

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY



COUNTY OF SOMERSET, NEW JERSEY



REPORT OF AUDIT YEARS ENDED MAY 31, 2024 AND 2023



FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY
For the years ended May 31, 2024 and 2023

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SOMERSET COUNTY, NEW JERSEY
For the years ended May 31, 2024 and 2023**

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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, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

In our opinion, the 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, 2024 and 2023, 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.

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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**
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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 schedule of expenditures of state financial assistance, as required by New Jersey OMB Circular 15-08, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, is also presented for purposes of additional analysis and is 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.

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 September 20, 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

PKF O'Connor Davies, LLP
Cranford, New Jersey
December 3, 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, 2024.

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 \$17,685,911 (Schedule V) for the year ended May 31, 2024. This is a \$1,565,507 or a 9.71% increase, from the previous year.
- Net Position increased by \$2,416,618 or 3.59% over last year.
- The Authority's Capital Assets – Net increased by \$1,905,056 or 2.37% over last year.

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 3.59%. 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,			2024-2023		2023-2022	
				INCREASE(DECREASE)		INCREASE(DECREASE)	
	2024	2023	2022	\$	%	\$	%
Current and Other Assets	\$ 29,022,977	\$ 28,417,981	\$ 26,677,421	\$ 604,996	2.13%	\$ 1,740,560	6.52%
Capital Assets, Net	82,032,849	80,127,793	78,588,601	1,905,056	2.38%	1,539,192	1.96%
Deferred Outflows	2,493,855	2,084,391	2,262,513	409,464	19.64%	(178,122)	-7.87%
Total Assets and Deferred Outflows of Resources	\$ 113,549,681	\$ 110,630,165	\$ 107,528,535	\$ 2,919,516	2.64%	\$ 3,101,630	2.88%
Long Term Liabilities	\$ 25,400,931	\$ 26,501,352	\$ 23,815,741	\$ (1,100,421)	-4.15%	\$ 2,685,611	11.28%
Other Liabilities	15,379,452	13,813,982	15,126,368	1,565,470	11.33%	(1,312,386)	-8.68%
Total Liabilities	40,780,383	40,315,334	38,942,109	465,049	1.15%	1,373,225	3.53%
Deferred Inflows	3,085,806	3,047,957	3,773,944	37,849	1.24%	(725,987)	-19.24%
Total Liabilities and Deferred Inflows of Resources	43,866,189	43,363,291	42,716,053	502,898	1.16%	647,238	1.52%
Net Position							
Net Investment in Capital Assets	59,496,182	57,221,058	57,069,009	2,275,124	3.98%	152,049	0.27%
Restricted	5,519,485	5,603,748	5,313,171	(84,263)	-1.50%	290,577	5.47%
Unrestricted	4,667,825	4,442,068	2,430,302	225,757	5.08%	2,011,766	82.78%
Total Net Position	\$ 69,683,492	\$ 67,266,874	\$ 64,812,482	\$ 2,416,618	3.59%	\$ 2,454,392	3.79%
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 113,549,681	\$ 110,630,165	\$ 107,528,535	\$ 2,919,516	2.64%	\$ 3,101,630	2.88%

Table A-1 shows current and other assets increased by \$604,996 during the year ended May 31, 2024, in comparison to 2023. 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 2024. Capital assets increased by \$1,905,056 as the Authority continues ongoing construction in progress projects. Some of the major construction in progress activities during the year ended May 31, 2024 were the rehabilitation and Phase III of improvements to the Weston Canal Force Main. Long term liabilities decreased \$1,100,421 in fiscal year 2024 due to the decrease in the long term portion of bonds and loans payable due to debt service payments made as well as a decrease in the net pension liability due to a change in actuarial valuations. Finally, the net position increased in the fiscal year 2023 by \$2,416,618 due to the net income noted in Table A-2 on the following page. Net investment in capital assets increased \$2,275,124 as the Authority's capital project balances continued to increase in fiscal year 2024 and the debt issued to finance the capital projects were decreased as a result of current year debt service payments. Unrestricted net position increased \$225,757 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,			2024-2023		2023-2022	
	2024	2023	2022	INCREASE(DECREASE)		INCREASE(DECREASE)	
				\$	%	\$	%
REVENUES							
Operating Revenues:							
Service & Connect. Charges	\$ 16,843,190	\$ 15,614,599	\$ 15,037,311	\$ 1,228,591	7.87%	\$ 577,288	3.84%
Interest on Delinquencies	175,344	154,540	134,383	20,804	13.46%	20,157	15.00%
Other	89,645	66,745	44,601	22,900	34.31%	22,144	49.65%
General Revenues:							
Contributed Capital	-	18,213	1,907,088	(18,213)	-100.00%	(1,888,875)	-99.04%
Interest Income	577,732	284,520	1,020	293,212	103.05%	283,500	27794.12%
Total Revenues	17,685,911	16,138,617	17,124,403	1,547,294	9.59%	(985,786)	-5.76%
Program Expenses:							
Sewer	13,073,882	12,107,782	11,985,517	966,100	7.98%	122,265	1.02%
Depreciation	1,367,547	1,323,831	1,294,981	43,716	3.30%	28,850	2.23%
Interest on Long Term Debt	227,864	252,612	198,199	(24,748)	-9.80%	54,413	27.45%
Appropriation Township of Franklin	600,000	-	-	600,000	100.00%	-	0.00%
Total Expenses	15,269,293	13,684,225	13,478,697	1,585,068	11.58%	205,528	1.52%
Increase in Net Position	\$ 2,416,618	\$ 2,454,392	\$ 3,645,706	\$ (37,774)	-1.54%	\$ (1,191,314)	-32.68%

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 \$2,416,618 was reported for fiscal year ended May 31, 2024.

REVENUES

Table A-2 shows "Total Revenues" increased by \$1,547,294 or 9.59% to \$17,685,911 for fiscal year ended May 31, 2024, as compared to \$16,138,617 for fiscal year ended May 31, 2023, based upon fluctuations in service charges and interest income. Upon closer review, you will notice "Service and Connection Charges" had a differential of \$1,228,591 or 7.87% versus last year. Additionally, you will notice "Interest Income" had a differential of \$293,212 or 103.05% versus last year.

EXPENSES

A further review of Table A-2 reveals that "Total Expenses" increased by \$1,585,068 or 11.58% for the fiscal year ended May 31, 2024.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets:

At May 31, 2024, the Authority had \$109,251,157 invested in a broad range of utility capital assets, including land, easements and rights of way, collection system, buildings and structures, and machinery and equipment, including construction in progress recorded by the Authority in the amount of \$5,192,446. This amount represents a decrease of \$4,852,552 or 48.31% over amounts reported for construction in progress at May 31, 2023, 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, 2024, 2023, and 2022. Capital asset detail information is presented in Note 3 to the financial statements.

Table A-3
Gross Capital Assets

	MAY 31,			2024-2023		2023-2022	
	2024	2023	2022	INCREASE(DECREASE)		INCREASE(DECREASE)	
				\$	%	\$	%
Land, Easements & Rights of Way	\$ 1,033,879	\$ 1,033,879	\$ 1,033,879	\$		\$	
Collection System	92,016,704	84,500,961	84,410,806	7,515,743	8.89%	90,155	0.11%
Building & Structures	5,268,717	5,252,942	5,252,942	15,775	0.30%		
Machinery & Equipment	5,739,411	5,145,774	5,029,048	593,637	11.54%	116,726	2.32%
Construction in Progress	5,192,446	10,044,998	7,388,856	(4,852,552)	-48.31%	2,656,142	35.95%
	<u>\$ 109,251,157</u>	<u>\$ 105,978,554</u>	<u>\$ 103,115,531</u>	<u>\$ 3,272,603</u>	<u>3.09%</u>	<u>\$ 2,863,023</u>	<u>2.78%</u>

Additions during the year ended May 31, 2024 were as follows:

Collection System	\$ 7,836,687
Building & Structures	15,775
Machinery & Equipment	593,637

Long term Debt:

At May 31, 2024, the Authority had total debt outstanding in the amount of \$22,349,483 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, 2024, 2023, and 2021.

Table A-4
Outstanding Debt
(Principal Only)

	MAY 31,			2024-2023		2023-2022	
	2024	2023	2022	INCREASE(DECREASE)		INCREASE(DECREASE)	
				\$	%	\$	%
Loan - NJIBank 2007	\$ 452,000	\$ 890,895	\$ 1,561,720	(438,895)	-49.26%	(670,825)	-42.95%
Loan - NJIBank 2017	12,791,822	13,299,110	13,801,396	(507,288)	-3.81%	(502,286)	-3.64%
Loan - NJIBank 2020	1,382,568	1,462,836	1,543,107	(80,268)	-5.49%	(80,271)	-5.20%
Loan - NJIBank 2021	698,853	726,964	750,075	(28,111)	-3.87%	(23,111)	-3.08%
Loan - NJIBank 2022	3,547,703	3,645,693		(97,990)	-2.69%	3,645,693	100.00%
NJIBank Temp Loan 2021			3,737,363			(3,737,363)	-100.00%
NJIBank Temp Loan 2022	3,476,536	2,683,154		793,382	29.57%	2,683,154	100.00%
	<u>\$ 22,349,483</u>	<u>\$ 22,708,652</u>	<u>\$ 21,393,661</u>	<u>\$ (359,169)</u>	<u>-1.58%</u>	<u>\$ 1,314,991</u>	<u>6.15%</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 \$1,196,003 on budgeted expenses of \$16,606,066, exclusive of budgeted renewal and replacement reserves, where applicable, for the period ended May 31, 2024. The favorable variance related to the expenditures coming in under budget for payroll and cost of providing services expenses. The Authority realized an favorable variance on the revenue side by \$701,177. 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 Maturing Bond Principal from Expenses
- Add Net Pension Expense and Other Postemployment Benefit Expenses
- Add Unbudgeted 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 2024-2025 Budget will cover the fiscal year ending May 31, 2025. Based upon historical consumption data and the existing rate structure, projected revenues and net position were sufficient to support budgeted expenses (budgetary basis) of \$16,365,901. The Authority budgeted to appropriate funds in the amount of \$600,000 to the Township of Franklin during the year ended May 31, 2025.

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, 2024 AND 2023**

<u>ASSETS</u>	<u>2024</u>	<u>2023</u>	<u>LIABILITIES</u>	<u>2024</u>	<u>2023</u>
Current Assets:			Current Liabilities Payable from Unrestricted Assets:		
Cash and Cash Equivalents	\$ 8,307,175	\$ 9,513,916	Accounts Payable and Accrued Expenses	\$ 745,955	\$ 724,391
Accounts Receivable - Sewer Rents	7,071,246	6,268,780	Unearned Sewer Rent Revenue	8,413,463	7,592,238
Prepaid Expenses	<u>660,141</u>	<u>640,547</u>	Net OPEB Liability - Current Portion	<u>176,728</u>	<u>148,729</u>
Total Current Assets	<u>16,038,562</u>	<u>16,423,243</u>	Total Current Liabilities Payable from Unrestricted Assets	<u>9,336,146</u>	<u>8,465,358</u>
Noncurrent Assets:			Current Liabilities Payable from Restricted Assets:		
Restricted Assets			Customer and Developer Deposits	1,384,333	1,414,767
General Fund Account			NJIB Temporary Construction Loan	3,476,536	2,683,154
Cash and Cash Equivalents	131	44,885	Bonds and Loans Payable - Current Portion	1,104,283	1,163,949
Customer and Developer Account			Accrued Interest Payable on Bonds	<u>78,154</u>	<u>86,754</u>
Cash and Cash Equivalents	1,424,544	1,469,945	Total Current Liabilities Payable from Restricted Assets	<u>6,043,306</u>	<u>5,348,624</u>
Bond Reserve Account			Noncurrent Liabilities:		
Cash and Cash Equivalents	2,157,696	1,885,448	Compensated Absences Payable	269,845	245,850
Self Insurance Account			Net Pension Liability	2,910,330	3,240,825
Cash and Cash Equivalents	727,615	727,615	Long-term Net Other Postemployment Benefits Liability	4,264,908	3,955,045
Unemployment Insurance Account			Long-Term Portion of Bonds and Loans Payable	<u>17,955,848</u>	<u>19,059,632</u>
Cash and Cash Equivalents	34,692	25,718	Total Noncurrent Liabilities	<u>25,400,931</u>	<u>26,501,352</u>
Construction Account			Total Liabilities	<u>40,780,383</u>	<u>40,315,334</u>
Cash and Cash Equivalents	<u>8,639,737</u>	<u>7,841,127</u>	<u>DEFERRED INFLOWS OF RESOURCES</u>		
Total Restricted Assets	<u>12,984,415</u>	<u>11,994,738</u>	Deferred Inflows Related to Pensions	450,777	655,268
Capital Assets (Net)	<u>82,032,849</u>	<u>80,127,793</u>	Deferred Inflows Related to		
Total Noncurrent Assets	<u>95,017,264</u>	<u>92,122,531</u>	Other Postemployment Benefits	<u>2,635,029</u>	<u>2,392,689</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			Total Deferred Inflows of Resources	<u>3,085,806</u>	<u>3,047,957</u>
Deferred Outflows Related to Pensions	486,297	795,759	<u>NET POSITION</u>		
Deferred Outflows Related to			Net Investment in Capital Assets	59,496,182	57,221,058
Other Postemployment Benefits	<u>2,007,558</u>	<u>1,288,632</u>	Restricted for:		
Total Deferred Outflows of Resources	<u>2,493,855</u>	<u>2,084,391</u>	Debt Service	1,428,632	1,512,895
			Operating	4,090,853	4,090,853
			Unrestricted	<u>4,667,825</u>	<u>4,442,068</u>
			Total Net Position	<u>69,683,492</u>	<u>67,266,874</u>
Total Assets and Deferred			Total Liabilities, Deferred Inflows of Resources		
Outflows of Resources	<u>\$ 113,549,681</u>	<u>\$ 110,630,165</u>	and Net Position	<u>\$ 113,549,681</u>	<u>\$ 110,630,165</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, 2024 AND 2023**

	<u>2024</u>	<u>2023</u>
Operating Revenues:		
Service Charges	\$ 16,435,090	\$ 15,086,616
Connection Charges	408,100	527,983
Other	89,645	66,745
Interest on Delinquencies	175,344	154,540
	17,108,179	15,835,884
Operating Expenses:		
Salaries and Wages	2,092,474	1,837,241
Employee Benefits	627,207	496,210
Administrative	1,142,220	1,118,974
Operations and Maintenance	9,211,981	8,655,357
Appropriation to Township of Franklin	600,000	
Depreciation	1,367,547	1,323,831
	15,041,429	13,431,613
Operating Income	2,066,750	2,404,271
Non-Operating Revenues (Expenses):		
Interest Income	577,732	284,520
Interest Expense	(227,864)	(252,612)
	349,868	31,908
Net Non-Operating Revenues (Expenses)	349,868	31,908
Net Income Before Contributions	2,416,618	2,436,179
Capital Contributions	18,213	18,213
Change in Net Position	2,416,618	2,454,392
Net Position - Beginning	67,266,874	64,812,482
Net Position - Ending	\$ 69,683,492	\$ 67,266,874

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, 2024 AND 2023**

	<u>2024</u>	<u>2023</u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 17,126,938	\$ 16,209,145
Cash Paid to Employees	(3,059,934)	(2,730,265)
Cash Payments for Goods and Services	<u>(10,982,665)</u>	<u>(10,668,265)</u>
Net Cash Flows from Operating Activities	<u>3,084,339</u>	<u>2,810,615</u>
Cash Flows from Capital and Related Financing Activities:		
Principal and Premium Paid on Revenue Bond Maturities/ Long Term Debt Maturities	(1,129,440)	(1,339,483)
Interest Paid on Revenue Bonds/Other	(247,362)	(249,958)
Proceeds from Loan Issuance	770,270	2,740,211
Acquisition and Construction of Capital Assets	<u>(3,272,603)</u>	<u>(2,863,023)</u>
Net Cash Flows from Capital and Related Financing Activities	<u>(3,879,135)</u>	<u>(1,712,253)</u>
Cash Flows from Investing Activities:		
Interest on Investments and Deposits	<u>577,732</u>	<u>284,520</u>
Net Cash Flows from Investing Activities	<u>577,732</u>	<u>284,520</u>
Change in Cash and Cash Equivalents	(217,064)	1,382,882
Cash and Cash Equivalents, Beginning of Year	<u>21,508,654</u>	<u>20,125,772</u>
Cash and Cash Equivalents, End of Year	<u>\$ 21,291,590</u>	<u>\$ 21,508,654</u>
Reconciliation to Statements of Net Position:		
Current unrestricted cash and cash equivalents	\$ 8,307,175	\$ 9,513,916
Noncurrent restricted assets:		
General Fund Account		
Cash and Cash Equivalents	131	44,885
Customer and Developer Account		
Cash and Cash Equivalents	1,424,544	1,469,945
Bond Reserve Account		
Cash and Cash Equivalents	2,157,696	1,885,448
Self Insurance Account		
Cash and Cash Equivalents	727,615	727,615
Unemployment Insurance Account		
Cash and Cash Equivalents	34,692	25,718
Construction Account		
Cash and Cash Equivalents	<u>8,639,737</u>	<u>7,841,127</u>
Cash and Cash Equivalents, End of Year	<u>\$ 21,291,590</u>	<u>\$ 21,508,654</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, 2024 AND 2023

	<u>2024</u>	<u>2023</u>
Reconciliation of Operating Income to Cash Flows from Operating Activities:		
Operating Income	\$ 2,066,750	\$ 2,404,271
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:		
Depreciation	1,367,547	1,323,831
Change in Operating Assets, Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources:		
Prepaid Expenses	(19,594)	(21,879)
Receivables/Deposits	(802,466)	(335,799)
Accounts Payable / Other Liabilities	(8,870)	(872,055)
Unearned Revenue	821,225	709,060
Compensated Absences	23,995	24,251
Net Pension Liability	(330,495)	627,550
Net OPEB Liability	337,862	(500,750)
Deferred Outflow - Pension Deferrals	309,462	113,465
Deferred Outflow - OPEB Deferrals	(718,926)	64,657
Deferred Inflow - Pension Deferrals	(204,491)	(1,092,140)
Deferred Inflow - OPEB Deferrals	242,340	366,153
	1,017,589	406,344
Total Adjustments		
Net Cash Flows from Operating Activities	\$ 3,084,339	\$ 2,810,615

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, 2024 AND 2023

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, 2024 AND 2023**

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 – Sewer Rents:

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, 2024 and 2023 were reported at \$7,071,246 and \$6,268,780, 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, 2024 AND 2023

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 \$660,141 and \$640,547 at May 31, 2024 and 2023, respectively.

General Fund Account:

The General Fund 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 Fund Account may transfer funds to make up the difference.

The Authority may use funds in the General Fund 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 Account:

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, 2024 AND 2023**

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.

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 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. 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.

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023

1. Summary of Significant Accounting Policies – (Continued)

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

Unearned Sewer Rent Revenue:

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 \$8,413,463 and \$7,592,238 at May 31, 2024 and 2023, respectively.

Net Pension Liability:

The financial statements include information relating to the net pension liability 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.

Net Other Postemployment Benefits Liability:

The financial statements include information relating to the Net OPEB liability 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.

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.

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023**

1. Summary of Significant Accounting Policies – (Continued)

D. Revenues, Operating Revenues and Expenses – (Continued):

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. 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023

1. Summary of Significant Accounting Policies – (Continued)

F. Adopted and Recent Pronouncements:

In May 2020, the GASB issued Statement No. 96, “*Subscription-Based Information Technology Arrangements*”. The requirements of this Statement were 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. The requirements of this Statement have been evaluated by the Authority and have been determined to be immaterial to the financial statements for the year ended May 31, 2024.

The GASB issued Statement No. 99, “*Omnibus 2022*” in April 2022. This Statement provides guidance on the requirements related to the extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement No. 34, as amended, and terminology updates related to Statement No. 53 and Statement No. 63 which are effective immediately upon issuance. Additionally, the Statement provides guidance related to leases, PPPs, and SBITAs which are effective for periods beginning after June 15, 2022. Lastly, the Statement provides guidance related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement No. 53 which is effective for periods beginning after June 15, 2023. Management has not yet determined the impact of this Statement on the financial statements.

GASB issued Statement No. 100, “*Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*” in June 2022. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023. Earlier application is encouraged.

GASB issued Statement No. 101, “*Compensated Absences*” in June 2022. 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023. Earlier application is encouraged.

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023

1. Summary of Significant Accounting Policies – (Continued)

F. Adopted and Recent Pronouncements – (Continued):

The GASB issued Statement No. 102 “*Certain Risk Disclosures*” in December 2023. This Statement defines a concentration as a lack of diversity related to an aspect of a significant inflow of resources or outflow of resources. A constraint is a limitation imposed on a government by an external party or by formal action of the government’s highest level of decision-making authority. Concentrations and constraints may limit a government’s ability to acquire resources or control spending. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Management has not yet determined the impact of this Statement on the 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 when material to the organization’s financial statements.

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.

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023

2. Deposits and Investments (Continued)

Deposits (Continued):

As of May 31, 2024 and 2023, the book value of the Authority's cash and cash equivalents were \$21,291,590 and \$21,508,654. With respect to the amounts on deposit at May 31, 2024, of the cash and cash equivalents, \$250,000 was covered by federal depository insurance, \$9,345,731 was covered under the provisions of NJGUDPA and the remaining \$11,717,333, 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, 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.

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

- (a) Custodial Credit Risk – The Authority's deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are: uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not 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.

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023

2. Deposits and Investments (Continued)

Deposits (Continued):

- (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, 2024 AND 2023**

3. Capital Assets

The following schedule is a summarization of the changes in capital assets for the years ended May 31, 2024 and 2023.

	Balance June 1, 2023	Additions	Deletions	Transfers and Adjustments	Balance May 31, 2024
Capital Assets, Not Being Depreciated:					
Land, Easements and Right-of-Way	\$ 1,033,879				\$ 1,033,879
Construction in Progress	10,044,998	\$ 2,984,135		\$ (7,836,687)	5,192,446
Total Capital Assets, Not Being Depreciated:	<u>11,078,877</u>	<u>2,984,135</u>		<u>(7,836,687)</u>	<u>6,226,325</u>
Capital Assets, Being Depreciated:					
Collection System	84,500,961		\$ (320,944)	7,836,687	92,016,704
Building and Structures	5,252,942	15,775			5,268,717
Machinery and Equipment	5,145,774	593,637			5,739,411
Total Assets Being Depreciated	<u>94,899,677</u>	<u>609,412</u>	<u>(320,944)</u>	<u>7,836,687</u>	<u>103,024,832</u>
Less: Accumulated Depreciation	(25,850,761)	(1,367,547)			(27,218,308)
Total Capital Assets, Being Depreciated, Net	<u>69,048,916</u>	<u>(758,135)</u>	<u>(320,944)</u>	<u>7,836,687</u>	<u>75,806,524</u>
Net Capital Assets	<u>\$ 80,127,793</u>	<u>\$ 2,226,000</u>	<u>\$ (320,944)</u>	<u>\$ -</u>	<u>\$ 82,032,849</u>

	Balance June 1, 2022	Additions	Deletions	Transfers and Adjustments	Balance May 31, 2023
Capital Assets, Not Being Depreciated:					
Land, Easements and Right-of-Way	\$ 1,033,879				\$ 1,033,879
Construction in Progress	7,388,856	\$ 2,779,841		\$ (123,699)	10,044,998
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	5,029,048	17,327		99,399	5,145,774
Total Assets Being Depreciated	<u>94,692,796</u>	<u>83,182</u>	<u>-</u>	<u>123,699</u>	<u>94,899,677</u>
Less: Accumulated Depreciation	(24,526,930)	(1,323,831)			(25,850,761)
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>

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023**

4. Long-term liabilities

During the year ended May 31, 2024, the following changes occurred in long-term liabilities.

	Balance <u>June 1, 2023</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>May 31, 2024</u>	Due Within <u>One Year</u>
Revenue Bonds Payable	\$ 20,025,498		\$ 1,152,551	\$ 18,872,947	\$ 1,094,657
Unamortized Premium	198,083		10,899	187,184	9,626
	<u>20,223,581</u>	<u>-</u>	<u>1,163,450</u>	<u>19,060,131</u>	<u>1,104,283</u>
Construction Loans Payable	2,683,154	3,476,536	2,683,154	3,476,536	3,476,536
Compensated Absences	245,850	23,995		269,845	
Sub-total	<u>23,152,585</u>	<u>3,500,531</u>	<u>3,846,604</u>	<u>22,806,512</u>	<u>4,580,819</u>
Net OPEB Liability	3,955,046	486,590		4,441,636	176,728
Net Pension Liability	<u>3,240,825</u>		<u>330,495</u>	<u>2,910,330</u>	
Total	<u>\$ 30,348,456</u>	<u>\$ 3,987,121</u>	<u>\$ 4,177,099</u>	<u>\$ 30,158,478</u>	<u>\$ 4,757,547</u>

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

	Balance <u>June 1, 2022</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>May 31, 2023</u>	Due Within <u>One Year</u>
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	10,899
	<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	<u>21,741,191</u>	<u>6,501,824</u>	<u>5,090,430</u>	<u>23,152,585</u>	<u>1,163,949</u>
Net OPEB Liability	4,485,261		530,215	3,955,046	
Net Pension Liability	<u>2,613,275</u>	<u>627,550</u>		<u>3,240,825</u>	
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>

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023

4. Long-term liabilities (Continued)

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.

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.

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023

4. Long-term liabilities (Continued)

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.

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.

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023**

4. Long-term liabilities (Continued)

Revenue bonds payable balances consisted of the following as of May 31, 2024 and 2023 as follows:

	Balance May 31, 2024	Balance May 31, 2023
<u>Debt Obligations Outstanding:</u>		
NJ Infrastructure Bank Trust Loan - Series 2007	\$ 452,000	\$ 813,000
NJ Infrastructure Bank Loan - Series 2007 - Principal Only		77,895
NJ Infrastructure Bank Trust Loan - Series 2017	3,560,000	3,660,000
NJ Infrastructure Bank Loan - Series 2017 - Principal Only	9,231,822	9,639,110
NJ Infrastructure Bank Trust Loan - Series 2020	360,000	375,000
NJ Infrastructure Bank Loan - Series 2020 - Principal Only	1,022,568	1,087,836
NJ Infrastructure Bank Trust Loan - Series 2021	175,000	180,000
NJ Infrastructure Bank Loan - Series 2021 - Principal Only	523,854	546,964
NJ Infrastructure Bank Trust Loan - Series 2022 A-1	1,805,000	1,840,000
NJ Infrastructure Bank Loan - Series 2022 - Principal Only	1,742,703	1,805,693
Subtotal	<u>18,872,947</u>	<u>20,025,498</u>
NJ Infrastructure Bank - 2022 Construction Loan		2,683,154
NJ Infrastructure Bank - 2023 Construction Loan	3,476,536	
Subtotal	22,349,483	22,708,652
Unamortized Loan Premiums	187,184	198,083
	<u>\$ 22,536,667</u>	<u>\$ 22,906,735</u>

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

Fiscal Year Ended May 31,	Principal	Interest	Total
2025	\$ 1,094,657	\$ 221,063	\$ 1,315,720
2026	799,657	221,063	1,020,720
2027	738,657	201,638	940,295
2028	743,657	192,263	935,920
2029	743,657	185,488	929,145
2030-2034	3,843,285	820,272	4,663,557
2035-2039	4,038,285	630,750	4,669,035
2040-2044	3,855,447	419,241	4,274,688
2045-2049	2,547,674	180,488	2,728,162
2050-2052	467,971	32,200	500,171
	<u>\$ 18,872,947</u>	<u>\$ 3,104,466</u>	<u>\$ 21,977,413</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023**

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, 2024 and 2023, the Authority has recorded \$269,845 and \$245,850 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, 2024 AND 2023**

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, 2024, 2023, and 2022 were \$268,547, \$270,806, and \$258,342, 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, 2024, the Authority reported a liability of \$2,910,330 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2023, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation on July 1, 2022, which was rolled forward to June 30, 2023.

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY

NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023

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, 2023, the Authority's proportion was 0.0200928936 percent, which was a decrease of 0.000013817842 percent from its proportion measured as of June 30, 2022.

For the years ended May 31, 2024 and 2023, the Authority recognized full accrual pension (benefit) of (\$226,118) and (\$358,697), 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>June 30, 2023</u>	<u>June 30, 2023</u>
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 27,826	\$ 11,895
Changes in assumptions	6,393	176,378
Net difference between projected and actual earnings on pension plan investments	13,402	
Changes in proportion	193,102	262,504
Authority contributions subsequent to the measurement date	245,574	
	\$ 486,297	\$ 450,777

At May 31, 2023, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>June 30, 2022</u>	<u>June 30, 2022</u>
	Deferred Outflows of Resources	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	
	\$ 795,759	\$ 655,268

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023**

6. Pension Plans (Continued)

As of May 31, 2024, \$245,474 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
2025	\$ (119,154)
2026	(92,602)
2027	71,012
2028	(63,770)
2029	(5,540)
Total	\$ (210,054)

Actuarial Assumptions

The total collective pension liability for the June 30, 2023 measurement date was determined by an actuarial valuation as of July 1, 2022, which was rolled forward to June 30, 2023. This actuarial valuation used the following actuarial assumptions as June 30, 2023 and 2022:

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, 2022 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, 2024 AND 2023

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, 2023) 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023**

6. Pension Plans (Continued)

Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2023 and 2022 are summarized in the following tables:

June 30, 2023		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	28.00%	8.98%
Non-U.S. Developed Markets Equity	12.75%	9.22%
International Small Cap Equity	1.25%	9.22%
Emerging Markets Equity	5.50%	11.13%
Private Equity	13.00%	12.50%
Real Estate	8.00%	8.58%
Real Assets	3.00%	8.40%
High Yield	4.50%	6.97%
Private Credit	8.00%	9.20%
Investment Grade Credit	7.00%	5.19%
Cash Equivalents	2.00%	3.31%
U.S. Treasuries	4.00%	3.31%
Risk Mitigation Strategies	3.00%	6.21%
	100.00%	

June 30, 2022		
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
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 Estate	8.00%	11.19%
Real Assets	3.00%	7.60%
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%
	100.00%	

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023**

6. Pension Plans (Continued)

Discount rate

The discount rate used to measure the total pension liability was 7.00% as of June 30, 2023 and 2022. 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, 2023 and 2022 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:

June 30, 2023

	At 1% Decrease (6.00%)	At Current Discount Rate (7.00%)	At 1% Increase (8.00%)
PERS	\$ 3,788,630	\$ 2,910,330	\$ 2,162,780

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

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.

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023**

6. Pension Plans (Continued)

Additional Information

Collective balances of the Local Group at June 30, 2023 and 2022 are as follows:

	2023	2022
Collective deferred outflows of resources	\$ 1,080,204,730	\$ 1,660,772,008
Collective deferred inflows of resources	1,780,216,457	3,236,303,935
Collective net pension liability - Local group	14,606,489,066	15,219,184,920
 Authority's Proportion	 0.0200928936%	 0.0214746778%

Collective pension (benefit) for the Local Group for the measurement periods ended June 30, 2023 and 2022 was \$(79,181,803) and \$(1,032,778,934). The average of the expected remaining service lives of all plan members is 5.08, 5.04, 5.13, 5.16, 5.21, 5.63, 5.48, 5.57, 5.72 and 6.44 years for 2023, 2022, 2021, 2020, 2019, 2018, 2017, 2016, 2015 and 2014, respectively.

B. Defined Contribution Retirement System (DCRP):

The Defined Contribution Retirement Plan (DCRP) is a multiple employer defined contribution plan as defined in GASB Statement No. 68. The Plan is administered by The New Jersey Division of Pensions and Benefits (Division). The Authority does not have any employees currently enrolled in DCRP. 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023**

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>.

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

At May 31, 2024 and 2023, the Authority reported a liability of \$4,441,636 and \$4,103,774, respectively for its proportionate share of the net OPEB liability. The net OPEB liability as of May 31, 2024 was determined by an actuarial valuation as of July 1, 2022 which was rolled forward to June 30, 2023. The net OPEB liability as of May 31, 2022 was determined by an actuarial valuation as of July 1, 2021 which was rolled forward to June 30, 2022. 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, 2024 and 2023, the Authority's proportion was 0.029598 percent and 0.025411 percent, respectively. For the year ended May 31, 2024, the Authority recognized an OPEB (benefit) of (\$138,724).

At May 31, 2024, the Authority reported a deferred outflow of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>2024</u> Deferred Outflows of Resources	<u>2024</u> Deferred Inflows of Resources
Difference between expected and actual experience	\$ 204,825	\$ 1,206,203
Changes in assumptions	575,358	1,255,508
Net difference between projected and actual earnings on OPEB plan investments		733
Changes in proportion	1,106,082	172,585
Authority contributions subsequent to the measurement date	121,293	
	<u>\$ 2,007,558</u>	<u>\$ 2,635,029</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023**

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

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

	<u>2023</u> Deferred Outflows of Resources	<u>2023</u> Deferred Inflows of Resources
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	121,293	
	<u>\$ 1,288,632</u>	<u>\$ 2,392,689</u>

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

<u>Year ending May 31,</u>	<u>Amount</u>
2025	\$ (309,457)
2026	(247,601)
2027	(64,897)
2028	24,893
2029	(108,697)
Thereafter	(43,005)
Total	<u>\$ (748,764)</u>

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023**

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

Discount Rate

The discount rate for June 30, 2023 and 2022 was 3.65% and 3.54%, 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, 2023 and 2022 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 6.50% and decreases to a 4.50% long-term trend rate after nine years. For post-65 medical benefits PPO, the trend is increasing to 14.80% in fiscal year 2026 and decreases to 4.50% in fiscal year 2033. For HMO, the trend is increasing to 17.40% in fiscal year 2026 and decreases to 4.50% in fiscal year 2033. For prescription drug benefits, the initial trend rate is 9.50% 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%.

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, 2023 calculated using a discount rate that is 1-percentage-point lower (2.65%) or 1-percentage-point higher (4.65%) than the current discount rate:

June 30, 2023

	1% Decrease (2.65%)	At Discount Rate (3.65%)	1% Increase (4.65%)
Authority's Share	\$ 5,144,830	\$ 4,441,636	\$ 3,876,025

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023**

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

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, 2023, 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	\$ 3,774,868	\$ 4,441,636	\$ 5,295,303

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

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023**

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

Actuarial assumptions and other inputs

The total OPEB liability as of June 30, 2023 was determined by an actuarial valuation as of July 1, 2022, which was rolled forward to June 30, 2023. The actuarial assumptions vary for each plan member depending on the pension plan the member is enrolled in. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

Inflation rate	3.65%
Salary increases*	

Rate for all future years	2.75 to 6.55%
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* Salary increases are based on years of service within the plan.

Inflation rate	3.65%
Salary increases*	

Rate for all future years	2.75 to 6.55%
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* Salary increases are based on years of service within the plan.

Actuarial assumptions used in the July 1, 2022 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 7.89, 7.82, 7.82, 7.87, 8.05, 8.14 and 8.04 years for 2023, 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.

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023**

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, 2024 and 2023 are reported at \$762,307 and \$753,333, respectively for this purpose.

10. Restricted Net Position

The Authority reports the following restricted net position as of May 31, 2024:

Restricted for Debt Service:

The amount of \$1,428,632 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, 2024, the Authority has internally designated \$500,000 as a reserve for future maintenance, repairs and improvements to the sewer collection system and \$762,307 for potential future unemployment claims. The remaining balance of \$3,405,518 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:

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

**NOTES TO THE FINANCIAL STATEMENTS
YEARS ENDED MAY 31, 2024 AND 2023**

12. Unrestricted Net Position – Budgetary (continued)

	<u>2024</u>	<u>2023</u>
Unrestricted Net Position	\$ 4,667,825	\$ 4,442,068
Adjusted by:		
Net Pension Liability, Deferred Inflows/Outflows	2,874,810	2,874,216
Net OPEB Liability, Deferred Inflows/Outflows	<u>5,069,107</u>	<u>4,826,767</u>
	<u>\$ 12,611,742</u>	<u>\$ 12,143,051</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.

13. Commitments and Contingencies (Continued)

Litigation:

As of May 31, 2024 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 year 2024, the Authority budgeted and accrued a municipal appropriation of \$600,000. After management analyzed the budgeted to actual results combined with the cash requirements needed for upcoming capital projects, the Authority determined a Township appropriation can be funded. No municipal appropriation was budgeted and accrued for during fiscal year 2023.

14. Subsequent Events

Management has reviewed and evaluated all events and transactions occurring from May 31, 2024 through the date of the financial statements were available for issuance for possible disclosure and recognition in the accompanying financial statements. On June 20, 2024, the Authority converted temporary financing to permanent financing of \$8,415,926 through the New Jersey Environmental Infrastructure Trust loan program issued by the New Jersey Infrastructure Bank in the amount of \$8,415,926.

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>	<u>2023</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%	0.020093%
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	\$ 2,910,330
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	\$ 1,604,355	\$ 1,581,749	\$ 1,570,402
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%	185.32%
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%	65.23%

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

Note to Required Supplementary Information

Benefit Changes

There were none.

Changes of Assumptions

The discount rate was 7.00% as of June 30, 2022 and June 30, 2023.

**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>	<u>2023</u>
Contractually Required Contribution	\$ 156,861	\$ 145,561	\$ 166,786	\$ 177,197	\$ 205,119	\$ 189,144	\$ 240,818	\$ 264,579	\$ 270,806	\$ 268,547
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>	<u>(268,547)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <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	\$ 1,764,922
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%	15.22%

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

**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>	<u>2023</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%	0.029598%
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	\$ 4,441,636
Authority's Covered Payroll	\$ 1,269,585	\$ 1,308,361	\$ 1,511,198	\$ 1,418,143	\$ 1,537,883	\$ 1,604,355	\$ 1,581,749	\$ 1,570,402
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%	282.83%
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%	-0.79%

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

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

Note to Required Supplementary Information

Benefit Changes

There were none.

Changes of Assumptions

The discount rate changed from 3.54% as of June 30, 2022 to 3.65% as of June 30, 2023.

**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>	<u>2023</u>
Contractually Required Contribution	\$ 58,870	\$ 58,870	\$ 61,874	\$ 56,200	\$ 71,355	\$ 104,736	\$ 132,731	\$ 121,293
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>	<u>(121,293)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<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	\$ 1,764,922
Contributions as a Percentage of Covered Payroll	4.50%	3.90%	4.36%	3.65%	4.45%	6.62%	8.45%	6.87%

* 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, 2024 AND 2023

	FISCAL YEAR ENDED MAY 31, 2024			FISCAL YEAR ENDED MAY 31, 2023		
	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE</u>
<u>Revenues</u>						
User Charges	\$ 16,304,572	\$ 16,435,090	\$ 130,518	\$ 15,717,760	\$ 15,086,616	\$ (631,144)
Connection Charges	320,500	408,100	87,600	352,288	527,983	175,695
Interest on Investments, Deposit and Delinquencies	312,662	753,076	440,414	167,287	439,060	271,773
Other	47,000	89,645	42,645	47,000	66,745	19,745
Total Revenues - Budgetary Basis	16,984,734	17,685,911	701,177	16,284,335	16,120,404	(163,931)
<u>Operating Expenses</u>						
Administration:						
Salaries & Wages	822,162	834,288	(12,126)	822,688	697,494	125,194
Fringe Benefits	372,059	391,920	(19,861)	380,000	351,111	28,889
Other Expenses	1,113,312	1,142,220	(28,908)	983,556	1,118,974	(135,418)
Cost of Providing Services:						
Salaries & Wages	1,260,686	1,258,185	2,501	1,171,883	1,139,747	32,136
Fringe Benefits	755,392	591,053	164,339	637,493	573,736	63,757
Other Expenses	10,723,430	9,211,981	1,511,449	9,434,785	8,655,357	779,428
Total Operating Expenses	15,047,041	13,429,648	1,617,393	13,430,405	12,536,419	893,986
Debt Service:						
Bond Principal	1,316,372	1,152,551	163,821	1,473,383	1,276,494	196,889
Interest on Bonds	242,653	227,864	14,789	388,656	252,612	136,044
Total Debt Service	1,559,025	1,380,415	178,610	1,862,039	1,529,106	332,933
Total Expenses - Budgetary Basis	16,606,066	15,410,063	1,196,003	15,292,444	14,065,525	1,226,919
Budgetary Revenues Over/Under Expenditures	\$ 378,668	\$ 2,275,848	\$ 1,897,180	\$ 991,891	\$ 2,054,879	\$ 1,062,988

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY

SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
(BUDGETARY BASIS)
FOR THE FISCAL YEARS ENDED MAY 31, 2024 AND 2023

Reconciliation of Budgetary Basis to
Change in Net Position:

	<u>2024</u>	<u>2023</u>
Budgetary Revenues Over/Under Expenditures Brought Forward	\$ 2,275,848	\$ 2,054,879
Adjustments to Budgetary Basis:		
Bond Principal	1,152,551	1,276,494
Net Pension Liability Adjustment	217,042	358,697
Net OPEB Liability Adjustment	138,724	69,940
Depreciation Expense Not Budgeted	(1,367,547)	(1,323,831)
Capital Contributions	<u> </u>	<u>18,213</u>
Total Adjustments - Net	<u>140,770</u>	<u>399,513</u>
Change in Net Position	<u><u>\$ 2,416,618</u></u>	<u><u>\$ 2,454,392</u></u>

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE YEAR ENDED MAY 31, 2024**

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS		BALANCE MAY 31, 2023	INCREASED	DECREASED	BALANCE MAY 31, 2024
				DATE	AMOUNT				
NJIB Infrastructure Water Trust Loan Defeased Principal Savings Credits	11/8/2007	\$ 10,970,000	4.500%	8/1/2024	\$ 376,000	\$ 813,000		\$ 361,000	\$ 452,000
		(1,175,000)	4.500%	8/1/2025	76,000				
		(569,000)							
NJIB Infrastructure Water Fund Loan Fund Loan Decrease - Principal Only (Payable 8/1 and 2/1)	11/8/2007	6,250,000 (1,558,418)				77,895		77,895	-
NJIB Infrastructure Water Loan (Trust Loan Agreement)	5/25/2017	4,090,000	5.000%	8/1/2024	105,000	3,660,000		100,000	3,560,000
			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, 2024**

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS		BALANCE MAY 31, 2023	INCREASED	DECREASED	BALANCE MAY 31, 2024
				DATE	AMOUNT				
NJIB Infrastructure Water Loan - Principal Only (Payable 8/1 and 2/1) (Fund Loan Agreement)	5/25/2017	\$ 12,082,826		8/1/2024	\$ 271,524	\$ 9,639,110		\$ 407,288	\$ 9,231,822
				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	271,523								

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE YEAR ENDED MAY 31, 2024**

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS		BALANCE MAY 31, 2023	INCREASED	DECREASED	BALANCE MAY 31, 2024
				DATE	AMOUNT				
NJIB Infrastructure Water Loan (Trust Loan Agreement)	5/13/2020	\$ 405,000	5.000%	8/1/2024	\$ 15,000	\$ 375,000		\$ 15,000	\$ 360,000
			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				
	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	43,516							

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE YEAR ENDED MAY 31, 2024**

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS		BALANCE MAY 31, 2023	INCREASED	DECREASED	BALANCE MAY 31, 2024
				DATE	AMOUNT				
NJIB Infrastructure Water Loan (Trust Loan Agreement)	11/23/2021	\$ 180,000	5.000%	8/1/2024	\$ 5,000	\$ 180,000		\$ 5,000	\$ 175,000
			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				
			2.125%	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, 2024**

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS		BALANCE MAY 31, 2023	INCREASED	DECREASED	BALANCE MAY 31, 2024
				DATE	AMOUNT				
NJIB Infrastructure Water Loan - Principal Only (Payable 8/1 and 2/1) (Fund Loan Agreement)	11/23/2021	\$ 570,075		8/1/2024	\$ 15,407	\$ 546,964		\$ 23,110	\$ 523,854
				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	15,409								

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE YEAR ENDED MAY 31, 2024**

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS		BALANCE MAY 31, 2023	INCREASED	DECREASED	BALANCE MAY 31, 2024
				DATE	AMOUNT				
NJIB Infrastructure Water Loan (Trust Loan Agreement)	6/23/2022	\$ 1,840,000	5.000%	8/1/2024	\$ 35,000	\$ 1,840,000		\$ 35,000	\$ 1,805,000
			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, 2024**

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS		BALANCE MAY 31, 2023	INCREASED	DECREASED	BALANCE MAY 31, 2024
				DATE	AMOUNT				
NJIB Infrastructure Water Loan - Principal Only (Payable 8/1 and 2/1) (Fund Loan Agreement)	6/23/2022	\$ 1,868,682		8/1/2024	\$ 41,993	\$ 1,805,693		\$ 62,990	\$ 1,742,703
				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	41,993								

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
 SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
 FOR THE YEAR ENDED MAY 31, 2024

PROJECT DESCRIPTION	DATE	AMOUNT OF LOAN	INTEREST RATE	MATURITIES OF LOANS		BALANCE MAY 31, 2023	INCREASED	DECREASED	BALANCE MAY 31, 2024
				DATE	AMOUNT				
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	\$ 3,476,536	\$ 2,683,154	\$ 3,476,536
						<u>\$ 22,708,652</u>	<u>\$ 3,476,536</u>	<u>\$ 3,835,705</u>	<u>\$ 22,349,483</u>
				Detail:					
				Temporary Construction Loan					\$ 3,476,536
				Current Portion					1,094,657
				Long-Term Liability					<u>17,778,290</u>
									<u>\$ 22,349,483</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, 2024, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 3, 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.

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
December 3, 2024



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

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

Report on Compliance for Each Major State Program

Opinion on Each Major 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 *New Jersey State Aid/Grant Compliance Supplement* that could have a direct and material effect on each of the Authority's major state programs for the year ended May 31, 2024. The Authority's major 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 state programs for the year ended May 31, 2024.

Basis for Opinion on Each Major State Program

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

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

Responsibilities of Management for Compliance

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

In performing an audit in accordance with GAAS, *Government Auditing Standards* 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 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 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 state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the 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 New Jersey OMB Circular 15-08. Accordingly, this report is not suitable for any other purpose.

PKF O'Connor Davies, LLP

Cranford, New Jersey
December 3, 2024

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED MAY 31, 2024

<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	\$ 793,382	\$ -	\$ 3,476,536
Total State Financial Assistance			<u>\$ 793,382</u>	<u>\$ -</u>	<u>\$ 3,476,536</u>

See Accompanying Notes to Schedule of Expenditures of State Financial Assistance.

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
Notes to the Schedule of Expenditures of
State Financial Assistance
For the Year Ended May 31, 2024

Note 1. General

The accompanying schedule of expenditures of state financial assistance presents the activity of all 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 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 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 schedule of expenditures of 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.

During the year ended May 31, 2024, the Authority executed a temporary construction loan to finance the Marcy Street Sanitary Sewer Rehabilitation project. 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 State Financial Reports

The accompanying schedule of expenditures of state financial assistance is 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 NJ OMB Circular 15-08.

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
Notes to the Schedule of Expenditures of
State Financial Assistance
For the Year Ended May 31, 2024

Note 6. State Loans Outstanding

The Authority had outstanding state loan balances of \$22,536,667 as of May 31, 2024. 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, 2024**

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

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 Trust - Marcy Street Sanitary Sewer Rehab

Section II - Schedule of Financial Statement Findings

NONE

Section III - Schedule of 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, 2024	
	<u>LIMITS</u>	
Property Policy		
Blanket Limit	\$ 150,000,000	
Deductible	100,000	
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	Each Person
Medical Expense Deductible	2,500	
Section IV - Workers Compensation		
Part I - Workers Compensation	300,000	Each Accident
	300,000	Each Disease
Part II - Employers Liability	300,000	Each Accident
	300,000	Each Employee
	300,000	Policy Limit
Section IV - Environmental Legal Liability		
Limit of Liability		
Coverage A	1,000,000	Each Claim
	1,000,000	Aggregate
Coverage B	50,000	Each Claim
	1,000,000	Aggregate
Coverage C	1,000,000	Each Claim
	1,000,000	Aggregate
Coverage D	50,000	Each Claim
	50,000	Aggregate
Aggregate Defense Limit	500,000	

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, 2024
	<u>LIMITS</u>
<u>(Continued)</u>	
Section V - Crime	
Loss of Assets	\$ 50,000
Credit Card Forgery	50,000
Loss of Employee Benefit Plan Assets	50,000
Public Employee Dishonesty	50,000
Investigation Costs	50,000
Deductible	1,000
Section VI - Excess Crime	
Loss of Assets	950,000
Credit Card Forgery	950,000
Loss of Employee Benefit Plan Assets	950,000
Public Employee Dishonesty	950,000
Deductible	1,000
Section VIII - Excess WC	
Part I - Workers Compensation	1,700,000
Part II - Employers Liability	1,700,000
Property Limit	
	150,000,000
Transportation Coverage	
Each Claim	250,000
Aggregate	250,000
Cyber Liability Policy	
Each Claim	250,000
Aggregate	250,000

FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
SOMERSET COUNTY, NEW JERSEY

OFFICIALS IN OFFICE

The following officials were in office at May 31, 2024:

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 Daniels	Executive Director

**FRANKLIN TOWNSHIP SEWERAGE AUTHORITY
COUNTY OF SOMERSET, NEW JERSEY
FISCAL YEAR ENDED MAY 31, 2024**

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, 2024, 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.

Finding 2024-001:

Condition: Purchase orders were dated after invoice dates in several instances, indicating confirming orders.

Criteria: An encumbrance system is required by New Jersey regulation.

Cause: The Authority sometimes has immediate needs for items which precluded following the purchase order and encumbrance procedures.

Recommendation: It is recommended the Authority encumber funds and issue purchase orders prior to acquiring goods and services.

Authority Response: The Authority will reinforce to all employees that every purchase needs to be approved and a purchase order issued before acquisition of the goods or services occurs.

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, 2024 and 2023.

Administration and Accounting of State & Federal Grants

The Authority participated in a loan program during fiscal year 2024, 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

GENERAL COMMENTS (continued)

Authority is required to make assurances to the grantor agency that it will comply, in its general operations as well as in the operation of grant funded programs, with various laws and regulations. In addition, the individual grant contracts impose specific compliance requirements for the operations of each program. Based upon the myriad compliance and reporting requirements for grant awards, the Authority should continue to maintain sound administrative functions over grant programs.

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

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

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

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