments that the Authority has with any one issuer that exceeds 5 percent or more of its total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.
- (c) Credit Risk – GASB 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government. This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In general, the Authority does not have an investment policy regarding Credit Risk except to the extent outlined under the Authority’s investment policy. The New Jersey Cash Management Fund is not rated.
- (d) Interest Rate Risk - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate fluctuations.

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

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

3. Capital Assets

The following schedule is a summarization of the changes in capital assets for the years ended May 31, 2023 and 2022.

	Balance <u>June 1, 2022</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers and Adjustments</u>	Balance <u>May 31, 2023</u>
Capital Assets, Not Being Depreciated:					
Land, Easements and Right-of-Way	\$ 1,033,879				\$ 1,033,879
Construction in Progress	<u>7,388,856</u>	<u>\$ 2,779,841</u>		<u>\$ (123,699)</u>	<u>10,044,998</u>
Total Capital Assets, Not Being Depreciated:	<u>8,422,735</u>	<u>2,779,841</u>	<u>-</u>	<u>(123,699)</u>	<u>11,078,877</u>
Capital Assets, Being Depreciated:					
Collection System	84,410,806	65,855		24,300	84,500,961
Building and Structures	5,252,942				5,252,942
Machinery and Equipment	<u>5,029,048</u>	<u>17,327</u>		<u>99,399</u>	<u>5,145,774</u>
Total Assets Being Depreciated	<u>94,692,796</u>	<u>83,182</u>		<u>123,699</u>	<u>94,899,677</u>
Less: Accumulated Depreciation	<u>(24,526,930)</u>	<u>(1,323,831)</u>			<u>(25,850,761)</u>
Total Capital Assets, Being Depreciated, Net	<u>70,165,866</u>	<u>(1,240,649)</u>	<u>-</u>	<u>123,699</u>	<u>69,048,916</u>
Net Capital Assets	<u>\$78,588,601</u>	<u>\$ 1,539,192</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$80,127,793</u>
	Balance <u>June 1, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers and Adjustments</u>	Balance <u>May 31, 2022</u>
Capital Assets, Not Being Depreciated:					
Land, Easements and Right-of-Way	\$ 962,824	\$ 71,055			\$ 1,033,879
Construction in Progress	<u>2,215,817</u>	<u>5,173,039</u>			<u>7,388,856</u>
Total Capital Assets, Not Being Depreciated:	<u>3,178,641</u>	<u>5,244,094</u>	<u>\$ -</u>	<u>-</u>	<u>8,422,735</u>
Capital Assets, Being Depreciated:					
Collection System	84,255,512	155,294			84,410,806
Building and Structures	4,884,244	458,688	(89,990)		5,252,942
Machinery and Equipment	<u>4,712,992</u>	<u>316,056</u>			<u>5,029,048</u>
Total Assets Being Depreciated	<u>93,852,748</u>	<u>930,038</u>	<u>(89,990)</u>	<u>-</u>	<u>94,692,796</u>
Less: Accumulated Depreciation	<u>(23,321,939)</u>	<u>(1,294,981)</u>	<u>89,990</u>		<u>(24,526,930)</u>
Total Capital Assets, Being Depreciated, Net	<u>70,530,809</u>	<u>(364,943)</u>	<u>-</u>	<u>-</u>	<u>70,165,866</u>
Net Capital Assets	<u>\$73,709,450</u>	<u>\$ 4,879,151</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$78,588,601</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

4. Long-term liabilities

During the year ended May 31, 2023, the following changes occurred in long-term liabilities.

	Balance June 1, 2022	Additions	Reductions	Balance May 31, 2023	Due Within One Year
Revenue Bonds Payable	\$ 17,656,298	\$ 3,708,682	\$ 1,339,482	\$ 20,025,498	\$ 1,152,551
Unamortized Premium	125,931	85,737	13,585	198,083	11,398
	<u>17,782,229</u>	<u>3,794,419</u>	<u>1,353,067</u>	<u>20,223,581</u>	<u>1,163,949</u>
Construction Loans Payable	3,737,363	2,683,154	3,737,363	2,683,154	
Compensated Absences	221,599	24,251		245,850	
Sub-total	21,741,191	6,501,824	5,090,430	23,152,585	1,163,949
Net OPEB Liability	4,604,524		500,750	4,103,774	
Net Pension Liability	2,613,275	627,550		3,240,825	
Total	<u>\$ 28,958,990</u>	<u>\$ 7,129,374</u>	<u>\$ 5,591,180</u>	<u>\$ 30,497,184</u>	<u>\$ 1,163,949</u>

During the year ended May 31, 2022, the following changes occurred in long-term liabilities.

	Balance June 1, 2021	Additions	Reductions	Balance May 31, 2022	Due Within One Year
Revenue Bonds Payable	\$ 18,137,119	\$ 750,075	\$ 1,230,896	\$ 17,656,298	\$ 1,276,494
Unamortized Premium	117,585	19,302	10,956	125,931	10,129
	<u>18,254,704</u>	<u>769,377</u>	<u>1,241,852</u>	<u>17,782,229</u>	<u>1,286,623</u>
Construction Loan Payable	3,198,424	538,939		3,737,363	
Compensated Absences	214,339	7,260		221,599	
Sub-total	21,667,467	1,315,576	1,241,852	21,741,191	1,286,623
Net OPEB Liability	4,650,326		45,802	4,604,524	
Net Pension Liability	3,498,692		885,417	2,613,275	
Total	<u>\$ 29,816,485</u>	<u>\$ 1,315,576</u>	<u>\$ 2,173,071</u>	<u>\$ 28,958,990</u>	<u>\$ 1,286,623</u>

2007A Series Bonds – New Jersey Infrastructure Bank

On November 8, 2007, the Authority issued \$12,725,000 of Revenue Bonds through the New Jersey Infrastructure Bank (“NJIB”). The “Fund” portion of the Bond Issue, \$6,250,000, was issued on an interest free basis. The Fund loan has a balance of \$77,894 as of May 31, 2023. The remaining “Trust” portion matures semi-annually on February 1 and August 1 each year, with maturities ranging from \$225,000 to \$76,000. The “Trust” portion of the Bond Issue matures August 1, 2027 and has a balance of \$813,000 as of May 31, 2023. Interest rates on the “Trust” portion range from 3.40% to 5.00%.

After the bond issuance, the Authority received notice from the NJIB that \$1,558,418 was deobligated resulting in a reduction of the principal balance outstanding on the fund loan. Additionally, after the bond issuance, \$1,175,000 of principal defeasance was applied against the Trust loan balance.

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

4. Long-term liabilities (Continued)

2017A Series Bonds – New Jersey Infrastructure Bank

On May 25, 2017, the Authority issued \$16,172,826 of Revenue Bonds through the New Jersey Infrastructure Bank (“NJIB”). The “Fund” portion of the Bond Issue, \$12,082,826, was issued on an interest free basis. The Fund loan has a balance of \$9,639,110 as of May 31, 2023. The remaining “Trust” portion matures semi-annually on February 1 and August 1 each year, with maturities ranging from \$90,000 to \$220,000. The “Trust” portion of the Bond Issue matures August 1, 2042 and has a balance of \$3,660,000 as of May 31, 2023. Interest rates on the “Trust” portion range from 3.00% to 5.00%. The Bonds were issued with an original issue premium of \$123,582.

2020A Series Bonds – New Jersey Infrastructure Bank

On May 13, 2020, the Authority issued \$1,688,649 of Revenue Bonds through the New Jersey Infrastructure Bank (“NJIB”). The “Fund” portion of the Bond Issue, \$1,283,649, was issued on an interest free basis. The Fund loan has a balance of \$1,087,836 as of May 31, 2023. The remaining “Trust” portion matures semi-annually on February 1 and August 1 each year, with maturities ranging from \$15,000 to \$30,000. The “Trust” portion of the Bond Issue matures August 1, 2039 and has a balance of \$375,000 as of May 31, 2023. Interest rates on the “Trust” portion range from 2.25% to 5.00%. The Bonds were issued with an original issue premium of \$42,073.

2021A Series Bonds – New Jersey Infrastructure Bank

On November 23, 2022, the Authority issued \$750,075 of Revenue Bonds through the New Jersey Infrastructure Bank (“NJIB”). The “Fund” portion of the Bond Issue, \$570,075, was issued on an interest free basis. The Fund loan has a balance of \$546,964 as of May 31, 2023. The remaining “Trust” portion matures annually on August 1 each year, with maturities ranging from \$5,000 to \$10,000. The “Trust” portion of the Bond Issue matures August 1, 2046 and has a balance of \$180,000 as of May 31, 2023. Interest rates on the “Trust” portion range from 2.00% to 5.00%. The Bonds were issued with an original issue premium of \$19,302.

2022A Series Bonds – New Jersey Infrastructure Bank

On June 23, 2022, the Authority issued \$3,708,682 of Revenue Bonds through the New Jersey Infrastructure Bank (“NJIB”). The “Fund” portion of the Bond Issue, \$1,868,682, was issued on an interest free basis. The Fund loan has a balance of \$1,805,693 as of May 31, 2023. The remaining “Trust” portion matures annually on August 1 each year, with maturities ranging from \$35,000 to \$105,000. The “Trust” portion of the Bond Issue matures August 1, 2051 and has a balance of \$1,840,000 as of May 31, 2023. Interest rates on the “Trust” portion range from 3.25% to 5.00%. The Bonds were issued with an original issue premium of \$85,737.

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

4. Long-term liabilities (Continued)

New Jersey Infrastructure Bank Temporary Financing

On October 14, 2020, the Authority was awarded an interest free construction loan up to \$4,044,510 by the New Jersey Infrastructure Bank in order to fund the construction of a new main pump station. The Authority drew down a total of \$3,737,363 of the construction loan and converted it to permanent financing in the form of the 2022A Serial Bonds during the year ended May 31, 2023.

On June 29, 2022, the Authority was awarded an interest free construction loan up to \$3,900,831 by the New Jersey Infrastructure Bank in order to fund the rehabilitation of the Marcy Street Sanitary Sewer. As of May 31, 2023, the Authority drew down \$2,683,154 of the construction loan. The draw down on the loan is reflected as a current liability, however, once the construction loan is converted to a long-term bond issuance, payment terms will be identified and a portion of the loan will be reflected as long-term debt.

Revenue bonds payable balances consisted of the following as of May 31, 2023 and 2022 as follows:

	<u>Balance</u>	<u>Balance</u>
<u>Debt Obligations Outstanding:</u>	<u>May 31, 2023</u>	<u>May 31, 2022</u>
NJ Infrastructure Bank Trust Loan - Series 2007	\$ 813,000	\$ 1,156,000
NJ Infrastructure Bank Loan - Series 2007 - Principal Only	77,895	405,720
NJ Infrastructure Bank Trust Loan - Series 2017	3,660,000	3,755,000
NJ Infrastructure Bank Loan - Series 2017 - Principal Only	9,639,110	10,046,396
NJ Infrastructure Bank Trust Loan - Series 2020	375,000	390,000
NJ Infrastructure Bank Loan - Series 2020 - Principal Only	1,087,836	1,153,107
NJ Infrastructure Bank Trust Loan - Series 2021	180,000	180,000
NJ Infrastructure Bank Loan - Series 2021 - Principal Only	546,964	570,075
NJ Infrastructure Bank Trust Loan - Series 2022 A-1	1,840,000	
NJ Infrastructure Bank Loan - Series 2022 - Principal Only	<u>1,805,693</u>	
Subtotal	<u>20,025,498</u>	<u>17,656,298</u>
NJ Infrastructure Bank - 2021 Construction Loan		3,737,363
NJ Infrastructure Bank - 2022 Construction Loan	<u>2,683,154</u>	
Subtotal	22,708,652	21,393,661
Unamortized Loan Premiums	<u>198,083</u>	<u>125,931</u>
	<u>\$ 22,906,735</u>	<u>\$ 21,519,592</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

4. Long-term liabilities (Continued)

Maturity of aggregate long-term debt outstanding is as follows:

<u>Fiscal Year</u> <u>Ended May 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 1,152,551	\$ 247,363	\$ 1,399,914
2025	1,094,657	221,063	1,315,720
2026	799,657	201,638	1,001,295
2027	738,657	192,263	930,920
2028	743,657	185,488	929,145
2029-2033	3,803,285	820,272	4,623,557
2034-2038	3,998,285	630,750	4,629,035
2039-2043	3,905,717	419,241	4,324,958
2044-2048	3,168,071	180,488	3,348,559
2049-2052	620,961	32,200	653,161
	<u>\$ 20,025,498</u>	<u>\$ 3,130,766</u>	<u>\$ 23,156,264</u>

5. Compensated Absences

The Authority records a liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee and is accrued as employees earn the rights to the benefits. The Authority uses the “vesting method” for estimating its accrued sick and vacation leave liability. As of May 31, 2023 and 2022, the Authority has recorded \$245,850 and \$221,599 of compensated absences, respectively.

6. Pension Plans

A. Public Employees’ Retirement System (PERS):

Description of Plan – Substantially all of the Authority’s employees participate in the Public Employees’ Retirement System (PERS) which is a contributory defined benefit public employee retirement system which has been established by State statute. This system is sponsored and administered by the State of New Jersey. The Public Employees’ Retirement System is considered a cost-sharing multiple-employer plan.

The Public Employees’ Retirement System was established in January 1955 under the provisions of N.J.S.A. 43:15A to provide coverage including post-retirement health care to substantially all full time employees of the State or any county, municipality, school board or public agency provided the employee is not a member of another State-administered retirement system. Age eligibility and benefit provisions were affected by Chapters 92 and 103, P.L. 2007, Chapter 89, P.L. 2008, Chapter 1, P.L. 2010, and Chapter 78, P.L. 2011. Members are classified into one of five tiers dependent upon the date of their enrollment.

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

6. Pension Plans (continued)

Tier 1, 2 and 3 members are eligible to retire at age 60, 60, and 62, respectively with an annual benefit generally determined to be 1/55th of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of credited service. Tier 4 and 5 members are eligible to retire at age 62 and 65, respectively with an annual benefit generally determined to be 1/60th of the average annual compensation for the highest five fiscal years' compensation for each year of membership during years of credited service. Anyone who retires early and is under their respective tier's retirement age receives retirement benefits as calculated in the above mentioned formulas but at a reduced rate in accordance with applicable New Jersey Statute based upon their tier.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issued a publicly available financial report that includes the financial statements and required supplementary information for PERS. The financial report may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

Funding Policy

The contribution policy is set by New Jersey State Statutes and contributions are required by active members and contributing members. Plan member and employer contributions may be amended by State of New Jersey legislation. Employee contribution rates for PERS is 7.5% of employees' annual pensionable compensation. Employers are required to contribute at an actuarially determined rate in PERS. The actuarially determined contribution includes funding for noncontributory death benefits and post-retirement medical premiums.

The Authority's actuarially determined contributions to PERS for each of the years ended May 31, 2023, 2022, and 2021 were \$253,740, \$264,579, and \$240,818, respectively.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of PERS and additions to/deductions from PERS fiduciary net position have been determined on the same basis as they are reported by PERS. For the purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

At May 31, 2023, the Authority reported a liability of \$3,240,825 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2022, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation on July 1, 2021, which was rolled forward to June 30, 2022.

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

6. Pension Plans (continued)

The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating local government units, actuarially determined. At June 30, 2022, the Authority's proportion was 0.0214746778 percent, which was a decrease of 0.0005847894 percent from its proportion measured as of June 30, 2021.

For the years ended May 31, 2023 and 2022, the Authority recognized full accrual pension (benefit) of (\$358,697) and (\$408,100), respectively, in the financial statements. At May 31, 2023, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>2023</u> Deferred Outflows of Resources	<u>2023</u> Deferred Inflows of Resources
Difference between expected and actual experience	\$ 23,391	\$ 20,627
Changes in assumptions	10,041	485,280
Net difference between projected and actual earnings on pension plan investments	134,135	
Changes in proportion	382,024	149,361
Authority contributions subsequent to the measurement date	246,168	
	<u>\$ 795,759</u>	<u>\$ 655,268</u>

At May 31, 2022, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>2022</u> Deferred Outflows of Resources	<u>2022</u> Deferred Inflows of Resources
Difference between expected and actual experience	\$ 41,215	\$ 18,708
Changes in assumptions	13,610	930,343
Net difference between projected and actual earnings on pension plan investments		688,405
Changes in proportion	600,659	109,952
Authority contributions subsequent to the measurement date	253,740	
	<u>\$ 909,224</u>	<u>\$ 1,747,408</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

6. Pension Plans (Continued)

As of May 31, 2023, \$246,168 is reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending May 31,	Amount
2023	\$ (178,133)
2024	(49,911)
2025	(23,359)
2026	140,253
2027	5,473
Total	\$ (105,677)

Actuarial Assumptions

The total collective pension liability for the June 30, 2022 measurement date was determined by an actuarial valuation as of July 1, 2021, which was rolled forward to June 30, 2022. This actuarial valuation used the following actuarial assumptions as June 30, 2022 and 2021:

Inflation rate:	
Price	2.75%
Wage	3.25%
Salary increases:	2.75 - 6.55%
	based on years of service
Investment rate of return	7.00%

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

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

6. Pension Plans (Continued)

Mortality Rates

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

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2022) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pension and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expecting future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2022 and 2021 are summarized in the following tables:

	2022	
<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. equity	27.00%	8.12%
Non-U.S. developed markets equity	13.50%	8.38%
Emerging markets equity	5.50%	10.33%
Private equity	13.00%	11.80%
Real assets	3.00%	7.60%
Real estate	8.00%	11.19%
High yield	4.00%	4.95%
Private credit	8.00%	8.10%
Investment grade credit	7.00%	3.38%
Cash equivalents	4.00%	1.75%
U.S. Treasuries	4.00%	1.75%
Risk mitigation strategies	3.00%	4.91%
	<u>100.00%</u>	

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

6. Pension Plans (Continued)

	2021	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. equity	27.00%	8.09%
Non-U.S. developed markets equity	13.50%	8.71%
Emerging markets equity	5.50%	10.96%
Private equity	13.00%	11.30%
Real assets	3.00%	7.40%
Real estate	8.00%	9.15%
High yield	2.00%	3.75%
Private credit	8.00%	7.60%
Investment grade credit	8.00%	1.68%
Cash equivalents	4.00%	0.50%
U.S. Treasuries	5.00%	0.95%
Risk mitigation strategies	3.00%	3.35%
	100.00%	

Discount rate

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2022 and 2021. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers and the nonemployer contributing entity will be based on 100% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for the local employers. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all projected benefit payments to determine the total pension liability.

Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate

The following presents the Authority's proportionate share of the net pension liability as of June 30, 2022 and 2021 calculated using the discount rate as disclosed above as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00 percent) or 1-percentage-point higher (8.00 percent) than the current rate:

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

6. Pension Plans (Continued)

June 30, 2022

	At 1% Decrease (6.00%)	At Current Discount Rate (7.00%)	At 1% Increase (8.00%)
PERS	\$ 4,163,511	\$ 3,240,825	\$ 2,455,582

June 30, 2021

	At 1% Decrease (6.00%)	At Current Discount Rate (7.00%)	At 1% Increase (8.00%)
PERS	\$ 3,558,751	\$ 2,613,275	\$ 1,810,905

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report for the State of New Jersey Public Employees Retirement System.

Additional Information

Collective balances of the Local Group at June 30, 2022 and 2021 are as follows:

	2022	2021
Collective deferred outflows of resources	\$ 1,660,772,008	\$ 1,164,738,169
Collective deferred inflows of resources	3,236,303,935	8,339,123,762
Collective net pension liability - Local group	15,219,184,920	11,972,782,878
Authority's Proportion	0.0214746778%	0.0220594672%

Collective pension (benefit) for the Local Group for the measurement periods ended June 30, 2022 and 2021 was \$(1,032,778,934) and \$(1,599,674,464).

The average of the expected remaining service lives of all employees that are provided with pension through the pension plan (active and inactive employees) determined at July 1, 2022, 2021, 2020, 2019, 2018, and 2017 is 5.04, 5.13, 5.16, 5.21, 5.63 and 5.48 years, respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

6. Pension Plans (Continued)

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 PERS on or after July 1, 2007, who earn salary in excess of established "maximum compensation" limits; employees otherwise eligible to enroll in 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 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.

Contribution Requirement and Benefit Provisions - State and local government employers contribute 3% of the employee's base salary. Active members contribute 5.5% of base salary. Eligible members are provided with a defined contribution retirement plan intended to qualify for favorable Federal income tax treatment under IRC Section 401(a), a noncontributory group life insurance plan and a noncontributory group disability benefit plan. A participant's interest in that portion of his or her defined contribution retirement plan account attributable to employee contributions shall immediately become and shall at all times remain fully vested and non-forfeitable. A participant's interest in that portion of his or her defined contribution retirement plan account attributable to employer contributions shall be vested and non-forfeitable on the date the participant commences the second year of employment or upon his or her attainment of age 65, while employed by an employer, whichever occurs first.

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

7. Postemployment Benefits Other Than Pensions (OPEB)

Plan description and benefits provided

The Authority participates in the State Health Benefit Local Government Retired Employees Plan (Plan), a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan administered by the State of New Jersey Division of Pension and Benefits. The Plan covers employees of local government employers that have adopted a resolution to participate in the Plan. The Plan provides medical and prescription drug coverage to retirees and their covered dependents. Rules governing the operation and administration of the program are found in Chapter 88, P.L. 1974 and Chapter 48, P.L. 1999. Additional information about the Plan is available from the State of New Jersey, Division of Pensions and Benefits Annual Comprehensive Financial Report, which can be found at <https://www.nj.gov/treasury/pensions/annual-reports.shtml>.

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

7. Postemployment Benefits Other Than Pensions (OPEB)

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At May 31, 2023 and 2022, the Authority reported a liability of \$4,103,774 and \$4,604,524, respectively for its proportionate share of the net OPEB liability. The net OPEB liability as of May 31, 2023 was determined by an actuarial valuation as of July 1, 2021 which was rolled forward to June 30, 2022. The net OPEB liability as of May 31, 2022 was determined by an actuarial valuation as of June 30, 2020 which was rolled forward to June 30, 2021. The Authority's proportion of the net OPEB liability was based on a projection of the Authority's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating local governments, actuarially determined. At May 31, 2023 and 2022, the Authority's proportion was 0.025411 percent and 0.025581 percent, respectively.

For the year ended May 31, 2023, the Authority recognized an OPEB (benefit) of (\$69,940). At May 31, 2023, the Authority reported a deferred outflow of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>2023</u>	<u>2023</u>
	Deferred	Deferred
	Outflows of	Inflows of
	<u>Resources</u>	<u>Resources</u>
Difference between expected and actual experience	\$ 211,923	\$ 760,665
Changes in assumptions	547,666	1,400,539
Net difference between projected and actual earnings on OPEB plan investments	1,080	
Changes in proportion	406,670	231,485
Authority contributions subsequent to the measurement date	<u>121,293</u>	
	<u>\$ 1,288,632</u>	<u>\$ 2,392,689</u>

For the year ended May 31, 2022, the Authority recognized OPEB (benefit) of (\$90,132). At May 31, 2022, the Authority reported deferred outflow of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>2022</u>	<u>2022</u>
	Deferred	Deferred
	Outflows of	Inflows of
	<u>Resources</u>	<u>Resources</u>
Difference between expected and actual experience	\$ 103,320	\$ 963,334
Changes in assumptions	662,375	813,904
Net difference between projected and actual earnings on OPEB plan investments	2,202	
Changes in proportion	499,260	249,298
Authority contributions subsequent to the measurement date	<u>86,132</u>	
	<u>\$ 1,353,289</u>	<u>\$ 2,026,536</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

7. Postemployment Benefits Other Than Pensions (OPEB) (Continued)

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

Year ending May 31,	Amount
2024	\$ (330,269)
2025	(330,574)
2026	(268,717)
2027	(86,015)
2028	3,774
Thereafter	(213,549)
Total	\$ (1,225,350)

Discount Rate

The discount rate for June 30, 2022 and 2021 was 3.54% and 2.16%, 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.

Mortality Rates

Mortality rates for June 30, 2022 and 2021 for Pre-retirement healthy, Post retirement healthy and disabled retiree mortality is based on the Pub-2010 "General" classification headcount-weighted mortality table with fully generational mortality improvement projections from the central year using Scale MP-2021.

Health Care Trend Assumptions

For pre-Medicare medical benefits, the trend rate is initially 6.25% and decreases to a 4.50% long-term trend rate after eight years. For post-65 medical benefits PPO, the trend is initially (1.89)% in fiscal year 2024, increasing to 15.04% in fiscal year 2026 and decreases to 4.50% after 11 years. For HMO the trend is initially (1.99)% in fiscal year 2023, increasing to 15.18% in fiscal year 2026 and decreases to 4.50% after 11 years. For prescription drug benefits, the initial trend rate is 8.00% and decreases to a 4.50% long-term trend rate after seven years. For the Medicare Part B reimbursement, the trend rate is 5.00%.

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

7. Postemployment Benefits Other Than Pensions (OPEB) (Continued)

The following represents sensitivity of the Authority's proportionate share of the net OPEB liability associated with the Authority to changes in the discount rate and healthcare cost trend rate.

The following presents the Authority's proportionate share of the net OPEB liability associated with the Authority as of June 30, 2022 calculated using a discount rate that is 1-percentage-point lower (2.54%) or 1-percentage-point higher (4.54%) than the current discount rate:

	1% Decrease (2.54%)	At Discount Rate (3.54%)	1% Increase (4.54%)
Authority's Share	\$ 4,757,100	\$ 4,103,774	\$ 3,578,112

The following presents the Authority's proportionate share of the net OPEB liability associated with the Authority as of June 30, 2021 calculated using a discount rate that is 1-percentage-point lower (1.16%) or 1-percentage-point higher (3.16%) than the current discount rate:

	1% Decrease (1.16%)	At Discount Rate (2.16%)	1% Increase (3.16%)
Authority's Share	\$ 5,418,642	\$ 4,604,524	\$ 3,959,318

The following presents the Authority's proportionate share of the net OPEB liability associated with the Authority as of June 30, 2022, calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current trend rate:

	1% Decrease	Health Care Cost Trend Rate	1% Increase
Authority's Share	\$ 3,481,355	\$ 4,103,774	\$ 4,900,917

The following presents the Authority's proportionate share of the net OPEB liability associated with the Authority as of June 30, 2021, calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current trend rate:

	1% Decrease	Health Care Cost Trend Rate	1% Increase
Authority's Share	\$ 3,841,724	\$ 4,604,524	\$ 5,599,884

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

7. Postemployment Benefits Other Than Pensions (OPEB) (Continued)

Actuarial assumptions and other inputs

The total OPEB liability as of June 30, 2022 was determined by an actuarial valuation as of June 30, 2021, which was rolled forward to June 30, 2022. The actuarial assumptions vary for each plan member depending on the pension plan the member is enrolled in. This actuarial valuations used the following actuarial assumptions, applied to all periods in the measurement:

Inflation rate	3.54%
Salary increases*	
Rate for all future years	2.75 to 6.55%

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

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

The average service lives of all plan members are 7.82, 7.82, 7.87, 8.05, 8.14 and 8.04 years for 2022, 2021, 2020, 2019, 2018 and 2017, respectively.

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.

9. 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 net position for a reserve for future maintenance, repairs, improvements and unemployment claims. The unrestricted designated net position balances at May 31, 2023 and 2022 are reported at \$500,000 and \$3,334,857 for this purpose.

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022**

10. Restricted Net Position

The Authority reports the following restricted net position as of May 31, 2023:

Restricted for Debt Service:

The amount of \$1,512,895 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 \$4,090,853 has been Restricted for operations pursuant to the Operating Reserve Requirement, as set forth in the Bond Resolution.

11. Unrestricted Designated Net Position

Of the Unrestricted net position of the Authority at May 31, 2023, the Authority has internally designated \$500,000 as a reserve for future maintenance, repairs and improvements to the sewer collection system and \$753,333 for potential future unemployment claims. The remaining balance of \$3,188,735 is undesignated.

12. 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:

	<u>2023</u>	<u>2022</u>
Unrestricted Net Position	\$ 4,442,068	\$ 2,430,302
Adjusted by:		
Net Pension Liability, Deferred Inflows/Outflows	3,100,334	3,451,459
Net OPEB Liability, Deferred Inflows/Outflows	<u>5,207,831</u>	<u>5,277,771</u>
	<u>\$ 12,750,233</u>	<u>\$ 11,159,532</u>

13. Commitments and Contingencies

Grant Programs:

The Authority participates in federal and state grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the Authority has not complied with the rules and regulations governing grants, refunds of any money received may be required. Management is not aware of any material items of noncompliance, which would result in the disallowance of program expenditures.

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2023 AND 2022

13. Commitments and Contingencies (Continued)

Litigation:

As of May 31, 2023 and through 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.

Municipal Appropriation:

During fiscal years 2023 and 2022, the Authority did not budget or accrue a municipal appropriation. After management analyzed the budgeted to actual results combined with the cash requirements needed for upcoming capital projects, the Authority determined a Township appropriation cannot be funded. As of the report date, the municipality has requested a \$600,000 appropriation for fiscal year 2024, therefore the Authority included this in the budget for the year ended May 31, 2024.

14. Subsequent Events

Management has reviewed and evaluated all events and transactions occurring from May 31, 2023 through the date of the financial statements were available for issuance for possible disclosure and recognition in the accompanying financial statements. No items have come to the attention of the Authority which would require disclosure or recognition.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
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>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Authority's Proportion of the Net Pension Liability	0.018319%	0.016247%	0.017920%	0.018124%	0.019866%	0.018721%	0.021455%	0.022059%	0.021475%
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	\$3,498,692	\$2,613,275	\$3,240,825
Authority's Covered Payroll	\$1,219,309	\$1,244,193	\$1,269,585	\$1,308,361	\$1,511,198	\$1,418,143	\$1,537,883	\$1,604,356	\$1,581,749
Authority's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	281.29%	293.14%	418.04%	322.47%	258.83%	237.87%	227.50%	162.89%	204.89%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	48.72%	47.93%	40.14%	48.10%	53.60%	56.27%	58.32%	70.33%	62.91%

* 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 was 7.00% as of June 30, 2021 and June 30, 2022.

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
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>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Contractually Required Contribution	\$ 156,861	\$ 145,561	\$ 166,786	\$ 177,197	\$ 205,119	\$ 189,144	\$ 240,818	\$ 264,579	\$ 270,806
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>	<u>(240,818)</u>	<u>(264,579)</u>	<u>(270,806)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <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	\$ 1,604,355	\$ 1,581,749	\$ 1,570,402
Contributions as a Percentage of Covered Payroll	12.61%	11.47%	12.75%	11.73%	14.46%	12.30%	15.01%	16.73%	17.24%

* 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
REQUIRED SUPPLEMENTARY INFORMATION
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>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Authority's Net Proportion of the Other Post Employment Benefit Liability	0.024226%	0.024782%	0.023174%	0.023249%	0.025912%	0.025581%	0.025411%
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	\$ 4,650,326	\$ 4,604,524	\$ 4,103,774
Authority's Covered Payroll	\$ 1,269,585	\$ 1,308,361	\$ 1,511,198	\$ 1,418,143	\$ 1,537,883	\$ 1,604,356	\$ 1,581,749
Authority's Proportionate Share of the Net Other Post Employment Benefit Liability as a Percentage of the Covered Payroll	414.41%	386.70%	240.25%	222.07%	302.38%	287.00%	259.45%
Local Plan Fiduciary Net Position as a Percentage of the Total Other Post Employment Benefit Liability	0.69%	1.03%	1.97%	1.98%	0.91%	0.28%	-0.36%

* 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 2.16% as of June 30, 2021 to 3.54% as of June 30, 2022.

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE AUTHORITY'S OPEB 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>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Contractually Required Contribution	\$ 58,870	\$ 58,870	\$ 61,874	\$ 56,200	\$ 71,355	\$ 104,736	\$ 132,731
Contribution in Relation to the Contractually Required Contribution	<u>(58,870)</u>	<u>(58,870)</u>	<u>(61,874)</u>	<u>(56,200)</u>	<u>(71,355)</u>	<u>(104,736)</u>	<u>(132,731)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's Covered Payroll	\$ 1,308,361	\$ 1,511,198	\$ 1,418,143	\$ 1,537,883	\$ 1,604,355	\$ 1,581,749	\$ 1,570,402
Contributions as a Percentage of Covered Payroll	4.50%	3.90%	4.36%	3.65%	4.45%	6.62%	8.45%

* 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, 2023 AND 2022

	FISCAL YEAR ENDED MAY 31, 2023			FISCAL YEAR ENDED MAY 31, 2022		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
Revenues						
User Charges	\$ 15,717,760	\$ 15,086,616	\$ (631,144)	\$ 13,802,709	\$ 14,613,919	\$ 811,210
Connection Charges	352,288	527,983	175,695	352,288	423,392	71,104
Interest on Investments, Deposit and Delinquencies	167,287	439,060	271,773	181,500	135,403	(46,097)
Other	47,000	66,745	19,745	44,000	44,601	601
Total Revenues - Budgetary Basis	16,284,335	16,120,404	(163,931)	14,380,497	15,217,315	836,818
Operating Expenses						
Administration:						
Salaries & Wages	822,688	697,494	125,194	795,000	723,998	71,002
Fringe Benefits	380,000	351,111	28,889	350,000	332,228	17,772
Other Expenses	983,556	1,118,974	(135,418)	736,750	807,453	(70,703)
Cost of Providing Services:						
Salaries & Wages	1,171,883	1,139,747	32,136	1,130,000	1,145,679	(15,679)
Fringe Benefits	637,493	573,736	63,757	493,839	525,728	(31,889)
Other Expenses	9,434,785	8,655,357	779,428	8,356,507	8,948,663	(592,156)
Total Operating Expenses	13,430,405	12,536,419	893,986	11,862,096	12,483,749	(621,653)
Debt Service:						
Bond Principal	1,473,383	1,276,494	196,889	1,360,166	1,230,896	129,270
Interest on Bonds	388,656	252,612	136,044	231,632	198,199	33,433
Total Debt Service	1,862,039	1,529,106	332,933	1,591,798	1,429,095	162,703
Total Expenses - Budgetary Basis	15,292,444	14,065,525	1,226,919	13,453,894	13,912,844	(458,950)
Budgetary Revenues Over/Under Expenditures	\$ 991,891	\$ 2,054,879	\$ 1,062,988	\$ 926,603	\$ 1,304,471	\$ 377,868

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
(BUDGETARY BASIS)
FOR THE FISCAL YEARS ENDED MAY 31, 2023 AND 2022

Reconciliation of Budgetary Basis to
Change in Net Position:

	<u>2023</u>	<u>2022</u>
Budgetary Revenues Over/Under Expenditures Brought Forward	\$ 2,054,879	\$ 1,304,471
Adjustments to Budgetary Basis:		
Bond Principal	1,276,494	1,230,896
Net Pension Liability Adjustment	358,697	408,100
Net OPEB Liability Adjustment	69,940	90,132
Depreciation Expense Not Budgeted	(1,323,831)	(1,294,981)
Capital Contributions	<u>18,213</u>	<u>1,907,088</u>
Total Adjustments - Net	<u>399,513</u>	<u>2,341,235</u>
Change in Net Position	<u>\$ 2,454,392</u>	<u>\$ 3,645,706</u>

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE YEAR ENDED MAY 31, 2023**

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS		BALANCE MAY 31, 2022	INCREASED	DECREASED	BALANCE MAY 31, 2023
				DATE	AMOUNT				
NJIB Infrastructure Water Trust Loan Defeased Principal Savings Credits	11/8/2007	\$ 10,970,000	4.250%	8/1/2023	\$ 361,000	\$ 1,156,000		\$ 343,000	\$ 813,000
		(1,175,000)	4.500%	8/1/2024	376,000				
		(569,000)	4.500%	8/1/2025	76,000				
NJIB Infrastructure Water Fund Loan Fund Loan Decrease - Principal Only (Payable 8/1 and 2/1)	11/8/2007	6,250,000		8/1/2023	77,894	405,720		327,825	77,895
		(1,558,418)							
NJIB Infrastructure Water Loan (Trust Loan Agreement)	5/25/2017	4,090,000	5.000%	8/1/2023	100,000	3,755,000		95,000	3,660,000
			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, 2023**

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS		BALANCE MAY 31, 2022	INCREASED	DECREASED	BALANCE MAY 31, 2023
				DATE	AMOUNT				
NJIB Infrastructure Water Loan - Principal Only (Payable 8/1 and 2/1) (Fund Loan Agreement)	5/25/2017	\$ 12,082,826		8/1/2023	\$ 271,524	\$ 10,046,396		\$ 407,286	\$ 9,639,110
				2/1/2024	135,762				
				8/1/2024	271,524				
				2/1/2025	135,762				
				8/1/2025	271,524				
				2/1/2026	135,762				
				8/1/2026	271,524				
				2/1/2027	135,762				
				8/1/2027	271,524				
				2/1/2028	135,762				
				8/1/2028	271,524				
				2/1/2029	135,762				
				8/1/2029	271,524				
				2/1/2030	135,762				
				8/1/2030	271,524				
				2/1/2031	135,762				
				8/1/2031	271,524				
				2/1/2032	135,762				
				8/1/2032	271,524				
				2/1/2033	135,762				
				8/1/2033	271,524				
				2/1/2034	135,762				
				8/1/2034	271,524				
				2/1/2035	135,762				
				8/1/2035	271,524				
				2/1/2036	135,762				
				8/1/2036	271,524				
				2/1/2037	135,762				
				8/1/2037	271,524				
				2/1/2038	135,762				
				8/1/2038	271,524				
				2/1/2039	135,762				
				8/1/2039	271,524				
				2/1/2040	135,762				
				8/1/2040	271,524				
				2/1/2041	135,762				
				8/1/2041	271,524				
				2/1/2042	135,762				
				8/1/2042	271,524				
				2/1/2043	135,763				
				8/1/2043	271,525				
				2/1/2044	135,763				
				8/1/2044	271,525				
				2/1/2045	135,763				
				8/1/2045	271,525				
				2/1/2046	135,763				
8/1/2046	271,525								

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE YEAR ENDED MAY 31, 2023**

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS		BALANCE MAY 31, 2022	INCREASED	DECREASED	BALANCE MAY 31, 2023
				DATE	AMOUNT				
NJIB Infrastructure Water Loan (Trust Loan Agreement)	5/13/2020	\$ 405,000	5.000%	8/1/2023	\$ 15,000	\$ 390,000		\$ 15,000	\$ 375,000
			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							
NJIB Infrastructure Water Loan - Principal Only (Payable 8/1 and 2/1) (Fund Loan Agreement)	5/13/2020	\$ 1,283,649		8/1/2023	\$ 43,514	\$ 1,153,107		\$ 65,271	\$ 1,087,836
				2/1/2024	21,757				
				8/1/2024	43,514				
				2/1/2025	21,757				
				8/1/2025	43,514				
				2/1/2026	21,757				
				8/1/2026	43,514				
				2/1/2027	21,757				
				8/1/2027	43,514				
				2/1/2028	21,757				
				8/1/2028	43,514				
				2/1/2029	21,757				
				8/1/2029	43,514				
				2/1/2030	21,757				
				8/1/2030	43,514				
				2/1/2031	21,757				
				8/1/2031	43,514				
				2/1/2032	21,757				
				8/1/2032	43,514				
				2/1/2033	21,756				
	8/1/2033	43,513							
	2/1/2034	21,756							
	8/1/2034	43,513							
	2/1/2035	21,756							
	8/1/2035	43,513							
	2/1/2036	21,756							
	8/1/2036	43,513							
	2/1/2037	21,756							
	8/1/2037	43,513							
	2/1/2038	21,756							
	8/1/2038	43,513							
	2/1/2039	21,756							
	8/1/2039	43,513							

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE YEAR ENDED MAY 31, 2023**

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS		BALANCE MAY 31, 2022	INCREASED	DECREASED	BALANCE MAY 31, 2023
				DATE	AMOUNT				
NJIB Infrastructure Water Loan (Trust Loan Agreement)	11/23/2021	\$ 180,000	5.000%	8/1/2023	\$ 5,000	\$ 180,000		\$	\$ 180,000
			5.000%	8/1/2024	5,000				
			5.000%	8/1/2025	5,000				
			5.000%	8/1/2026	5,000				
			5.000%	8/1/2027	5,000				
			5.000%	8/1/2028	5,000				
			5.000%	8/1/2029	5,000				
			5.000%	8/1/2030	5,000				
			5.000%	8/1/2031	5,000				
			4.000%	8/1/2032	5,000				
			3.000%	8/1/2033	5,000				
			3.000%	8/1/2034	10,000				
			3.000%	8/1/2035	10,000				
			3.000%	8/1/2036	10,000				
			3.000%	8/1/2037	10,000				
			3.000%	8/1/2038	10,000				
			3.000%	8/1/2039	10,000				
			2.000%	8/1/2040	10,000				
			2.000%	8/1/2041	10,000				
			2.125%	8/1/2042	10,000				
2.125%	8/1/2043	10,000							
2.125%	8/1/2044	10,000							
2.125%	8/1/2045	10,000							
2.125%	8/1/2046	5,000							

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE YEAR ENDED MAY 31, 2023**

<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, 2022</u>	<u>INCREASED</u>	<u>DECREASED</u>	<u>BALANCE MAY 31, 2023</u>
				<u>DATE</u>	<u>AMOUNT</u>				
NJIB Infrastructure Water Loan - Principal Only (Payable 8/1 and 2/1) (Fund Loan Agreement)	11/23/2021	\$ 570,075		8/1/2023	\$ 15,407	\$ 570,075		\$ 23,111	\$ 546,964
				2/1/2024	7,704				
				8/1/2024	15,407				
				2/1/2025	7,704				
				8/1/2025	15,407				
				2/1/2026	7,704				
				8/1/2026	15,407				
				2/1/2027	7,704				
				8/1/2027	15,407				
				2/1/2028	7,704				
				8/1/2028	15,407				
				2/1/2029	7,704				
				8/1/2029	15,407				
				2/1/2030	7,704				
				8/1/2030	15,407				
				2/1/2031	7,704				
				8/1/2031	15,407				
				2/1/2032	7,704				
				8/1/2032	15,407				
				2/1/2033	7,704				
				8/1/2033	15,407				
				2/1/2034	7,704				
				8/1/2034	15,407				
				2/1/2035	7,704				
				8/1/2035	15,407				
				2/1/2036	7,704				
				8/1/2036	15,407				
				2/1/2037	7,704				
				8/1/2037	15,407				
				2/1/2038	7,704				
				8/1/2038	15,407				
				2/1/2039	7,704				
			8/1/2039	15,407					
			2/1/2040	7,704					
			8/1/2040	15,407					
			2/1/2041	7,704					
			8/1/2041	15,407					
			2/1/2042	7,704					
			8/1/2042	15,407					
			2/1/2043	7,704					
			8/1/2043	15,407					
			2/1/2044	7,704					
			8/1/2044	15,407					
			2/1/2045	7,705					
			8/1/2045	15,408					
			2/1/2046	7,705					
			8/1/2046	15,408					

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE YEAR ENDED MAY 31, 2023**

<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, 2022</u>	<u>INCREASED</u>	<u>DECREASED</u>	<u>BALANCE MAY 31, 2023</u>
				<u>DATE</u>	<u>AMOUNT</u>				
NJIB Infrastructure Water Loan (Trust Loan Agreement)	6/23/2022	\$ 1,840,000	5.000%	8/1/2023	\$ 35,000	\$	1,840,000	\$	\$ 1,840,000
			5.000%	8/1/2024	35,000				
			5.000%	8/1/2025	35,000				
			5.000%	8/1/2026	40,000				
			5.000%	8/1/2027	40,000				
			5.000%	8/1/2028	40,000				
			5.000%	8/1/2029	45,000				
			5.000%	8/1/2030	45,000				
			5.000%	8/1/2031	50,000				
			5.000%	8/1/2032	50,000				
			5.000%	8/1/2033	55,000				
			3.250%	8/1/2034	55,000				
			3.750%	8/1/2035	55,000				
			3.375%	8/1/2036	60,000				
			3.375%	8/1/2037	60,000				
			3.500%	8/1/2038	65,000				
			3.500%	8/1/2039	65,000				
			3.500%	8/1/2040	70,000				
			3.500%	8/1/2041	70,000				
			3.620%	8/1/2042	70,000				
			3.625%	8/1/2043	75,000				
			3.500%	8/1/2044	80,000				
			4.000%	8/1/2045	80,000				
		4.000%	8/1/2046	85,000					
		4.000%	8/1/2047	90,000					
		4.000%	8/1/2048	90,000					
		4.000%	8/1/2049	95,000					
		4.000%	8/1/2050	100,000					
		4.000%	8/1/2051	105,000					

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE YEAR ENDED MAY 31, 2023**

<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, 2022</u>	<u>INCREASED</u>	<u>DECREASED</u>	<u>BALANCE MAY 31, 2023</u>
				<u>DATE</u>	<u>AMOUNT</u>				
NJIB Infrastructure Water Loan - Principal Only (Payable 8/1 and 2/1) (Fund Loan Agreement)	6/23/2022	\$ 1,868,682		8/1/2023	\$ 41,993	\$	1,868,682	\$ 62,989	\$ 1,805,693
				2/1/2024	20,996				
				8/1/2024	41,993				
				2/1/2025	20,996				
				8/1/2025	41,993				
				2/1/2026	20,996				
				8/1/2026	41,993				
				2/1/2027	20,996				
				8/1/2027	41,993				
				2/1/2028	20,996				
				8/1/2028	41,993				
				2/1/2029	20,996				
				8/1/2029	41,993				
				2/1/2030	20,996				
				8/1/2030	41,993				
				2/1/2031	20,996				
				8/1/2031	41,993				
				2/1/2032	20,996				
				8/1/2032	41,993				
				2/1/2033	20,996				
				8/1/2033	41,993				
				2/1/2034	20,996				
				8/1/2034	41,993				
				2/1/2035	20,996				
				8/1/2035	41,993				
				2/1/2036	20,996				
				8/1/2036	41,993				
				2/1/2037	20,996				
				8/1/2037	41,993				
				2/1/2038	20,996				
				8/1/2038	41,993				
				2/1/2039	20,996				
				8/1/2039	41,993				
				2/1/2040	20,996				
				8/1/2040	41,993				
				2/1/2041	20,996				
				8/1/2041	41,993				
				2/1/2042	20,996				
				8/1/2042	41,993				
				2/1/2043	20,996				
				8/1/2043	41,993				
				2/1/2044	20,996				
				8/1/2044	41,993				
				2/1/2045	20,996				
				8/1/2045	41,993				
				2/1/2046	20,996				
				8/1/2046	41,993				
				2/1/2047	20,996				
				8/1/2047	41,993				
				2/1/2048	20,997				
				8/1/2048	41,994				
				2/1/2049	20,997				
				8/1/2049	41,994				
				2/1/2050	20,997				
				8/1/2050	41,994				
				2/1/2051	20,997				
				8/1/2051	41,994				

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
 SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
 FOR THE YEAR ENDED MAY 31, 2023

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS		BALANCE MAY 31, 2022	INCREASED	DECREASED	BALANCE MAY 31, 2023	
				DATE	AMOUNT					
2021 NJ Infrastructure Bank Construction Loan Temporary loan converted to the 6/23/2022 permanent financing.	10/14/2020	\$ 4,044,510				\$ 3,737,363		\$ 3,737,363		
2022 NJ Infrastructure Bank Construction Loan Temporary loan anticipated to be included in future permanent financing.	6/29/2022	3,900,831					\$ 2,683,154		\$ 2,683,154	
						<u>\$ 21,393,661</u>	<u>\$ 6,391,836</u>	<u>\$ 5,076,845</u>	<u>\$ 22,708,652</u>	
										\$ 22,708,652
										<u>198,083</u>
										\$ <u>22,906,735</u>
Detail:										
										\$ 2,683,154
										1,163,949
										<u>19,059,632</u>
										\$ <u>22,906,735</u>

SINGLE AUDIT SECTION



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

**Management and Commissioners of
Franklin Township Sewerage Authority
Somerset County, New Jersey**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey ("Division") the financial statements of the business-type activities of the Franklin Township Sewerage Authority, in the County of Somerset, New Jersey ("Authority") as of and for the year ended May 31, 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 31, 2024.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting ("internal control") as a basis for designing 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

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

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

PKF O'CONNOR DAVIES, LLP
20 Commerce Drive, Suite 301, Cranford, NJ 07016 | Tel: 908.272.6200 | Fax: 908.272.2416 | www.pkfod.com

PKF O'Connor Davies, LLP is a member firm of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and the audit requirements as prescribed by the Division.

Purpose of This Report

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

PKF O'Connor Davies, LLP

Cranford, New Jersey
January 31, 2024



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL AND STATE PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND
NEW JERSEY OMB CIRCULAR 15-08**

**Management and Commissioners of
Franklin Township Sewerage Authority
Somerset County, New Jersey**

Report on Compliance for Each Major Federal and State Program

Opinion on Each Major Federal and State Program

We have audited the Franklin Township Sewerage Authority's, County of Somerset, New Jersey (the "Authority") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* and the *New Jersey State Aid/Grant Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal and state programs for the year ended May 31, 2023. The Authority's major federal and state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended May 31, 2023.

Basis for Opinion on Each Major Federal and State Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("GAAS"); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States ("*Government Auditing Standards*"), the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and New Jersey OMB Circular 15-08 *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Our responsibilities under those standards, the Uniform Guidance and New Jersey OMB Circular 15-08 are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Authority and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal and state program. Our audit does not provide a legal determination of the Authority's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance and New Jersey OMB Circular 15-08, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Authority's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Authority's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance and New Jersey OMB Circular 15-08, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

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

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

PKF O'Connor Davies, LLP
Cranford, New Jersey
January 31, 2024

TOWNSHIP OF FRANKLIN SEWERAGE AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED MAY 31, 2023

<u>Federal Grantor/Pass - Through Grantor/Program Or Cluster Title</u>	<u>Assistance Listing Number</u>	<u>Grant Period</u>	<u>Sub Recipient Expenditures</u>	<u>Expenditures</u>
United States Environmental Protection Agency <u>Passed through: State of New Jersey Department of Environmental Protection</u>				
New Jersey Infrastructure Bank Financing: Capitalization Grants for Clean Water State Revolving Funds (CWSRF) Cluster Total	66.458	10/1/20-6/23/22	<u> </u>	\$ <u>1,430,254</u>
Total Federal Awards			<u>\$ -</u>	<u>\$ 1,430,254</u>

See Accompanying Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance.

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED MAY 31, 2023

<u>State Grantor/Pass-through Grantor/Program Title</u>	<u>State Appropriation Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>	<u>Sub Recipient Expenditures</u>	<u>Cumulative Expenditures</u>
State of New Jersey Department of Environmental Protection Passed Through New Jersey Infrastructure Bank New Jersey Infrastructure Bank Sewerage Facility Construction Loan Cluster: NJ Environmental Infrastructure Trust - Marcy Street Sanitary Sewer Rehab	S340 839-09	N/A	\$ 2,683,154	-	\$ 2,683,154
Total State Financial Assistance			<u>\$ 2,683,154</u>	<u>\$ -</u>	<u>\$ 2,683,154</u>

See Accompanying Notes to Schedules of Expenditures of Federal Awards and State Financial Assistance.

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
Notes to the Schedule of Expenditures of Federal
Awards and State Financial Assistance
For the Year Ended May 31, 2023

Note 1. General

The accompanying schedule of expenditures of federal awards and state financial assistance presents the activity of all federal awards and state financial assistance programs of Franklin Township Sewerage Authority (the "Authority"). The Authority is defined in Note 1 to the Authority's basic financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"); and New Jersey OMB's Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants, and State Aid*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

All federal financial assistance received directly from the federal government, as well as federal financial assistance passed through other government agencies, is included on the Schedule of Expenditures of Federal Awards (SEFA). All state financial assistance received directly from state agencies, as well as state financial assistance passed through other government agencies is included on this schedule of expenditures of state financial assistance (SESFA).

Note 2. Basis of Accounting

The accompanying schedules of expenditures of federal awards and state financial assistance is presented on the budgetary basis of accounting. This basis of accounting is described in Note 1 to the Authority's basic financial statements.

Note 3. Relationship to Basic Financial Statements

Amounts reported in the accompanying schedules agree with amounts reported in the Authority's financial statements except for the following:

During the year ended May 31, 2023, the Authority converted the Hamilton Pump Station project construction loan to permanent financing with the New Jersey Infrastructure Bank (IBank). When the construction loan closed to permanent financing the IBank identified federal funding associated with a portion of the loan closing totaling \$1,430,254. The \$1,430,254 consisted of expenditures that were incurred beginning with the year ended May 31, 2013 through the year ended May 31, 2022 which was when the project was completed. Since the federal funding towards this loan was awarded during the year ended May 31, 2023, these expenditures were reported on the May 31, 2023 SEFA.

Additionally, the Authority executed a temporary construction loan during the year ended May 31, 2023 to finance the Marcy Street Sanitary Sewer Rehabilitation project. Although the construction loan originated in fiscal year 2023, the IBank allowed the Authority to requisition expenses associated with this project that were incurred prior to the loan award. The costs incurred in prior fiscal years but reported on the May 31, 2023 SESFA are as follows:

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
Notes to the Schedule of Expenditures of Federal
Awards and State Financial Assistance
For the Year Ended May 31, 2023

Note 3. Relationship to Basic Financial Statements (Continued)

Project Expenditures Incurred During the Year Ended:	Prior Years' Marcy Street Sanitary Sewer Rehab Reported on the May 31, 2023 SESFA
May 31, 2018	\$ 20,922
May 31, 2019	42,006
May 31, 2020	31,931
May 31, 2021	58,103
May 31, 2022	2,306,298
	\$ 2,459,260

Federal funding may be awarded in the future when the construction loan is converted to permanent financing. In the event this occurs, the Authority will perform a federal single audit on these expenditures that were previously considered to be state financial assistance.

Note 4. Relationship to Federal and State Financial Reports

The accompanying schedules of expenditures of federal awards and state financial assistance are presented using the budgetary basis of accounting, adjusted for encumbrances, as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey which differ in certain respects from generally accepted accounting principles (GAAP) applicable to local government units. This basis of accounting is set forth in Note 2 as described above.

Note 5. Indirect Cost Rate

The Authority has elected not to use the ten percent de minimis indirect cost rate as allowed by the Uniform Guidance.

Note 6. State Loans Outstanding

The Authority had outstanding state loan balances of \$22,906,735 as of May 31, 2023. The entire balance of outstanding state loans was owed to the New Jersey Infrastructure Bank.

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MAY 31, 2023**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' 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 None reported

Noncompliance material to basic financial statements noted? _____ Yes X No

Federal Awards

Internal Control over major programs:

1) Material weakness(es) identified? _____ Yes X No

2) Significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None reported

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:

<u>Assistance Listing Number</u>	<u>Name of Federal Program or Cluster</u>
<u>66.458</u>	<u>Capitalization Grant for Clean Water State Revolving Funds (CWSRF Cluster)</u>

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

Auditee qualified as low-risk auditee? _____ Yes X No

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED MAY 31, 2023**

Section 1 - Summary of Auditor's Results (continued)

State Financial Assistance

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

Auditee qualified as low-risk auditee? _____ Yes X No

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

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 None reported

Any audit findings disclosed that are required to be reported in accordance with NJOMB Circular Letter 15-08 as applicable ? _____ Yes X No

Identification of major state programs:

State Grant/Project Number(s)	Name of State Program or Cluster
S340 839-09	NJ Environmental Infrastructure Bank Sewerage Facility Construction Loan Cluster: NJ Environmental Infrastructure Trust - Marcy Street Sanitary Sewer Rehab

Section II - Schedule of Financial Statement Findings

NONE

Section III - Schedule of Federal Awards and State Financial Assistance Findings and Questioned Costs

NONE

OTHER INFORMATION

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
INSURANCE COVERAGE
(Unaudited)

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

<u>COVERAGE</u>	May 31, 2023	
	<u>LIMITS</u>	
Property Policy		
Blanket Limit	\$ 150,000,000	
Deductible	100,000	
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>	May 31, 2023
	<u>LIMITS</u>
<u>(Continued)</u>	
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, 2023:

Teresa Ford	Chairwoman
Sivaraman "Ram" Anbarasan	Vice Chairman
Tamiz Farooqi	Secretary/Treasurer
Arnold Schmidt	Assistant Secretary/Treasurer
Bryana DeVeaux	Commissioner
Kimberly Francois	Commissioner - Alternate #1
Vacant	Commissioner - Alternate #2
Joseph Danielsen	Executive Director

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
COUNTY OF SOMERSET, NEW JERSEY
FISCAL YEAR ENDED MAY 31, 2023**

GENERAL COMMENTS

An audit of the financial accounts and transactions of the Franklin Township Sewerage Authority, County of Somerset, New Jersey, for the fiscal year ended May 31, 2023, has been completed. The General Comments are herewith set forth:

Cash Balances

Cash balances were reconciled with independent certifications obtained directly from the depositories.

Contracts and Agreements Requiring Advertisement for Bids

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

It is pointed out that the Members of the Authority have the responsibility of determining whether the expenditures in any category will exceed the statutory minimum within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the solicitor's opinion should be sought before a commitment is made.

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 results of our examination did not disclose any discrepancies.

The minutes indicate that bids were requested by public advertising and awarded by resolution for the various projects in the current fiscal year.

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

GENERAL COMMENTS (continued)

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.

Capital Assets Accounting and Reporting System

The property, plant and equipment subsidiary ledger was maintained properly and a reconciliation between the physical and perpetual inventory records was performed at year-end. 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.

Budget Adoption

The State of New Jersey requires that the Authority's operating and capital budgets be approved and adopted for each fiscal year. In accordance with the Bond Resolution, Section 610, the Authority adopted annual operating budgets for the fiscal years ending May 31, 2023 and 2022.

Administration and Accounting of State & Federal Grants

The Authority participated in a loan program during fiscal year 2023, 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.

GENERAL COMMENTS (continued)

Administration and Accounting of State & Federal Grants (continued)

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.

Follow-Up of Prior Year's Findings

In accordance with *Government Auditing Standards*, our procedures included a review of all prior year findings. There were no prior year findings.

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,

PKF O'Connor Davies, LLP

Certified Public Accountants