

**EWING-LAWRENCE SEWERAGE AUTHORITY**

FINANCIAL STATEMENTS  
AND  
SUPPLEMENTARY INFORMATION

December 31, 2018

# EWING-LAWRENCE SEWERAGE AUTHORITY

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## **INDEPENDENT AUDITORS' REPORT**

To the Honorable Chairperson and Board Members of  
Ewing-Lawrence Sewerage Authority

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Ewing-Lawrence Sewerage Authority (the "Authority"), as of and for the years ended December 31, 2018 and 2017, and the related notes to financial statements, which comprise the Authority's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Emphasis of Matter

As discussed in Note G to the financial statements, in 2018 the Authority adopted new accounting guidance Governmental Accounting Standards Board Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary schedules, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedule of revenues, expenses and changes in net position and schedule of operating revenues and costs funded by operating revenues compared to budget, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information, except for the part marked "unaudited," 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, except for that portion marked "unaudited," the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated, November 21, 2019, 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, grant agreements and other matters. The purpose of this 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 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.

*Mercadim, P.C.*

*Certified Public Accountants*

November 21, 2019

## EWING-LAWRENCE SEWERAGE AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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As financial management of the Ewing-Lawrence Sewerage Authority (the "Authority"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Authority for the years ended December 31, 2018 and 2017. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole. A comparative analysis of the financial statements data has been presented for 2018 and 2017.

#### FINANCIAL HIGHLIGHTS

Income from operations for the Authority was \$1,167,595 and \$1,468,221 for the years ended December 31, 2018 and 2017, respectively. The Authority's net position was \$21,992,608 and \$20,677,112 at the close of 2018 and 2017, respectively.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which are comprised of the basic financial statements and supplementary information, including a schedule of revenues, expenses and changes in net position.

**Basic financial statements.** The basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to that employed by private-sector businesses.

The statements of net position presents information on all of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between reported as net position. Over time, increases or decreases in net position may serve as useful indicators of whether the financial position of the Authority is improving or deteriorating. Net position increases when revenues exceed expenses. Increases to assets and deferred outflows of resources without corresponding increases to liabilities and deferred inflows of resources also result in increased net position, which indicates an improved financial position.

The statements of revenues, expenses and changes in net position presents information showing how net position changed during the fiscal year. All changes in net position are reported as soon as the underlying events occur, regardless of timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will not result in cash flows until future fiscal periods.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the statements of net position and revenues, expenses and changes in net position.

**Other supplementary information.** In addition to the basic financial statements, this report also presents certain supplementary information concerning operating revenues, expenses and net position, as well as comparisons to budget and information required by Governmental Accounting Standards Board.

## EWING-LAWRENCE SEWERAGE AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

#### FINANCIAL ANALYSIS OF THE AUTHORITY

Cash balances were \$22,642,615 and \$22,409,291 at December 31, 2018 and 2017, respectively, and comprise the largest portion of the Authority's current assets and consist of unrestricted and restricted portions.

The Authority had \$33,552,388 and \$36,211,310 in NJIB loans as of December 31, 2018 and 2017, respectively, relating to the acquisition, construction and improvement of sewer systems in Ewing and Lawrence Townships.

The following tables contain condensed financial information derived from the December 31, 2018 2017, and 2016 financial statements of the Authority:

#### Condensed Statements of Net Position

	December 31,			\$ Change 2018-2017	% Change 2018-2017
	2018	2017	2016		
Current assets	\$ 22,661,426	\$ 22,428,030	\$ 25,586,751	\$ 233,396	1%
Capital assets	65,960,952	66,708,384	65,709,806	(747,432)	-1%
Total assets	<u>\$ 88,622,378</u>	<u>\$ 89,136,414</u>	<u>\$ 91,296,557</u>	<u>\$ (514,036)</u>	-1%
Deferred outflows of resources	\$ 2,704,751	\$ 3,285,228	\$ 4,570,270	\$ (580,477)	-18%
Current liabilities, net of loans payable	\$ 2,980,973	\$ 2,908,266	\$ 3,537,562	\$ 72,706	2%
Loans payable	33,552,388	36,211,310	38,454,128	(2,658,922)	-7%
Total OPEB obligation	12,236,759	14,828,055	93,196	(2,591,296)	-17%
Net pension liability	10,783,474	12,617,569	15,915,530	(1,834,095)	-15%
Unearned principal loan forgiveness	385,302	161,423	465,038	223,879	139%
Total liabilities	<u>\$ 59,938,896</u>	<u>\$ 66,726,623</u>	<u>\$ 58,465,454</u>	<u>\$ (6,787,727)</u>	-10%
Deferred inflows of resources	\$ 9,395,624	\$ 5,017,907	\$ -	\$ 4,377,717	87%
Net position:					
Net investment in capital assets	\$ 32,408,564	\$ 30,497,074	\$ 32,771,669	\$ 1,911,490	6%
Restricted	2,571,965	2,530,293	2,512,922	41,672	2%
Unrestricted	(12,987,920)	(12,350,255)	2,116,782	(637,665)	5%
Total net position	<u>\$ 21,992,608</u>	<u>\$ 20,677,112</u>	<u>\$ 37,401,373</u>	<u>\$ 1,315,495</u>	6%

## EWING-LAWRENCE SEWERAGE AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

#### Condensed Statements of Revenues, Expenses and Changes in Net Position

	Years Ended December 31,			\$ Change 2018-2017	% Change 2018-2017
	2018	2017	2016		
Operating revenues	\$ 15,239,556	\$ 15,110,736	\$ 15,319,926	\$ 128,821	1%
Operating expenses	(11,269,238)	(10,834,791)	(11,323,730)	(434,447)	4%
Depreciation and amortization	(2,802,724)	(2,807,724)	(1,684,592)	5,000	0%
Income from operations	1,167,595	1,468,221	2,311,604	(300,626)	-20%
Non-operating revenues	633,108	412,515	341,539	220,593	53%
Non-operating expenses	(485,207)	(1,432,754)	(273,960)	947,547	-66%
Changes in net position	1,315,496	447,982	2,379,183	867,514	194%
Net position, beginning of year	20,677,112	37,401,374	35,022,191	(16,724,262)	
Net position, end of year, as previously reported	-	37,849,355	-	(37,849,355)	
GASB 75 adjustment	-	(17,172,243)	-	17,172,243	
Net position, end of year, as restated	\$ 21,992,608	\$ 20,677,112	\$ 37,401,374	\$ 1,315,496	6%

#### CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide taxpayers and our creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the revenues that it receives. If you have questions about this report or need additional information, contact the Authority's financial management at 600 Whitehead Road, Lawrenceville, New Jersey, 08648 or (609) 587-4061.



# EWING-LAWRENCE SEWERAGE AUTHORITY

## STATEMENTS OF NET POSITION

		December 31,	
		2018	2017*
<b>ASSETS</b>			
Current Assets			
Unrestricted			
Cash and cash equivalents	\$	20,070,650	\$ 19,878,998
Interest receivable		13,539	12,887
Other receivables		5,272	5,852
Total Unrestricted		<u>20,089,461</u>	<u>19,897,737</u>
Restricted			
Cash and cash equivalents debt service reserve		2,571,965	2,530,293
Total Restricted		<u>2,571,965</u>	<u>2,530,293</u>
Total Current Assets		<u>22,661,426</u>	<u>22,428,030</u>
Capital assets, net of accumulated depreciation			
Total Assets		<u>65,960,952</u>	<u>66,708,384</u>
		<u>\$ 88,622,378</u>	<u>\$ 89,136,414</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pensions		\$ 2,330,989	\$ 3,282,860
OPEB		373,762	2,368
		<u>\$ 2,704,751</u>	<u>\$ 3,285,228</u>
<b>LIABILITIES</b>			
Current Liabilities			
Accounts payable	\$	680,490	\$ 626,956
Developers' performance bonds		247,913	247,913
Loans payable		2,306,601	2,307,250
Accrued interest payable		232,221	246,387
Accrued payroll		122,853	79,433
Accrued liability for compensated absences		536,024	517,286
Engineering deposits		981,279	1,015,773
Other liabilities		180,193	174,518
Total Current Liabilities		<u>5,287,573</u>	<u>5,215,516</u>
Non-Current Liabilities			
Loans payable		31,245,787	33,904,060
Total OPEB liability		12,236,759	14,828,055
Net pension liability		10,783,474	12,617,569
Unearned principal loan forgiveness		385,302	161,423
Total Non-Current Liabilities		<u>54,651,323</u>	<u>61,511,107</u>
Total Liabilities		<u>\$ 59,938,896</u>	<u>\$ 66,726,623</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pensions		\$ 3,604,734	\$ 2,532,686
OPEB		5,790,890	2,485,221
		<u>\$ 9,395,624</u>	<u>\$ 5,017,907</u>
<b>NET POSITION</b>			
Net investment in capital assets		\$ 32,408,564	\$ 30,497,074
Restricted			
Future debt service		2,571,965	2,530,293
Unrestricted		(12,987,920)	(12,350,255)
Total Net Position		<u>\$ 21,992,608</u>	<u>\$ 20,677,112</u>

\*Certain balances have been restated to conform to current year presentation

See notes to financial statements.

# EWING-LAWRENCE SEWERAGE AUTHORITY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Years Ended December 31,	
	2018	2017*
Operating revenues	\$ 14,417,049	\$ 14,356,389
Annual charges	548,310	477,417
Connection fees	43,875	16,875
Capacity revenue	2,820	1,060
Inspection fees	4,150	128,200
Developer applications	169,562	67,790
Interest	53,790	63,004
Miscellaneous	<u>15,239,556</u>	<u>15,110,736</u>
Total operating revenues		
Operating expenses	9,350,625	9,026,329
Costs of providing services	1,918,613	1,808,462
Administrative and general	2,802,724	2,807,724
Depreciation	<u>14,071,962</u>	<u>13,642,515</u>
Total operating expenses	<u>1,167,595</u>	<u>1,468,221</u>
Income from operations		
Non-operating revenues (expenses)	165,394	108,900
Interest income	(485,207)	(666,486)
Interest expense	-	(766,268)
Loss on disposal of assets	339,922	-
Donated capital for system improvements	127,792	303,615
Principal loan forgiveness	<u>147,901</u>	<u>(1,020,239)</u>
Non-operating revenue (expenses), net		
Changes in net position	1,315,496	447,982
Net position, beginning of year	<u>20,677,112</u>	<u>37,401,374</u>
Net position, end of year, as previously reported	-	37,849,355
GASB 75 adjustment	-	(17,172,243)
Net position, end of year, as restated	<u>\$ 21,992,608</u>	<u>\$ 20,677,112</u>

\*Certain balances have been restated to conform to current year presentation

# EWING-LAWRENCE SEWERAGE AUTHORITY

## STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2018	2017
Cash Flows received from Operating Activities		
Cash received from		
Annual charges	\$ 14,417,049	\$ 14,356,389
Connection fees	548,310	477,417
Inspection fees	2,820	1,060
Interest income	169,562	67,790
Miscellaneous revenue	101,743	338,097
Cash used for		
Cost of providing services	(9,134,237)	(9,296,278)
Administrative and general	(1,515,326)	(1,783,589)
Net cash received from operating activities	<u>4,589,921</u>	<u>4,160,887</u>
Cash Flows used for Investing Activities		
Interest income	165,394	108,900
Purchases of capital assets, net	(1,715,368)	(4,572,574)
Net cash used for investing activities	<u>(1,549,974)</u>	<u>(4,463,674)</u>
Cash Flows (used for) received from Financing Activities		
Repayments of loans	(2,307,251)	(2,242,817)
Funds held by trustees	-	5,516,556
Payment of loan interest	(499,372)	(458,225)
Net cash (used for) received from financing activities	<u>(2,806,623)</u>	<u>2,815,514</u>
Net increase in cash and cash equivalents	233,324	2,512,727
Cash and cash equivalents, beginning of year	22,409,291	19,896,564
Cash and cash equivalents, end of year	<u>\$ 22,642,615</u>	<u>\$ 22,409,291</u>
The following is a summary of the Authority's cash and cash equivalents:		
Cash-unrestricted	\$ 20,070,650	\$ 19,878,998
Cash-restricted	2,571,965	2,530,293
Total cash and cash equivalents	<u>\$ 22,642,615</u>	<u>\$ 22,409,291</u>
Reconciliation of Income from Operations to Net Cash from Operating Activities		
Income from operations	\$ 1,167,595	\$ 1,468,221
Adjustments to reconcile income from operations to net cash from operating activities		
Depreciation	2,802,724	2,807,724
Total OPEB liability	342,979	45,469
Net pension liability	189,824	522,135
Changes in assets and liabilities		
Other receivables	(73)	154,893
Accounts payable	53,534	(924,608)
Other liabilities	49,095	3,739
Engineering fee deposits	(34,494)	96,220
Accrued compensated absences	18,738	(12,906)
Net cash received from operating activities	<u>\$ 4,589,921</u>	<u>\$ 4,160,887</u>

See notes to financial statements.

# EWING-LAWRENCE SEWERAGE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Reporting Entity

Ewing-Lawrence Sewerage Authority (the "Authority"), is a special purpose local government located in Lawrenceville, New Jersey, created to construct and operate a wastewater collection and treatment system to service the Townships of Ewing and Lawrence, New Jersey (the "Townships"). The Authority entered into a contract with the Townships, dated October 18, 1951, as amended on October 9, 1961, obligating each Township to guarantee its proportionate share of annual charges to operate the system, debt service costs, and an amount to be set aside for renewals, replacements and extensions to the system.

#### Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") applicable to governmental proprietary type funds.

In its accounting and financial reporting, the Authority follows the pronouncements of the Governmental Accounting Standards Board ("GASB") and other entities that promulgate accounting principles. GASB Statement 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, establishes the order of priority of pronouncements and other sources of accounting and financial reporting guidance that a governmental entity should apply. Per the Statement, the sources of authoritative generally accepted accounting principles ("GAAP") are categorized in descending order of authority as follows: GASB Statements and Interpretations, GASB Technical Bulletins, GASB Implementation Guides, and literature of the American Institute of Certified Public Accountants ("AICPA") cleared by the GASB. Authoritative GAAP is incorporated periodically into the *Codification of Governmental Accounting and Financial Reporting Standards* (Codification), and when presented in the Codification, it retains its authoritative status. If the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP described above, a governmental entity should first consider accounting principles for similar transactions or other events within a source of authoritative GAAP described above and then may consider nonauthoritative accounting literature from other sources. These include GASB Concepts Statements; pronouncements and other literature of the Financial Accounting Standards Board, Federal Accounting Standards Advisory Board, International Public Sector Accounting Standards Board, and International Accounting Standards Board, and AICPA literature not cleared by the GASB; practices that are widely recognized and prevalent in state and local government; literature of other professional associations or regulatory agencies; and accounting textbooks, handbooks and articles.

#### Cash and Cash Equivalents

New Jersey local governmental units are required by N.J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey, or in the State of New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of investments which may be purchased by New Jersey local governmental units.

Cash equivalents include certificates of deposit and highly liquid debt instruments with original maturities of ninety days or less.

# EWING-LAWRENCE SEWERAGE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Cash and Cash Equivalents (Continued)

At December 31, 2018 and 2017, bank trust accounts consisted of repurchase agreements of a bank approved under the New Jersey Governmental Unit Deposit Protection Act ("GUDPA") and are collateralized by U.S. Government Agency securities on deposit at the Federal Reserve Bank of New York.

All other deposits at December 31, 2018 and 2017, were covered by the Federal Deposit Insurance Corporation (the "FDIC") and by the GUDPA.

#### Capital Assets

Capital assets include land and land improvements, buildings and building improvements, and machinery and equipment over \$10,000 which are capitalized and recorded at cost. System construction costs are charged to construction in progress until such time as given segments of the system are completed and placed in operation. Depreciation and amortization is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Land improvements	50 years
Building and building improvements	7-50 years
Machinery and equipment	3-75 years

Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

#### Other Post-Employment Benefits ("OPEB")

In addition to the total OPEB liability recognized by the Authority as required by GASB Statement No. 75 for the Authority's participation in the State cost sharing multiple-employer defined post-retirement benefit plan, the Authority also recognized a total OPEB liability for the supplemental defined post-retirement benefit dental plan. See footnote G for additional information on the plans.

#### Compensated Absences

Full-time union and non-union employees are entitled to earn and accumulate sick and vacation leave days each year. Unused time may be carried forward from year-to-year. In the event of separation from employment, the payment of accumulated sick time will be made for the accumulated value of unused sick time up to the cap of the lesser of 50% of unused sick time or \$15,000. Payments of accumulated vacation time will be made for the accumulated values of unused vacation time up to the cap of 200 hours at the employees' hourly rate at the time of separation. The Authority accrues a sick and vacation liability in accordance with this policy.

#### Deferred Outflows and Inflows of Resources

The statement of net position reports separate sections for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a reduction of net position that applies to a future period(s) and will be recognized as an outflow of resources (expense) at that time.

# EWING-LAWRENCE SEWERAGE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

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### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **Deferred Outflows and Inflows of Resources (Continued)**

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will be recognized as an inflow of resources (revenue) at that time.

The Authority is required to report the following as deferred outflows and inflows of resources:

Deferred outflows and inflows related to pensions and OPEB - The difference between expected (actuarial) and actual experience, changes in actuarial assumptions, net difference between projected (actuarial) and actual earnings on pension and OPEB plan investments, changes in the Authority's proportion of expenses and liabilities to the pension and OPEB as a whole, differences between the Authority's pension and OPEB contributions and its proportionate share of contributions, and the Authority's pension and OPEB contributions subsequent to the pension and OPEB valuation measurement dates.

#### **Net Position**

Equity is classified as net position and displayed in three components:

- 1) Net Investment in Capital Assets - consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt that are attributable to the acquisition, construction, or improvement of those assets.
- 2) Restricted - when constraints placed on net position are either a) externally imposed by creditors (such as loan agreements), grantors, or laws or regulations of other governments, or b) imposed by law.
- 3) Unrestricted - any other net position that does not meet the definition of "restricted" or "net investment in capital assets."

#### **Revenues**

The primary source of revenues is from annual charges. Annual charges are recognized as revenue upon billing the budgeted agreed-upon amounts to the Townships of Ewing and Lawrence. The Townships pay the Authority their shares of the operating costs and debt service. No fees are collected from the residents by the Authority.

Connection fees are recognized as revenue upon sewerage collection services being provided to the property.

#### **Contributions for System Improvements and Developer Contributions**

Developer contributions for system improvements and other developer contributions are recorded as operating revenues in the periods when earned under the terms of developer agreements. Developer-financed construction is recorded in the period in which applicable costs are incurred and is recorded at fair market value at the time of the contribution.

#### **Use of Estimates**

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## EWING-LAWRENCE SEWERAGE AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

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#### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### Income Taxes

As a governmental entity, the Authority's income is exempt from taxes in accordance with Internal Revenue Code Section 115.

#### B. CASH AND CASH EQUIVALENTS

New Jersey statutes permit the deposit of public funds into institutions located in New Jersey that are insured by the FDIC or by any other agencies of the United States that insure deposits. New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed insurance limits as follows:

- (a) The market value of the collateral must equal 5% of the average daily balance of public funds;
- or,
- (b) If the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board, or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

The Authority's bank balances at December 31, 2018 and 2017, were \$23,439,192 and \$22,732,658, respectively, all of which was covered by federal depository insurance or the GUDPA.

##### Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the counter party, the Authority will not be able to recover the value of its cash and cash equivalents that are in the possession of an outside party. Deposits were made with contracted depository banks in interest-bearing accounts that were insured under the GUDPA. All such deposits are held in the Authority's name. Deposits in excess of amounts insured by the FDIC are covered by a collateral pool maintained by the banks under GUDPA requirements.

##### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Because the Authority maintains only cash and cash equivalents, it is not subject to interest rate risk if interest rates fluctuate.

# EWING-LAWRENCE SEWERAGE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### C. CAPITAL ASSETS

Capital assets consist of the following:

	December 31,	
	2018	2017
Land	\$ 461,112	\$ 461,112
Land improvements	6,059,128	5,996,328
Buildings and building improvements	40,796,683	40,636,397
Machinery and equipment	68,067,913	66,366,746
Construction in progress	131,038	-
Subtotal	<u>115,515,875</u>	<u>113,460,583</u>
Less accumulated depreciation	<u>49,554,923</u>	<u>46,752,199</u>
Total	<u>\$ 65,960,952</u>	<u>\$ 66,708,384</u>

Capital asset activities were as follows:

	December 31, 2017	Additions	Retirements/ Transfers	December 31, 2018
Non-Depreciable Assets				
Land	\$ 461,112	\$ -	\$ -	\$ 461,112
Construction in progress	-	1,715,368	1,584,330	131,038
Depreciable Assets				
Land improvements	5,996,328	62,800	-	6,059,128
Buildings and building improvements	40,636,397	160,287	-	40,796,683
Machinery and equipment	66,366,746	1,701,167	-	68,067,913
Total at historical cost	<u>113,460,583</u>	<u>3,639,622</u>	<u>1,584,330</u>	<u>115,515,875</u>
Less accumulated depreciation	<u>46,752,199</u>	<u>2,802,724</u>	<u>-</u>	<u>49,554,923</u>
Total capital assets	<u>\$ 66,708,384</u>	<u>\$ 836,898</u>	<u>\$ 1,584,330</u>	<u>\$ 65,960,952</u>
	December 31, 2016	Additions	Retirements/ Transfers	December 31, 2017
Non-Depreciable Assets				
Land	\$ 461,112	\$ -	\$ -	\$ 461,112
Construction in progress	28,881,458	4,572,571	33,454,029	-
Depreciable Assets				
Land improvements	2,171,499	3,824,829	-	5,996,328
Buildings and building improvements	31,969,203	9,762,128	1,094,935	40,636,397
Machinery and equipment	48,236,930	19,871,270	1,741,454	66,366,746
Total at historical cost	<u>111,720,202</u>	<u>38,030,799</u>	<u>36,290,418</u>	<u>113,460,583</u>
Less accumulated depreciation	<u>46,010,396</u>	<u>2,807,724</u>	<u>2,065,921</u>	<u>46,752,199</u>
Total capital assets	<u>\$ 65,709,806</u>	<u>\$ 35,223,075</u>	<u>\$ 34,224,497</u>	<u>\$ 66,708,384</u>

Depreciation expense was as follows:

	Year Ended December 31,	
	2018	2017
Land improvements	\$ 190,866	\$ 184,586
Buildings and building improvements	860,462	865,735
Machinery and equipment	1,751,395	1,757,403
Total depreciation expense	<u>\$ 2,802,724</u>	<u>\$ 2,807,724</u>



**EWING-LAWRENCE SEWERAGE AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

**D. LOANS PAYABLE**

As of December 31, 2018 and 2017, the Authority maintained a loan balance of \$33,552,388 and \$36,211,310, respectively, through the New Jersey Infrastructure Bank ("NJIB") financing program. Under the NJIB financing program the Authority received \$947,467 in principal loan forgiveness during 2015 which represents a reduction in the principal loan amount that must be repaid by the Authority. The loan forgiveness is recorded as unearned principal loan forgiveness on the statement of net position and forgiveness is recognized as revenue based on a percentage of funds spent under the loan program. For the years ended December 31, 2018 and 2017, the Authority recognized \$127,792 and \$303,615, respectively, in principal loan forgiveness.

The following is a summary of NJIB loans outstanding (revenue bonds) at December 31:

Loans Payable	Interest Rate	Maturity Date	2018	2017
2004 NJEIT Trust and Fund Loan	3.00%-4.375%	2024	\$ 582,641	\$ 735,091
2010 NJEIT Trust and Fund Loan	5.00%	2030	2,979,230	3,667,385
2012 NJEIT Trust and Fund Loan	2.00%-5.00%	2031	905,938	972,549
2014 NJEIT Trust and Fund Loan	3.250%-5.00%	2033	21,306,924	22,604,731
2015 NJEIT Trust and Fund Loan	4.00%-5.00%	2034	3,607,252	3,807,392
2017 NJEIT Trust and Fund Loan	3.00%-5.00%	2033	4,170,403	4,424,161
Total loans payable			\$ 33,552,388	\$ 36,211,310

As of December 31, 2018 and 2017, \$22,594,060 and \$24,221,310, respectively, of the loan balance above represents the fund portion of the loan, which bears 0% interest.

Total maturities, including interest for the years ending December 31, are as follows:

	Principal	Interest	Total
2019	\$ 2,306,601	\$ 465,372	\$ 2,771,973
2020	2,323,047	330,172	2,653,219
2021	2,303,503	392,372	2,695,875
2022	2,343,503	353,122	2,696,625
2023	2,358,503	311,872	2,670,375
2024-2028	11,284,881	986,959	12,271,839
2029-2033	10,382,209	338,439	10,720,648
2034	250,141	3,800	253,941
Total	\$ 33,552,388	\$ 3,182,106	\$ 36,734,494

# EWING-LAWRENCE SEWERAGE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

### E. LONG-TERM LIABILITIES

Long-term liability activity for the years ended December 31, 2018 and 2017, was as follows:

	December 31, 2017	Additions	(Reductions)	December 31, 2018	Amounts Due within One Year
NJEIT loans payable	\$ 33,904,060	\$ -	\$ 2,658,273	\$ 31,245,787	\$ 2,306,601
Total OPEB liability*	14,828,055	-	2,591,296	12,236,759	-
Net pension liability	12,617,569	-	1,834,095	10,783,474	-
Unearned principal loan forgiveness	161,423	223,879	-	385,302	-
<b>Total</b>	<b>\$ 61,511,107</b>	<b>\$ 223,879</b>	<b>\$ 7,083,663</b>	<b>\$ 54,651,323</b>	<b>\$ 2,306,601</b>

  

	December 31, 2016	Additions	(Reductions)	December 31, 2017	Amounts Due within One Year
NJEIT loans payable	\$ 36,146,877	\$ -	\$ 2,242,817	\$ 33,904,060	\$ 2,307,250
Total OPEB liability*	93,196	14,734,859	-	14,828,055	-
Net pension liability	15,915,530	-	3,297,961	12,617,569	-
Unearned principal loan forgiveness	465,038	-	303,615	161,423	-
<b>Total</b>	<b>\$ 52,620,641</b>	<b>\$ 14,734,859</b>	<b>\$ 5,844,393</b>	<b>\$ 61,511,107</b>	<b>\$ 2,307,250</b>

\*Includes prior period restatement for GASB 75 implementation

### F. PENSION PLAN

#### Description and Benefits

The Authority contributes to a cost-sharing multiple-employer defined benefit pension plan administered by Public Employees' Retirement System ("PERS") of New Jersey, which is part of the Division of Pensions in the Department of the Treasury, State of New Jersey. The state-administered funds were established by an Act of the State Legislature that assigns the Authority to establish and amend benefit provisions to the plan's board of trustees. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERS and is also available on the State of New Jersey website.

#### Plan Description and Benefits

The vesting and benefit provisions are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service or under the disability provisions of PERS.

The following represents the membership tiers for PERS:

Tier	Definition
1	Members who were enrolled prior to July 1, 2007
2	Members who were eligible to enroll on or after July 1, 2007, and prior to November 2, 2008
3	Members who were eligible to enroll on or after November 2, 2008, and prior to May 22, 2010
4	Members who were eligible to enroll on or after May 22, 2010, and prior to June 28, 2011
5	Members who were eligible to enroll on or after June 28, 2011

## EWING-LAWRENCE SEWERAGE AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

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#### F. PENSION PLAN (CONTINUED)

##### **Plan Description and Benefits (Continued)**

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 with 25 years or more of service credit before age 62, and tier 5 with 30 years or more of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

##### **Contributions**

The local employers' contribution amounts are based on an actuarially determined rate, which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012, and will be adjusted by the rate of return on the actuarial value of assets. The Authority did not elect to defer any payments pursuant to Chapter 19, P.L. 2009.

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

At December 31, 2018 and 2017, the Authority reported a liability of \$10,783,474 and \$12,617,569 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. 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 members of the plan, actuarial determined. At December 31, 2018, and 2017, the Authority's proportionate share was 0.0547676300% and 0.0542029021%, respectively, which was an increase of .00056%.

**EWING-LAWRENCE SEWERAGE AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

**F. PENSION PLAN (CONTINUED)**

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

In accordance with the Governmental Accounting Standards Board, the Authority is required to present ten years of detail in the table included in the Required Supplementary Information of Authority's Contributions and Schedule of Authority's Proportionate Share of Net Pension Liability, however, only three years of data are available at this time.

For the year ended December 31, 2018 and 2017, the Authority recognized pension expense of \$2,722,510 and \$1,019,036, respectively. At December 31, 2018 and 2017, the Authority reported deferred outflows of resources as follows:

	December 31,			
	2018		2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 205,642	\$ 55,603	\$ 297,100	\$ -
Changes in assumptions	1,776,938	3,447,982	2,542,005	2,532,686
Net difference between projected and actual earnings on pension plan investments	-	101,149	85,917	-
Changes in proportion and differences between Authority contributions and proportionate share of contributions	348,409	-	357,838	-
	<u>\$ 2,330,989</u>	<u>\$ 3,604,734</u>	<u>\$ 3,282,860</u>	<u>\$ 2,532,686</u>

**Actuarial Assumptions**

The total pension liability in the June 30, 2018 and 2017, measurement was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018 and 2017, using the following actuarial assumptions:

Inflation	2.25%
Salary increases through 2026	1.65%- 4.15%
Salary increases: Thereafter	2.65%- 5.15%
Investment rate of return	7.00%

**Components of Net Pension Liability**

The components of the collective net pension liability of the Authority as of June 30, 2018, were as follows:

Total pension liability	<u>\$ 23,238,767</u>
Plan fiduciary net position	<u>12,455,294</u>
Net pension liability	<u>\$ 10,783,473</u>

## EWING-LAWRENCE SEWERAGE AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

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#### F. PENSION PLAN (CONTINUED)

##### **Actuarial Assumptions (Continued)**

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

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

In accordance with State statute, the long-term expected rate of return on plan investments (7% at June 30, 2018 and 2017), is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions and Benefits, the board of trustee, and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS target asset allocation as of June 30, 2018 and 2017, are summarized in the following table:

**EWING-LAWRENCE SEWERAGE AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

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**F. PENSION PLAN (CONTINUED)**

**Actuarial Assumptions (Continued)**

	<u>2018</u>	Long-term Expected Rate of Return
	Target Allocation	Rate of Return
Absolute return/risk mitigation	5.00%	5.51%
Cash	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment Grade Credit	10.00%	3.78%
Public high yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real estate	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. Equity	30.00%	8.19%
Non-U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

	<u>2017</u>	Long-term Expected Rate of Return
	Target Allocation	Rate of Return
Absolute return/risk mitigation	5.00%	5.51%
Cash	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment Grade Credit	10.00%	3.78%
Public high yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real estate	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S. Equity	30.00%	8.19%
Non-U.S. developed markets equity	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

**EWING-LAWRENCE SEWERAGE AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

**F. PENSION PLAN (CONTINUED)**

**Discount Rate**

The discount rate used to measure the total pension liability was 5.66% and 5.00% as of June 30, 2018 and 2017, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% as of both June 30, 2018 and 2017 and a municipal bond rate of 3.87% and 3.58% as of June 30, 2018 and 2017, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 50% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through June 30, 2046. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through June 30, 2046, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

*Sensitivity of the Collective Net Pension Liability to Changes in the Discount Rate*

The following presents the collective net pension liability of the Authority as of June 30, 2018 and June 30, 2017, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

June 30, 2018		
At 1% Decrease (4.66%)	At Current Discount Rate (5.66%)	At 1% Increase (6.66%)
\$ 13,558,975	\$ 10,783,473	\$ 8,455,005
June 30, 2017		
At 1% Decrease (4.00%)	At Current Discount Rate (5.00%)	At 1% Increase (6.00%)
\$ 15,652,951	\$ 12,617,569	\$ 10,088,720

## EWING-LAWRENCE SEWERAGE AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

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#### G. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Authority participates in multiple post-employment benefit plans. One is a cost sharing multiple-employer defined post-retirement benefit plan (the "Plan"), which is administered by the State of New Jersey. The Plan provides continued health care benefits to employees retiring after twenty-five years of service. Benefits, contributions, funding and the manner of administration are determined by the State of New Jersey Legislature. The Division of Pensions and Benefits charges the Authority for its contributions. The total number of retired participants eligible for benefits was 72, 71, and 69 at December 31, 2018, 2017, and 2016, respectively. The Authority also participates in a supplemental defined post-retirement benefit dental plan (the "Dental Plan"). The total number of retired participants eligible for benefits was 53, 58, and 58 at December 31, 2018, 2017, and 2016, respectively.

The Authority's contribution to the Plan for the years ended December 31, 2018, 2017, and 2016 was \$960,772, \$953,509, and \$1,048,570, respectively. The Authority's contribution to the Dental Plan for the years ended December 31, 2018, 2017, and 2016 was \$87,318, \$133,395, and \$133,420, respectively.

Please refer to the State website, [www.state.nj.us](http://www.state.nj.us) for more information regarding the Plan. The Plan's financial report may be obtained by writing to the State of New Jersey, Department of Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

#### **General Information about the OPEB Plans**

The Authority participates in the State Health Benefit Local Government Retired Employees Plan which is a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan with a special funding situation. It covers employees of local government employers that have adopted a resolution to participate in the Plan. The plan meets the definition of an equivalent arrangement as defined in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions* (GASB Statement No. 75); therefore, assets are accumulated to pay associated benefits. For additional information about the Plan, please refer to the State of New Jersey (the State), Division of Pensions and Benefits' (the Division) Comprehensive Annual Financial Report (CAFR), which can be found at <https://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

The Plan provides medical and prescription drug coverage to retirees and their covered dependents of the employers. Under the provisions of Chapter 88, P.L. 1974 and Chapter 48, P.L. 1999, local government employers electing to provide postretirement medical coverage to their employees must file a resolution with the Division. Under Chapter 88, local employers elect to provide benefit coverage based on the eligibility rules and regulations promulgated by the State Health Benefits Commission. Chapter 48 allows local employers to establish their own age and service eligibility for employer-paid health benefits coverage for retired employees. Under Chapter 48, the employer may assume the cost of postretirement medical coverage for employees and their dependents who: 1) retired on a disability pension; or 2) retired with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 3) retired and reached the age of 65 with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 4) retired and reached age 62 with at least 15 years of service with the employer.



## EWING-LAWRENCE SEWERAGE AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

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#### **G. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

##### **General Information about the OPEB Plan (Continued)**

Further, the law provides that the employer-paid obligations for retiree coverage may be determined by means of a collective negotiations agreement.

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

The Dental Plan provides dental coverage to retirees and their covered dependents of the employees. The Dental Plan covers employees and their dependents who: 1) retired on a disability pension; or 2) retired with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 3) retired and reached the age of 65 with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer.

##### **Allocation Methodology**

GASB Statement No. 75 requires participating employers in the Plan to recognize their proportionate share of the collective total OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective OPEB expense. The special funding situation's and nonspecial funding situation's total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense are based on separately calculated total OPEB liabilities. The nonspecial funding situation's total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense are further allocated to employers based on the ratio of the plan members of an individual employer to the total members of the Plan's nonspecial funding situation during the measurement period July 1, 2017 through June 30, 2018.

**EWING-LAWRENCE SEWERAGE AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

**G. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

**Total OPEB Liability**

*Components of Total OPEB Liability*

The components of the Authority's total Plan OPEB liability as of June 30, 2018 and 2017, is as follows:

	June 30, 2018	June 30, 2017
Total Plan OPEB liability	\$ 11,110,542	\$ 13,960,293
Total Dental Plan OPEB liability	1,126,217	867,762
Total OPEB liability	12,236,759	14,828,055
Plan Fiduciary Net Position	(218,639)	(144,317)
Dental Plan Fiduciary Net Position	-	-
Total Fiduciary Net Position	(218,639)	(144,317)
Net Plan & Dental Plan OPEB Liability	<u>\$ 12,018,120</u>	<u>\$ 14,683,739</u>
 Plan Fiduciary Net Position as a % of total OPEB liability	 1.97%	 1.03%

**Actuarial Assumptions**

The Plan total OPEB liability as of December 31, 2018, was determined by an actuarial valuation as of June 30, 2017, which was rolled forward to June 30, 2018. The Dental Plan total OPEB liability as of December 31, 2018, was determined by an actuarial valuation as of December 31, 2018. 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:

	The Plan
Inflation	2.50%
Salary increases*	
Through 2026	1.65 - 8.98%
Thereafter	2.65 - 9.98%

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

**Mortality Rates**

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

**EWING-LAWRENCE SEWERAGE AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

**G. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

**Mortality Rates (Continued)**

Certain actuarial assumptions used in the June 30, 2017, valuation was based on the results of the pension plans' experience studies for which the members are eligible for coverage under this Plan – the Police and Firemen's Retirement System (PFRS) and the Public Employees' Retirement System (PERS). The PFRS and PERS experience studies were prepared for the periods July 1, 2010 to June 30, 2013, and July 1, 2011 to June 30, 2014, respectively. For the Dental Plan the RP2000 Mortality Tables for Males and Females Projected 18 years was used. This assumption does not include a margin for future improvements in longevity. In both the Plan and Dental Plan one-hundred percent of active members are considered to participate in the Plan upon retirement.

**Health Care Trend Assumptions**

Under the Plan, pre-Medicare preferred provider organization (PPO) and health maintenance organization (HMO) medical benefits, the trend rate is initially 5.8% and decreases to a 5.0% long-term trend rate after eight years. For self-insured post-65 PPO and HMO medical benefits, the trend rate is 4.5%. For prescription drug benefits, the initial trend rate is 8.0% decreasing to a 5.0% long-term trend rate after eight years. For the Medicare Part B reimbursement, the trend rate is 5.0%. The Medicare Advantage trend rate is 4.5% and will continue in all future years. For the Dental Plan the healthcare trend rate is 4.0% in year 1, 3.5% in year 2 and 3.0% in all remaining future years.

**Discount Rate**

The Plan discount rate for June 30, 2018 and 2017, was 3.87% and 3.58%, respectively. This represents the municipal bond return rate as chosen by the State. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate. The Dental Plan discount rate for December 31, 2018 and 2017, was 2.62% and 4.24%, respectively.

**Sensitivity of Total OPEB Liability to Changes in the Discount Rate**

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

The Plan At June 30, 2018		
At 1% Decrease (2.87%)	At Current Discount Rate (3.87%)	At 1% Increase (4.87%)
\$ 12,997,721	\$ 11,110,542	\$ 9,603,114

  

The Plan At June 30, 2017		
At 1% Decrease (2.58%)	At Current Discount Rate (3.58%)	At 1% Increase (4.58%)
\$ 16,440,673	\$ 13,960,293	\$ 11,992,154

**EWING-LAWRENCE SEWERAGE AUTHORITY**

NOTES TO FINANCIAL STATEMENTS

**G. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

**Sensitivity of Total OPEB Liability to Changes in the Discount Rate (Continued)**

The Dental Plan At June 30, 2018		
At 1% Decrease (1.62%)	At Current Discount 2.62%	At 1% Increase (3.62%)
\$ 1,285,975	\$ 1,126,217	\$ 993,063

The Dental Plan At June 30, 2017		
At 1% Decrease (3.24%)	At Current Discount 4.24%	At 1% Increase (4.24%)
\$ 990,857	\$ 867,762	\$ 765,165

**Sensitivity of Total OPEB Liability to Changes in the Healthcare Trend Rate**

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

The Plan At June 30, 2018		
At 1% Decrease	Healthcare Cost Trend Rate	At 1% Increase
\$ 9,304,233	\$ 11,110,542	\$ 13,448,175

The Plan At June 30, 2017		
At 1% Decrease	Healthcare Cost Trend Rate	At 1% Increase
\$ 11,625,797	\$ 13,960,293	\$ 17,000,078

The Dental Plan At June 30, 2018		
At 1% Decrease	Healthcare Cost Trend Rate	At 1% Increase
\$ 1,059,330	\$ 1,126,217	\$ 1,207,986

The Dental Plan At June 30, 2017		
At 1% Decrease	Healthcare Cost Trend Rate	At 1% Increase
\$ 816,225	\$ 867,762	\$ 955,468

**EWING-LAWRENCE SEWERAGE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**G. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

**Deferred Outflows of Resources and Deferred Inflows of Resources**

	Year of Deferral	Amortization Period	Beginning of the Year Balance	Additions	Deductions	End of the Year Balance
<b>Deferred Outflows of Resources:</b>						
Differences between projected and actual investment earnings on OPEB plan investments	2017	5 years	\$ 2,432	\$ -	\$ 608	\$ 1,824
	2018	5 years	-	4,915	983	3,932
			<u>\$ 2,432</u>	<u>\$ 4,915</u>	<u>\$ 1,591</u>	<u>\$ 5,756</u>
<b>Deferred Inflows of Resources:</b>						
Differences between expected and actual experience	2018	8.04 years	\$ -	\$ 2,521,171	\$ 309,726	\$ 2,211,445
Changes of assumptions	2017	8.04 years	1,575,377	-	223,775	1,351,601
	2018	8.14 years	-	1,608,930	197,657	1,411,272
			<u>\$ 1,575,377</u>	<u>\$ 4,130,101</u>	<u>\$ 731,158</u>	<u>\$ 4,974,319</u>

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

Year Ending December 31,	Amortization
2019	\$ (728,653)
2020	(728,653)
2021	(728,653)
2022	(729,245)
2023	(730,240)
Thereafter	(1,323,119)
	<u>\$ (4,968,563)</u>

*Changes in Proportion*

The amounts in the tables above do not include employer specific deferred outflows of resources and deferred inflow of resources related to the changes in proportion. These amounts will be recognized (amortized) by the Authority over the average remaining service lives of all plan members, which is 8.14 years and 8.04 years for the 2018 and 2017 amounts, respectively. For December 31, 2018, the deferred outflows of resources changes in proportion is \$368,006 and the deferred inflows of resources changes in proportion is \$816,571. Including these values the December 31, 2018 total deferred outflows of resources and total deferred inflows of resources balances are \$373,762 and \$5,790,890, respectively. There were no deferred inflows of resources or deferred outflow of resources for the Dental Plan due to the Dental Plan OPEB liability being calculated using the alternative measurement method.

**H. DEFERRED COMPENSATION**

The Authority has a deferred compensation plan whereby eligible participating employees may choose to contribute amounts determined by plan and Internal Revenue Code guidelines. All employer contributions are made at the sole discretion of the Authority. There were no contributions made by the Authority for the years ended December 31, 2018 and 2017.

## **EWING-LAWRENCE SEWERAGE AUTHORITY**

### **NOTES TO FINANCIAL STATEMENTS**

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#### **I. CONCENTRATION OF LABOR FORCE**

Approximately 66% of the labor force is covered by a collective bargaining agreement with Construction and General Labor Union Local 172. The contract expired December 31, 2017. Management and the union are in the process of negotiating a new contract.

#### **J. CAPITAL PROGRAM**

Expected capital program expenditures budgeted from 2019 through 2023 approximate \$26.610 million.

#### **K. RISK MANAGEMENT**

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 disasters. The Authority maintains commercial insurance coverage for property, liability and surety bonds. As of December 31, 2018, the Authority has an ongoing litigation matter pending arbitration related to disputed change orders on various treatment plant capital improvements completed in January 2018. As of the auditors' report date, the potential loss related to this matter could not be reasonably estimated.

#### **L. ROUNDING**

Some amounts in the financial statements may have dollar differences due to rounding.

#### **M. PRIOR YEAR RESTATEMENT**

In 2018 the Authority adopted new accounting guidance Governmental Accounting Standards Board Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. As a result of this implementation, a restatement of \$17,172,243 to the prior year net position was required in order to record the December 31, 2017 total OPEB liability of \$16,443,146 for the Plan and \$729,097 for the Dental Plan.

**REQUIRED SUPPLEMENTARY INFORMATION**

**EWING-LAWRENCE SEWERAGE AUTHORITY**

SCHEDULE OF PROPORTIONATE SHARE OF PERS NET PENSION LIABILITY (NPL)  
 DETERMINED AS OF JUNE 30, 2018, PERS MEASUREMENT DATE

	PERS - Last 10 Fiscal Years				
	2018	2017	2016	2015	2014
Authority's proportion of the net pension liability	0.0547676300%	0.0542029021%	0.0537375816%	0.0525836468%	0.0527462200%
Authority's proportionate share of net pension liability	\$ 10,783,474	\$ 12,617,569	\$ 15,915,530	\$ 11,840,469	\$ 9,845,097
Authority's covered-employee payroll	4,096,888	4,138,447	4,094,825	3,903,104	3,903,104
Authority's proportionate share of net pension liability as a % of payroll	258.48%	304.89%	388.67%	303.36%	252.24%
Total pension liability	23,238,767	24,311,285	26,586,506	22,668,589	20,608,724
Plan fiduciary net position	12,455,294	11,693,715	10,670,976	10,864,614	10,733,189
Plan fiduciary net position as a % of total pension liability	53.60%	48.10%	40.14%	47.93%	52.08%

**SCHEDULE OF CONTRIBUTIONS**

	PERS - Last 10 Fiscal Years				
	2018	2017	2016	2015	2014
Contractually required contribution	\$ 544,761	\$ 502,132	\$ 470,629	\$ 450,146	\$ 398,452
Contributions in relation to the contractually required contribution	526,545	496,901	470,629	450,146	398,452
Authority's covered employee payroll	4,171,943	4,138,447	4,094,825	3,903,104	3,903,104
Contributions as a % of covered employee payroll	12.62%	12.01%	11.49%	11.53%	10.21%

The pension schedules are intended to show information for ten years. The State of New Jersey has issued five years of pension information to the Authority. Additional years' information will be displayed as it becomes available.



**EWING-LAWRENCE SEWERAGE AUTHORITY**

SCHEDULE OF PROPORTIONATE SHARE OF THE TOTAL OPEB LIABILITY AND CONTRIBUTIONS  
 STATE HEALTH BENEFIT LOCAL GOVERNMENT RETIRED EMPLOYEES PLAN DETERMINED AS OF JUNE 30, 2018, OPEB  
 MEASUREMENT DATE AND SUPPLEMENTAL DENTAL PLAN DETERMINED AS OF DECEMBER 31, 2018 MEASUREMENT DATE

	2018	2017	2016
Proportion of the total OPEB liability	0.069523%	0.067673%	0.072678%
Proportionate share of total plan OPEB liability	\$ 11,110,542	\$ 13,960,293	\$ 15,893,116
Total dental plan OPEB liability	1,126,217	867,762	93,196
Authority's Covered Payroll	4,096,888	4,138,447	4,094,825
Authority's Proportionate Share of total OPEB liability as a % of Covered Payroll	271.2%	337.3%	388.1%
Plan Contributions	\$ 960,772	\$ 953,509	\$ 1,048,570
Dental Plan Contributions	87,318	133,395	133,420

The OPEB schedule is intended to show information for ten years. The State of New Jersey has issued three years of OPEB information to the Authority for the Plan and the Authority has 3 years of applicable information for the supplemental dental plan. Additional years' information for both plans will be displayed as it becomes available.

**OTHER SUPPLEMENTARY INFORMATION**

**EWING-LAWRENCE SEWERAGE AUTHORITY**

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**Year Ended December 31, 2018**  
**(With Comparative Totals for Year Ended 2017)**

	2018			2017*	
	Unrestricted	Future Debt Service	Current Debt Service	Investment in Property, Plant and Equipment	Total
Operating revenues	\$ 14,417,049	-	\$ -	-	\$ 14,417,049
Annual Charge	548,310	-	-	-	548,310
Connection fees	43,875	-	-	-	43,875
Capacity fees	2,820	-	-	-	2,820
Inspection fees	4,150	-	-	-	4,150
Developer applications	169,562	-	-	-	169,562
Interest	53,790	-	-	-	53,790
Miscellaneous	15,239,556	-	-	-	15,239,556
Total operating revenues	9,350,625	-	-	-	9,350,625
Costs of providing services	1,918,613	-	-	-	1,918,613
Administrative and general	-	-	-	2,802,724	2,802,724
Depreciation and amortization	-	-	-	2,802,724	2,802,724
Total operating expenses	11,269,238	-	-	5,605,448	16,874,686
Income from operations	3,970,319	-	-	1,167,595	5,137,914
Non-operating revenues (expenses)	-	165,394	-	-	165,394
Interest income	-	-	(485,207)	-	(485,207)
Interest expense	-	-	-	-	-
Loss on disposal of assets	-	-	-	-	-
Donated capital for system improvements	339,922	-	-	-	339,922
Reversal of OPEB liability	127,792	-	-	-	127,792
Principal loan forgiveness	467,714	165,394	(485,207)	-	147,901
Total non-operating revenues (expenses), net	4,438,033	165,394	(485,207)	(2,802,724)	1,315,496
Income (loss) before transfers	(5,075,699)	(123,722)	485,207	4,714,214	447,982
Transfers	(637,665)	41,672	-	1,911,490	1,315,496
Change in net position	(12,350,255)	2,530,293	-	30,497,074	20,677,112
Net position, beginning of year, as restated	-	-	-	-	-
Net position, beginning of year, as previously reported	-	-	-	-	-
GASB 75 adjustment	-	-	-	-	-
Net position, end of year, as restated	\$ (12,987,920)	\$ 2,571,965	\$ -	\$ 32,408,564	\$ 21,992,608

\*Certain balances have been restated to conform to current year presentation.

**EWING-LAWRENCE SEWERAGE AUTHORITY**

**SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES  
 COMPARED TO BUDGET  
 Year Ended December 31, 2018**

	2018 Budget Unaudited	2018 Actual
<b>Revenues</b>		
Annual Charge	\$ 14,417,049	\$ 14,417,049
Connection fees	400,000	548,310
Capacity revenue	-	43,875
Inspection fees	2,000	2,820
Developer applications	7,000	4,150
Interest	1,000	169,562
Miscellaneous	25,000	53,790
Total operating revenues	<u>\$ 14,852,049</u>	<u>\$ 15,239,556</u>
<b>Expenses</b>		
Cost of providing services		
Labor	\$ 3,786,600	\$ 3,629,473
Employee benefits	1,859,098	2,271,033
Material and supplies	1,627,350	708,262
Contracted services	125,000	54,121
Repairs and maintenance	602,380	524,944
Sludge disposal	780,000	666,120
Utilities	1,348,000	977,353
Transportation	100,000	57,639
Remediation	200,000	311,335
Compliance	49,000	37,872
Permits	130,000	112,472
Total cost of providing services	<u>10,607,428</u>	<u>9,350,625</u>
Administrative and general		
Labor	647,500	665,322
Employee benefits	317,901	403,287
Materials and supplies	13,000	7,647
Contracted services	177,000	220,762
Insurance	155,000	326,276
Repairs and maintenance	50,000	21,771
Utilities	55,000	42,270
Miscellaneous	54,500	8,170
Loan fees	87,436	223,107
Total administrative and general	<u>1,557,337</u>	<u>1,918,613</u>
Interest expense	<u>499,372</u>	<u>485,205</u>
Other costs funded by operating revenues		
Principal maturity	2,307,250	2,307,250
Capital outlays	280,662	1,715,368
Total other costs funded by operating revenues	<u>2,587,912</u>	<u>4,022,618</u>
Total costs funded by operating revenues	<u>15,252,049</u>	<u>15,777,061</u>
(Utilization of Net Position)/Excess Revenues	<u>(400,000)</u>	<u>(537,505)</u>
Total	<u>\$ 14,852,049</u>	<u>\$ 15,239,556</u>

## EWING-LAWRENCE SEWERAGE AUTHORITY

ROSTER OF OFFICIALS (UNAUDITED)  
Year Ended December 31, 2018

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Board Members	Position
Charles Geter	Chair
Harold Vereen	Vice Chair
Allen Lee	Treasurer
Pasquale "Pat" Colavita	Assistant Treasurer
Basit "Sunny" Muzaffar	Secretary
Joseph Cermele	Assistant Secretary

  

Other Officials	Position
S. Robert Filler	Executive Director
W. Barry Rank	Counsel
Jacobs Environmental Consulting	Consulting Engineer

All employees of the Ewing-Lawrence Sewerage Authority are covered by a Public Employee's Blanket Bond, which is included in the Commercial Protection Policy issued by Zurich Insurance and provides "Employee Dishonesty Coverage" in the amount of \$500,000.

**EWING-LAWRENCE SEWERAGE AUTHORITY**

**SCHEDULE OF CURRENT YEAR FINDINGS AND RECOMMENDATIONS**  
Year Ended December 31, 2018

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None reported.

**EWING-LAWRENCE SEWERAGE AUTHORITY**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended December 31, 2018

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**Finding No. 2017-001**

Condition

Unique transactions resulted in certain journal entries being recorded subsequent to management's year-end closing.

Status

This finding has been resolved in the current year.

**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**

To the Honorable Chairperson and Board Members of  
Ewing-Lawrence Sewerage Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of Ewing-Lawrence Sewerage Authority (the "Authority") as of and for the year ended December 31, 2018, and the related notes to the financial statements, which comprise the Authority's basic financial statements, and have issued our report thereon dated November 21, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the basic financial statements, we considered the Authority's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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



**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 (CONTINUED)**

**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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

*Mercadion, P.C.*  
*Certified Public Accountants*

November 21, 2019