

**SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COUNTY OF MIDDLESEX
NEW JERSEY**

**REPORT OF AUDIT
ON THE
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2019**

**SAMUEL KLEIN AND COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS**

SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY

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INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
Sayreville Economic and Redevelopment Agency
Sayreville, New Jersey 08872

Report on the Financial Statements

We have audited the accompanying financial statements of the Sayreville Economic and Redevelopment Agency, a component unit of the Borough of Sayreville, County of Middlesex, State of New Jersey, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements which comprise the Sayreville Economic and Redevelopment Agency's 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Sayreville Economic and Redevelopment Agency, State of New Jersey, as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The information included in the supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 financial statements taken as a whole.

The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2021 on our consideration of the Sayreville Economic and Redevelopment Agency'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 Agency'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 Sayreville Economic and Redevelopment Agency's internal control over financial reporting and compliance.



SAMUEL KLEIN AND COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS



JOSEPH J. FACCONI, RMA, PA

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Sayreville Economic and Redevelopment Agency's (the "Agency") annual financial report, the management of the Agency provides narrative discussion and analysis of the financial activities of the Agency for the audit year ending December 31, 2019.

The Agency's financial performance is discussed and analyzed within the context of the accompanying financial statements and notes following this section.

Discussion of Financial Statements Included in Annual Audit

The Agency prepares and presents its financial statements on several different bases, because of accounting requirements and for internal use purposes.

The first set of statements, which consist of the Comparative Statements of Net Position, the Comparative Statements of Revenues, Expenses and Changes in Net Position, and the Comparative Statements of Cash Flows, is prepared on an accrual basis and is in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to enterprise funds of state and local governments. These statements are the official financial statements of the Sayreville Economic and Redevelopment Agency.

After the first set of statements and the "Notes to the Financial Statements" that follow is the second set of statements. These statements are considered "Supplementary Information".

The Agency has historically presented its financial statements on a "GAAP Basis", and continues to do so because it relates more fairly to the annual budget for the same period. The annual budget records all encumbrances as charges against the adopted appropriation even if the items or services have not been received.

Contained in the supplementary information are statements that report the Schedule of Operating Revenues and Expenditures Compared to Budget. This statement compares the "Budget" revenues and expenses to "Actual" revenues and expenses. This includes operating revenues and expenses, nonoperating revenues and nonoperating expenses.

The Budget to Actual statement is a very important statement to the Agency management staff, because it is how we measure our financial performance, particularly as it compares to the approved and adopted annual budget and how it relates to the operational performance.

Other information or statements incorporated within the annual audit report are the Schedules of Cash Receipts, Cash Disbursements and Changes in Cash and Cash Equivalents - Restricted and Unrestricted, the detail listing of property held for redevelopment, and the Analysis of Accounts Payable.

For the purpose of the Management's Discussion and Analysis, the ensuing discussion will review the financial statements of the Sayreville Economic and Redevelopment Agency, those prepared on an accrual basis and in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to Enterprise Funds of state and local governments. This is the first set of statements included in the annual audit report.

The Agency's Liabilities and Deferred Inflows of Resources of \$772,851.82 at the year ended December 31, 2019 decreased from the December 31, 2018 balance of \$777,726.19 primarily due to the recognition of the net pension liability being reduced to \$162,234.00.

Comparative Statement of Net Position

The Sayreville Economic and Redevelopment Agency's Total Assets and Deferred Outflows of Resources increased \$250,556.13 due mainly to an increase in unrestricted assets. Total liabilities decreased \$6,400.37 due to a decrease in long-term liabilities. Assets exceeded liabilities by \$24,792,120.05. This compares to 2018 where the assets exceeded liabilities by \$24,536,689.55.

The Sayreville Economic and Redevelopment Agency's Net Position of \$24,792,120.05 is comprised of the following:

Contributed Capital	\$22,692,200.00
Plus: Unrestricted Net Position	<u>2,099,920.05</u>
	<u>\$24,792,120.05</u>

	<u>As of December 31,</u>	
	<u>2019</u>	<u>2018</u>
Total Current Assets	\$ 2,325,042.05	\$ 2,074,599.05
Total Restricted Assets	525,620.82	510,035.69
Net Capital Assets	22,692,200.00	22,692,200.00
Deferred Outflows of Resources	<u>22,109.00</u>	<u>37,581.00</u>
	<u>25,564,971.87</u>	<u>25,314,415.74</u>
Total Current Liabilities Payable from Current Assets	23,408.00	28,226.50
Total Current Liabilities Payable from Restricted Assets	525,620.82	510,035.69
Total Long-Term Liabilities Payable	162,234.00	179,401.00
Total Deferred Inflows of Resources	<u>61,589.00</u>	<u>60,063.00</u>
Total Liabilities	<u>772,851.82</u>	<u>777,726.19</u>
Net Position	<u>\$24,792,120.05</u>	<u>\$24,536,689.55</u>

Total Current Assets increased because of increases to cash.

Total Restricted Assets have increased because of developer's deposits.

Total Current Liabilities Payable from Current Assets decreased because accounts payable decreased.

Total Current Liabilities Payable from Restricted Assets decreased because net pension liability decreased.

Comparative Statement of Revenues, Expenses and Changes in Net Position

Operating Expenses increased by \$29,638.99.

Total Net Position as of December 31, 2019 increased \$255,430.50 from \$24,536,689.55 to \$24,792,120.05.

	<u>2019</u>	<u>2018</u>
Operating Expenses	\$ 419,918.12	\$ 390,279.13
Operating Loss	(419,918.12)	(390,279.13)
Nonoperating Revenues	675,348.62	576,067.86
Change in Net Position	255,430.50	185,788.73
Net Position, Beginning	24,536,689.55	24,350,900.82
Net Position, Ending	<u>\$24,792,120.05</u>	<u>\$24,536,689.55</u>

Statement of Cash Flows

The net increase in Cash and Cash Equivalents was \$325,853.81.

Future Economic Outlook

The Sayreville Economic and Redevelopment Agency continues to work toward the acquisition and redevelopment of the National Lead tract. The courts have authorized the Agency to take title to the property through eminent domain and the Agency expects to finalize a deal with a redeveloper for the site after having received qualifications from prospective developers.

Despite continued economic uncertainties in the region, the Agency expects that increasing growth and development in the area and the strong demand for commercial projects in the Middlesex County region will be beneficial to the ongoing redevelopment efforts of the Agency.

SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COMPONENT UNIT
COMPARATIVE STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND DECEMBER 31, 2018

Exhibit A
Sheet #1

<u>ASSETS</u>	<u>Balance</u> <u>Dec. 31, 2019</u>	<u>Balance</u> <u>Dec. 31, 2018</u>
Unrestricted Assets:		
Cash and Cash Equivalents	\$ 2,205,551.88	\$ 1,895,283.20
Accounts Receivable	<u>119,490.17</u>	<u>179,315.85</u>
Total Unrestricted Assets	<u>2,325,042.05</u>	<u>2,074,599.05</u>
Restricted Assets:		
Developer Deposits	82,098.88	66,513.75
Proceeds from Sale of Property:		
Cash and Cash Equivalents	<u>443,521.94</u>	<u>443,521.94</u>
Total Restricted Assets	<u>525,620.82</u>	<u>510,035.69</u>
Noncurrent Assets:		
Property Held for Redevelopment	<u>22,692,200.00</u>	<u>22,692,200.00</u>
Total Noncurrent Assets	<u>22,692,200.00</u>	<u>22,692,200.00</u>
TOTAL ASSETS	<u>25,542,862.87</u>	<u>25,276,834.74</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Deferred Outflows Related to Pensions	<u>22,109.00</u>	<u>37,581.00</u>
Total Deferred Outflows of Resources	<u>22,109.00</u>	<u>37,581.00</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$25,564,971.87</u>	<u>\$25,314,415.74</u>

SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COMPONENT UNIT
COMPARATIVE STATEMENTS OF NET POSITION
DECEMBER 31, 2019 AND DECEMBER 31, 2018

Exhibit A
Sheet #2

<u>LIABILITIES</u>	<u>Balance</u> <u>Dec. 31, 2019</u>	<u>Balance</u> <u>Dec. 31, 2018</u>
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable	\$ 14,650.00	\$ 19,163.50
Pensions Payable	<u>8,758.00</u>	<u>9,063.00</u>
Total Current Liabilities Payable from Unrestricted Assets	<u>23,408.00</u>	<u>28,226.50</u>
Current Liabilities Payable from Restricted Assets:		
Reserve for Sale of Property	443,521.94	443,521.94
Reserve for Developer's Escrow	<u>82,098.88</u>	<u>66,513.75</u>
Total Current Liabilities Payable from Restricted Assets	<u>525,620.82</u>	<u>510,035.69</u>
Long-Term Liabilities Payable:		
Net Pension Liability	<u>162,234.00</u>	<u>179,401.00</u>
Total Long-Term Liabilities Payable	<u>162,234.00</u>	<u>179,401.00</u>
TOTAL LIABILITIES	<u>\$ 711,262.82</u>	<u>\$ 717,663.19</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred Inflows Related to Pensions	<u>\$ 61,589.00</u>	<u>\$ 60,063.00</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>\$ 61,589.00</u>	<u>\$ 60,063.00</u>
NET POSITION:		
Contributed Capital	\$22,692,200.00	\$22,692,200.00
Unrestricted	<u>2,099,920.05</u>	<u>1,844,489.55</u>
TOTAL NET POSITION	<u>\$24,792,120.05</u>	<u>\$24,536,689.55</u>

See accompanying notes to financial statements.

SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COMPONENT UNIT
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2019 AND DECEMBER 31, 2018

Exhibit B

	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
Operating Expenses:		
Administrative - Budgeted	\$ 419,918.12	\$ 387,184.13
Pension Expenses - Unbudgeted		3,095.00
Operating Loss	(419,918.12)	(390,279.13)
Nonoperating Revenues:		
Lease Agreements	116,740.60	114,815.76
Developer's Administration Fee	205,000.00	236,250.00
Developer's Reimbursement	300,766.60	213,055.05
Miscellaneous	22,943.66	
Interest Earned	29,423.76	11,947.05
Pension Expenses - Unbudgeted	474.00	
Total Nonoperating Revenues	675,348.62	576,067.86
Change in Net Position	255,430.50	185,788.73
Unrestricted Net Position, Beginning of Year	1,844,489.55	1,658,700.82
Unrestricted Net Position, End of Year	2,099,920.05	1,844,489.55
Contributed Capital - Net, Beginning of Year	22,692,200.00	22,692,200.00
Contributed Capital - Net, End of Year	22,692,200.00	22,692,200.00
Total Net Position, End of Year	\$24,792,120.05	\$24,536,689.55

See accompanying notes to financial statements.

SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COMPONENT UNIT
COMPARATIVE STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2019 AND DECEMBER 31, 2018

Exhibit C

	<u>Dec. 31, 2019</u>	<u>Dec. 31, 2018</u>
Cash Flows from Operating Activities:		
Change in Net Position	<u>\$ 255,430.50</u>	<u>\$ 185,788.73</u>
Adjustments to Reconcile Change in Net Position to Net Cash Provided by (Used in) Operating Activities:		
Change in Assets and Liabilities:		
Unbudgeted Pension Expense	(474.00)	3,095.00
(Increase)/Decrease in Accounts Receivable	59,825.68	(53,398.57)
Increase/(Decrease) in Accounts Payable:		
Payable from Unrestricted Assets	(4,513.50)	5,313.50
Increase/(Decrease) in Reserve for Developer's Escrow	<u>15,585.13</u>	<u>(29,129.93)</u>
Total Adjustments to Change in Net Position	<u>70,423.31</u>	<u>(74,120.00)</u>
Net Cash Provided by Operating Activities	<u>325,853.81</u>	<u>111,668.73</u>
Net Increase in Cash and Cash Equivalents	325,853.81	111,668.73
Cash and Cash Equivalents, Beginning of Year	<u>2,405,318.89</u>	<u>2,293,650.16</u>
Cash and Cash Equivalents, End of Year	<u>\$2,731,172.70</u>	<u>\$2,405,318.89</u>
Reconciliation to Balance Sheet:		
Unrestricted Cash and Cash Equivalents	\$2,205,551.88	\$1,895,283.20
Restricted Cash and Cash Equivalents	<u>525,620.82</u>	<u>510,035.69</u>
	<u>\$2,731,172.70</u>	<u>\$2,405,318.89</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

**SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COMPONENT UNIT**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2019**

1. ORGANIZATION

Reporting Entity

The Sayreville Economic and Redevelopment Agency (SERA) (the "Agency") is a public body corporate and politic of the State of New Jersey. The Agency was created by municipal ordinance on June 24, 1998 pursuant to the provisions of N.J.S.A. 40A:12A-1 et seq., for the purpose of carrying out the urban renewal program activities for the Borough of Sayreville. The Agency is empowered to exercise public and essential government functions, including acquisition, condemnation, clearance, renovation and redevelopment of property in designated blighted areas and to carry out redevelopment plans for the Borough of Sayreville.

The Agency is governed by a Board of Commissioners consisting of nine members, who are appointed by the Mayor of the Borough of Sayreville. No more than 2 members shall be officers or employees of the Borough. The Board of Commissioners determines policy actions, approves resolutions and selects an executive director to be responsible for the overall operation of the Agency. Based upon this criteria and the possibility of the Agency providing a financial benefit to the Borough, the Agency is considered a component unit of the Borough.

On August 5, 1992, the Legislature of the State of New Jersey adopted the Local Redevelopment and Housing Law (N.J.S.A. 40A:12A-1 et seq.) which became effective on a retroactive basis to January 1, 1992. This law requires all redevelopment agencies to be subject to the provisions of the "Local Authorities Fiscal Control Law". As a result of this change, the Agency is subject to the laws, rules and regulations promulgated for Authorities in the State of New Jersey and must report to the Bureau of Authority Regulation, Division of Local Government Services, Department of Community Affairs, State of New Jersey.

The Agency meets the criteria established by the Governmental Accounting Standards Board (GASB) to be deemed a component unit of the primary government unit, the Borough of Sayreville. This classification does not diminish the autonomous character of the Agency.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation and Accounting

The Agency's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The Agency applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Agency has not adopted the provisions of FASB No. 71, Accounting for the Effects of Certain Types of Regulations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Basis of Presentation and Accounting (Continued)

These financial statements include the implementation of GASB No. 34, Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments and related standards. This new standard provides for significant changes in terminology; recognition of contributions in the Statements of Revenues, Expenses and Changes in Net Position; inclusion of a management discussion and analysis as supplementary information; and other changes.

All activities of the Agency are accounted for within a single Proprietary (Enterprise) Fund. Proprietary Funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Agency is determined by its measurement focus. The transactions of the Agency are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into invested in capital assets, net of related debt; restricted for capital activity; restricted for debt service; and unrestricted components.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the report period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

B. Grants

Contributions received from various sources as grants are recorded in the period they become measurable. Developer financed construction is recorded in the period in which the system is donated by the Agency. Donated assets are recorded at fair market value at the date of the gift. Grants not externally restricted and utilized to finance operations are identified as nonoperating revenues.

Grants externally restricted for nonoperating purposes are recorded as contributed capital and identified as grants-in-aid.

C. Capital Assets

Capital assets are stated at cost, which includes direct construction costs and other expenditures related to construction. Land is stated at assessed valuations.

	Balance <u>Dec. 31, 2019</u>	Balance <u>Dec. 31, 2018</u>
Land	<u>\$22,692,200.00</u>	<u>\$22,692,200.00</u>

D. Restricted Funds

Restricted Funds consist of funds received from developers for engineering and legal costs associated with these plans, grants from Federal and State Agencies and proceeds from sale of property.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Deferred Revenue

There was no deferred revenue as of December 31, 2019.

F. Budgetary Information

An operating budget is adopted each fiscal year by the Agency. The Board may, at their discretion, modify the budget subsequent to adoption. The legal level of budget control is defined by the Agency as the current budget plus other available funds.

G. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt to the extent expended consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Agency or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

H. Measurement Focus, Basis of Accounting and Basis of Presentation

Recent Accounting Pronouncements Not Yet Effective

- *GASB Statement No. 87, Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The Agency does not expect this Statement to impact its financial statements.

GASB Statement 95 was issued in May 2020, which postponed the effective date of this GASB by eighteen months.

- *GASB Statement No. 89. Accounting for Interest Cost Incurred Before the End of a Construction Period.* The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively. The Agency does not expect this Statement to impact its financial statements.

GASB Statement No. 95 was issued in May 2020, which postponed the effective date of this GASB by one year.

- *GASB Statement No. 91. Conduit Debt Obligations.* The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

Effective Date: The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged. The Agency does not expect this Statement to impact its financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Recent Accounting Pronouncements Not Yet Effective (Continued)

GASB Statement No. 95 was issued in May 2020, which postponed the effective date of this GASB by one year.

- *GASB Statement No. 92. Omnibus 2020.* The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.

Effective Date: The requirements of this Statement are effective for fiscal years beginning after June 15, 2020. Earlier application is encouraged. The Agency does not expect this Statement to impact its financial statements.

GASB Statement No. 95 was issued in May 2020, which postponed the effective date of this GASB by one year.

- *GASB Statement No. 93. Replacement of Interbank Offered Rates.* The objective of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an interbank offered rate (IBOR).

Effective Date: The removal of London Interbank Offered Rate (IBOR) as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2020. Earlier application is encouraged. The Agency does not expect this Statement to impact its financial statements.

GASB Statement No. 95 was issued in May 2020, which postponed the effective date of this GASB by one year.

- *GASB Statement No.94. Public-Private and Public-Public Partnerships and Availability Payment Arrangements.* The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). As used in this Statement, a PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction.

Effective Date: The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The Agency does not expect this Statement to impact the financial statements.

- *GASB Statement No. 96. Subscription-Based Information Technology Arrangements.* This Statement provides guidance on the accounting and financial reporting for subscriptions-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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Recent Accounting Pronouncements Not Yet Effective (Continued)

Effective Date: The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The Agency does not expect this Statement to impact its financial statements.

- *GASB Statement No. 97. Certain Component Unit Criteria and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.* The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

Effective Date: The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application of those requirements is encouraged. The Agency does not expect this Statement to impact its financial statements.

I. Accounting and Financial Reporting for Pensions

In fiscal year 2018, the Agency implemented GASB No. 75. This Statement replaces the requirements of Statement No. 45 Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions as amended and No. 57 OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB Statement No. 74 Financial Reporting for Postemployment Benefit Plans Other than Pension Plans, establish new accounting and financial reporting requirements for OPEB plans. This statement is effective for periods beginning after June 15, 2017.

In fiscal year 2015, the Agency implemented GASB No. 68. This Statement amends GASB Statement No. 27. It improves accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local government employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirement of Statement No. 27, *Accounting for Pension by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. This statement was effective for periods beginning after June 15, 2014.

The Agency has also implemented GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date-an Amendment to GASB No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Accounting and Financial Reporting for Pensions (Continued)

Statement No. 68 requires a state or local government employer (or nonemployer contributing entity in a special funding situation) to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources.

In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported. Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS

A. Cash and Cash Equivalents

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation (FDIC) or any other agencies of the United States that insures deposits or the State of New Jersey Cash Management Fund.

The State of New Jersey Cash Management Fund is authorized by statute and regulations of the State Investment Council to invest in fixed income and debt securities which mature or are redeemed within one year. Twenty-five percent of the Fund may be invested in eligible securities which mature within two years provided, however, the average maturity of all investments in the Fund shall not exceed one year. Collateralization of Fund Investments is generally not required.

In addition, by regulation of the Division of Local Government Services, municipalities are allowed to deposit funds in the Municipal Bond Insurance Association (MBIA) through their investment management company, the Municipal Investors Service Corporation.

In accordance with the provisions of the Governmental Unit Deposit Protection Act of New Jersey, public depositories are required to maintain collateral for deposits of public funds that exceed insurance limits as follows:

The market value of the collateral must equal 5 percent of the average daily balance of public funds or

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

A. Cash and Cash Equivalents (Continued)

If the public funds deposited exceed 75 percent of the capital funds of the depository, the depository must provide collateral having a market value equal to 100 percent of the amount exceeding 75 percent.

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 \$25,000,000.00.

Cash equivalents include money market funds, mutual funds, cash management funds and certificates of deposit with maturity dates of less than three months. Investments include certificates of deposit with maturity dates of more than three months. Cash equivalents and investments are stated at cost, which approximates market. Cash equivalents and investments were held by the Agency's Trustee in the Agency's name.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned. The Agency does not have a specific deposit policy for custodial risk other than those policies that adhere to the requirements of statute, which requires cash be deposited only in New Jersey based bank institutions that participate in the New Jersey Governmental Depository Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. Under the act, all demand deposits are covered by the Federal Deposit Insurance Corporation (FDIC). Public funds owned by the Agency in excess of FDIC insured amounts are protected by GUDPA. As of December 31, 2019, of the cash balance in the bank, \$250,000.00 was covered by Federal Depository Insurance and \$2,481,172.70 was covered under the provisions of NJGUDPA.

As of December 31, 2019 and 2018, the Agency's cash, cash equivalents and investments consisted of:

	<u>2019</u>	<u>2018</u>
Amboy Bank - Checking Accounts	\$ 1,253,819.17	\$ 935,864.84
Amboy Bank - Savings Accounts	477,353.53	469,454.05
Amboy Bank - Certificates of Deposit	<u>1,000,000.00</u>	<u>1,000,000.00</u>
Total Cash, Cash Equivalents and Investments	<u>\$ 2,731,172.70</u>	<u>\$ 2,405,318.89</u>

During the year the Agency had none of its idle funds invested in repurchase agreements collateralized by eligible securities. At the close of 2019 and 2018, no such investments were held by the Agency.

As of December 31, 2019 and 2018, the Agency had no investments.

B. Investments

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

- Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America. This includes instruments such as Treasury bills, notes and bonds.
- Government money market mutual funds.
- Any federal agency or instrumentality obligation authorized by Congress that matures within 397 days from the date of purchase, and has a fixed rate of interest not dependent on any index or external factors.
- Bonds or other obligations of the local unit or school districts of which the local unit is a part.

3. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

B. Investments (Continued)

- Any other obligations with maturities not exceeding 397 days, as permitted by the Division of Investments.
- Local Government investment pools, such as New Jersey CLASS, and the New Jersey Arbitrage Rebate Management Program.
- New Jersey State Cash Management Fund.
- Repurchase agreements of fully collateralized securities, subject to special conditions.

In addition, a variety of state laws permit local governments to invest in a wide range of obligations issued by State governments and its agencies.

C. Risk Category

As of December 31, 2019, the Agency had funds invested in certificates of deposit and on deposit in checking accounts. The amount of the Agency's cash and cash equivalents as of December 31, 2019 was \$2,731,172.70. These funds constitute "deposits with financial institutions" as defined by GASB Statement No. 40. There were no securities that the Agency held that could be categorized as investments.

4. CONTINGENT LIABILITIES

The Agency operates under an encumbrance system for all funds.

The Agency is party to various legal proceedings. These legal proceedings are not likely to have a material adverse impact on the Agency, based upon inquiry of management and direct confirmation from the Agency Attorney.

The Agency has no accrued liability for compensated absences at December 31, 2019.

5. PENSION PLAN - PERS

Description of Systems

Substantially all of the Agency's employees participate in the following contributory defined benefit public employee retirement system which has been established by State statute, the Public Employees' Retirement System (PERS). This system is sponsored and administered by the New Jersey Division of Pensions and Benefits. The Public Employees' Retirement System is considered a cost-sharing multiple-employer plan.

The amount of the Agency's contribution is certified each year by PERS on the recommendation of the actuary, who makes an annual actuarial valuation. The valuation is based on a determination of the financial condition of the retirement system. It includes the computation of the present dollar value of benefits payable to former and present members and the present dollar value of future employer and employee contributions, giving effect to mortality among active and retired members and also to the rates of disability, retirement, withdrawal, former service, salary and interest. In accordance with State statute, the long-term expected rate of return on plan investments is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Specific information on actuarial assumptions and rates of return can be found at www.state.nj.us/treasury/pensions/annrprts.shtml.

The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS. In the PERS the employer contribution includes funding for post-retirement medical premiums.

5. PENSION PLAN - PERS (Continued)

Assumptions

The collective total PERS for June 30, 2019 measurement date was determined by an actuarial valuation as of July 1, 2018 using an actuarial experience study for the period July 1, 2014 to June 30, 2018 for PERS. The pension liability was rolled forward to June 30, 2019. The actuarial valuation used an inflation rate of 2.75% for price and 3.25% for wage, projected salary increases through 2026 of 2.00% to 6.00% and thereafter 3.00% to 7.00% based on years of service and through all future years and an investment rate of return 7.00%.

For PERS, 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-2019.

The discount rate used to measure the total pension liability was 6.28% for PERS as of June 30, 2019. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.50% as of June 30, 2019 based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on 70% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for the local employers for PERS and that contributions from employers and the nonemployer contributing entity will be based on 70% of the actuarially determined contributions for the State employer. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2057 for PERS. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2057 for PERS, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability. More information on mortality rates and other assumptions, and investment policies, can be found at www.state.nj.us/treasury/pensions/annrpts.shtml.

Funding Policy

The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district or public agency, provided the employee is not required to be a member of another State-administered retirement system or other state of local jurisdiction.

Significant Legislation

P.L. 2011, c.78, effective June 28, 2011 made various changes to the manner in which PERS operates and to the benefit provisions of that system.

This new legislation's provisions impacting employee pension and health benefits include:

- New members of PERS hired on or after June 28, 2011, (Tier 5 members), will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of ¼ to 1 percent for each month that the member is under age 65.
- The eligibility age to qualify for a service retirement in the PERS is increased from age 62 to 65 for Tier 5 members.

5. PENSION PLAN - PERS (Continued)

Significant Legislation (Continued)

- The annual benefit under special retirement for new PERS members enrolled after June 28, 2011 (Tier 3 members), will be 60 percent instead of 65 percent of the member's final compensation plus 1 percent for each year of creditable service over 25 years but not to exceed 30 years.
- Active member contribution rates will increase. PERS active member rates increase from 5.5 percent of annual compensation to 6.5 percent plus an additional 1 percent phased-in over 7 years. For fiscal year 2012, the member contribution rates increased in October 2011. The phase-in of the additional incremental member contributions for PERS members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.

In addition, this new legislation changes the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay).

Employee contributions through June 30, 2019 were seven and thirty-four hundredths percent (7.34%) and effective July 1, 2019 seven and fifty hundredths percent (7.50%) of the employee's base wages. Employer's contributions are actuarially determined annually by the Division of Pensions. The Agency's contributions to the plan for the past three (3) years are as follows:

<u>Fiscal Year</u>	<u>Agency Share</u>	<u>Employee Contributions</u>
2019	\$ 9,063.00	\$ 5,117.62
2018	8,388.00	5,059.05
2017	7,903.00	4,964.12

Public Employees' Retirement System (PERS)

The information for PERS was abstracted from State of New Jersey Public Employees' Retirement System Schedules of Employer Allocations and Schedules of Pension Amounts by Employer as of June 30, 2019 and June 30, 2018 Independent Auditor's Report dated June 5, 2020 and May 15, 2019, respectively.

The Agency reported a liability of \$162,234.00 and \$179,401.00 for its proportionate share of the net pension liability at December 31, 2019 and December 31, 2018, respectively. The net pension liability was measured as of June 30, 2019 and June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of those dates. The Agency's proportion of the net pension liability was based on a projection of the Agency's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities, actuarially determined.

	<u>June 30,</u>	
	<u>2019</u>	<u>2018</u>
Local Group Share	\$ 18,143,832,135	\$ 19,689,501,539
Agency Proportionate Percentage	0.0009003754%	0.0009111501%
Difference - Increase/(Decrease)	(0.0000107747)%	0.0008952941%

5. PENSION PLAN - PERS (Continued)

Public Employees' Retirement System (PERS) (Continued)

For the year ended December 31, 2019, the Agency recognized pension expense of \$(168). At December 31, 2019, the Agency reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in Assumptions	\$ 16,200	\$ 56,311
Net Difference Between Expected and Actual Experience	2,912	717
Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investment		2,561
Changes in Proportion	<u>2,997</u>	<u>2,000</u>
Total	<u>\$22,109</u>	<u>\$ 61,589</u>

The \$22,109 reported as deferred outflows of resources related to pensions resulting from entities contributions subsequent to the measurement date (i.e. for the Agency year ending December 31, 2019, the plan measurement date is June 30, 2019) will be recognized as a reduction of the net pension liability in the Agency year ended December 31, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense based on local share is as follows:

<u>Year Ended December 31,</u>	<u>Amount</u>
2020	\$ (4,685)
2021	(15,197)
2022	(13,570)
2023	(6,372)
2024	(654)

Additional Information

Collective local employers' balances at June 30, 2019 and June 30, 2018 are as follows:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Collective Deferred Outflows of Resources	\$ 3,149,522,616	\$ 4,684,852,302
Collective Deferred Inflows of Resources	7,645,087,574	7,646,736,226
Collective Net Pension Liability	18,143,832,135	19,689,501,539
Agency's Proportion	0.0009003754%	0.0009111501%

5. PENSION PLAN - PERS (Continued)

Public Employees' Retirement System (PERS) (Continued)

Actuarial Assumptions

The total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of July 1, 2018, which rolled forward to June 30, 2019. The total pension liability for the December 31, 2019 measurement date was determined by an actuarial valuation as of June 30, 2019. This actuarial valuation used the following assumptions, applied to all periods in the measurement:

Inflation Rate:	
Price	2.75%
Wage	3.25%
Salary Increases:	
Through 2026	2.00% - 6.00%
	Based on Years of Service
Thereafter	3.00% - 7.00%
	Based on Years of Service
Investment Rate of Return	7.00%

Long-Term Expected Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2019) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2019 are summarized in the following table:

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

5. PENSION PLAN - PERS (Continued)

Public Employees' Retirement System (PERS) (Continued)

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

The following presents the collective net pension liability of the participating employers as of June 30, 2019 and June 30, 2018, respectively, 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 one percentage point lower or one percentage point higher than the current rate:

	June 30, 2019		
	1%	At Current	1%
	Decrease	Discount Rate	Increase
	<u>5.28%</u>	<u>6.28%</u>	<u>7.28%</u>
Agency's Proportionate Share of the Local Group Pension Liability	<u>\$206,354</u>	<u>\$ 162,234</u>	<u>\$ 127,137</u>
	June 30, 2018		
	1%	At Current	1%
	Decrease	Discount Rate	Increase
	<u>4.66%</u>	<u>5.66%</u>	<u>6.66%</u>
Agency's Proportionate Share of the Local Group Pension Liability	<u>\$225,576</u>	<u>\$ 179,401</u>	<u>\$ 140,663</u>

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 (PERS).

6. DEFINED CONTRIBUTION RETIREMENT PROGRAM

Description of System

The Defined Contribution Retirement Program (DCRP) was established on July 1, 2007 for certain public employees under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007. The program provides eligible members, with a minimum base salary of \$1,500.00 or more, with a tax-sheltered, defined contribution retirement benefit, in addition to life insurance and disability coverage. The DCRP is jointly administered by the Division of Pensions and Benefits and Prudential Financial.

If the eligible elected or appointed official will earn less than \$5,000.00 annually, the official may choose to waive participation in the DCRP for that office or portion. This waiver is irrevocable.

This retirement program is a new pension system where the value of the pension is based on the amount of the contribution made by the employee and employer and through investment earnings. It is similar to a Deferred Compensation Program where the employee has a portion of tax deferred salary placed into an account that the employee manages through investment options provided by the employer.

The law requires that three classes of employees enroll in the DCRP, detailed as follows:

- All elected officials taking office on or after July 1, 2007, except that a person who is reelected to an elected office held prior to that date without a break in service may remain in the Public Employees' Retirement System (PERS).

6. DEFINED CONTRIBUTION RETIREMENT PROGRAM (Continued)

Description of System (Continued)

- A Governor appointee with the advice and consent of the Legislature or who serves at the pleasure of the Governor only during that Governor's term of office.
- Employees enrolled in the PERS on or after July 1, 2007 or employees enrolled in the PFRS after May 21, 2010 who earn salary in excess of established "maximum compensation" limits.
- Employees otherwise eligible to enroll in the PERS on or after November 2, 2008 who do not earn the minimum salary for PERS Tier 3, but who earn salary of at least \$5,000.00.
- Employees otherwise eligible to enroll in the PERS after May 21, 2010, who do not work the minimum number of hours per week required for PERS Tier 4 or Tier 5 enrollment (32 hours per week) but who earn salary of at least \$5,000.00 annually.

Notwithstanding the foregoing requirements, other employees who hold a professional license or certificate or meet other exceptions are permitted to remain in PERS.

Contributions Required and Made

Contributions made by employees for DCRP are currently 5.5% of their base wages. Member contributions are matched by a 3.0% employer contribution.

During the year 2019, there were no officials or employees enrolled in the DCRP.

7. DEFERRED COMPENSATION PLAN

There is currently no deferred compensation plan offered by the Agency.

8. RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions, injuries to its employees and natural disasters. The Agency maintains commercial insurance coverage for general liability, damage and destruction of assets, errors and omissions, injuries to employees and natural disasters.

9. LOAN - MIDDLESEX COUNTY

Middlesex County took out a Bond Anticipation Note of \$39 million on behalf of SERA to fund the acquisition of the National Lead property. Also, expenses related to the acquisition were to be paid by Middlesex County from this account. On March 23, 2005, after a Court ruling affirming SERA's right to take the property, SERA filed a declaration of taking and posted \$33,050,000.00 from this account as estimated just compensation of the NL property. Repayment of the loan was to be made by SERA to Middlesex County in 2006. As reported under Outstanding Liability, the Agency had defaulted on repayment of this loan.

10. FINANCIAL ASSURANCE FUND

A \$20,000,000.00 fund has been established. This fund is not reflected on the balance sheet of SERA. This fund is to be used for remediation clean-up of the former National Lead Site.

11. LITIGATION

The Agency's attorney letter indicated that the Agency is one of many defendants in a suit brought by Raritan Baykeeper in the U.S. District Court for the District of New Jersey. The Court has stayed the case as to the Agency pending the cleanup of the site.

12. OUTSTANDING LIABILITY

In accordance with the Third Amended and Restated Agreement dated September 21, 2006, the Sayreville Economic and Redevelopment Agency was obligated to repay the Loan Repayment Obligation on or before April 1, 2007. The Agency has failed to repay this loan and on April 2, 2007, the County of Middlesex declared the Agency in default of its obligation. SERA has designated O'Neill Properties as Redeveloper for the National Lead Project.

On November 9, 2007 the County agreed to extend the extended Deferral Period until December 31, 2007 under the following conditions:

- a) Closing of title for the first land takedown by O'Neill shall have been set for on or before December 31, 2007 for a consideration of not less than \$42 million and SERA shall certify to the County that it is in a position to convey clear and marketable title to O'Neill.
- b) SERA and O'Neill have executed the Memorandum of Understanding required as a precondition by O'Neill. O'Neill acknowledges same to County, in writing, and the Agency shall have further satisfied all other conditions for closing established by O'Neill in their final proposal for designation as Redeveloper.
- c) National Lead shall have agreed, in writing, to release its lis pendens for that portion of the National Lead property to be acquired by O'Neill at the December 31, 2007 closing of title.
- d) O'Neill shall have posted an unconditional irrevocable Letter of Credit in the minimum amount of \$42 million dollars naming the County of Middlesex as beneficiary thereof.
- e) The Agency shall have acknowledged and accepted the terms and conditions for extension and payment as more fully set forth below:

Notes Principal	\$ 37,000,000.00
Net Interest on Notes	<u>5,070,573.05</u>
Total Principal and Interest on Notes	42,070,573.05
Less Payment Received from SERA December 28, 2006	<u>254,630.00</u>
Net Principal and Interest Due	41,815,943.05
Accrued Administration Fees	<u>552,426.38</u>
Total Due County Projected to December 31, 2007	<u>\$ 42,368,369.43</u>

The County extended these terms through December 31, 2008. On October 16, 2008, payments of \$32,946,958.88 were received by the County. Additional payments have been received by the County.

As of December 31, 2019, the amount of \$3,478,998.00 was still due to the County under the conditions as detailed above.

13. SUBSEQUENT EVENT

The Sayreville Economic and Development Agency has evaluated subsequent events that occurred after the balance sheet date, but before February 19, 2021. Based upon its evaluation, the Agency has determined that the following subsequent events needed to be disclosed:

Due to the impact of the COVID-19 pandemic, the Agency implemented several policies to protect the health and safety of its employees. The impact of this pandemic on the Agency's operations cannot be reasonably estimated at this time, but may negatively affect revenues and expenditures.

The Agency has not yet adopted its 2020 or 2021 Budget. State statutes require that an Agency's budget be adopted no later than 30 days before the start of the fiscal year.

SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COMPONENT UNIT
SCHEDULE OF CASH RECEIPTS AND CASH DISBURSEMENTS
AND CHANGES IN CASH AND CASH EQUIVALENTS
UNRESTRICTED ACCOUNTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

Schedule 1

Cash and Cash Equivalents:			
January 1, 2019			\$1,895,283.20
Cash Receipts:			
Lease Agreements	\$116,740.60		
Developer's Administration Fee	205,000.00		
Developer's Reimbursement	300,766.60		
National Lead Remediation	204,858.23		
Miscellaneous	22,943.66		
Interest Earned:			
General Account	17,001.90		
Escrow Account	4,522.38		
Savings Account	7,899.48		
			879,732.85
			2,775,016.05
Cash Disbursements:			
Administrative Expenses	88,605.00		
National Lead Remediation	145,032.55		
Cost of Providing Services	328,826.62		
Accounts Payable	7,000.00		
			569,464.17
Cash and Cash Equivalents:			
December 31, 2019			\$2,205,551.88

SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COMPONENT UNIT
SCHEDULE OF CASH RECEIPTS AND CASH DISBURSEMENTS
AND CHANGES IN CASH AND CASH EQUIVALENTS
RESTRICTED ACCOUNTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

Schedule 2

Cash and Cash Equivalents:		
January 1, 2019		\$510,035.69
Cash Receipts:		
Developer's Escrow		<u>316,351.73</u>
		826,387.42
Cash Disbursements:		
Legal Fees	\$165,108.85	
Appraisal Fees	3,850.00	
Financial Advisory Fees	12,150.00	
Engineering Fees	<u>119,657.75</u>	
		<u>300,766.60</u>
Cash and Cash Equivalents:		
December 31, 2019		<u><u>\$525,620.82</u></u>

SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COMPONENT UNIT
COMPARATIVE SCHEDULES OF OPERATING REVENUES AND EXPENDITURES FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
UNRESTRICTED ACCOUNT
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2019 AND DECEMBER 31, 2018

Schedule 3

	Dec. 31, 2019		Dec. 31, 2018		Excess (Deficit)
	Budget	Realized	Budget	Realized	Excess (Deficit)
<u>Revenues</u>					
Nonoperating Revenues:					
Lease Agreements	\$ 110,000.00	\$ 116,740.60	\$ 6,740.60	\$ 114,815.76	\$ 14,815.76
Developer's Administration Fee	230,000.00	205,000.00	(25,000.00)	236,250.00	6,250.00
Developer's Reimbursement	100,000.00	300,766.60	200,766.60	213,055.05	113,055.05
Interest on Investments and Deposits		29,423.76	29,423.76	11,947.05	11,947.05
Miscellaneous		22,943.66			
Developer's Agreement	3,500,000.00		(3,500,000.00)		(3,700,000.00)
Total Nonoperating Revenues	3,940,000.00	674,874.62	(3,288,069.04)	576,067.86	(3,553,932.14)
<u>Expenditures</u>					
Administration:					
Salary and Wages	74,000.00	60,756.45	13,243.55	59,693.14	12,306.86
Fringe Benefits	25,000.00	18,103.39	6,896.61	18,087.87	4,912.13
Other Expenses	23,000.00	12,231.66	10,768.34	18,143.75	6,856.25
Intergovernmental Loan	3,500,000.00		3,500,000.00		3,700,000.00
Cost of Providing Services	354,200.00	328,826.62	25,373.38	291,259.37	53,740.63
Total Operating Expenses	3,976,200.00	419,918.12	3,556,281.88	387,184.13	3,777,815.87
Excess of Revenues Over/(Under) Expenditures	\$ (36,200.00)	\$ 254,956.50	\$ 268,212.84	\$ 188,883.73	\$ 223,883.73

SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COMPONENT UNIT
SCHEDULE OF FIXED ASSETS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

Schedule 4

Balance December 31, 2018	\$22,692,200.00
Balance December 31, 2019	\$22,692,200.00

Analysis of Balance

Property Held for Redevelopment

<u>Block</u>	<u>Lot</u>	<u>Address</u>	<u>Assessed Valuation</u>
169	10.023	Popowski Avenue	\$ 445,000.00
169.05	6	Junker Street	13,000.00
169.06	1.01	MacArthur Avenue	8,800.00
169.07	21	MacArthur Avenue	3,000.00
169.09	91	Popowski Avenue	126,800.00
169.10	103	Popowski Avenue	111,900.00
169.11	116	Popowski Avenue	182,600.00
169.30	83	Popowski Avenue	73,800.00
169.31	92	Popowski Avenue	140,400.00
169.41	107	Popowski Avenue	122,700.00
172	1	Washington Canal	273,700.00
175	9	Sayreville Boulevard	660,100.00
175	12.03	Main Street	66,300.00
175	12.04	River Road	490,100.00
175	12.05	River Road	89,800.00
175.01	1	Sayreville Boulevard	268,600.00
176	2.02	Main Street	52,700.00
176	2.04	Main Street	376,300.00
256	3	Raritan River	81,300.00
257	3.04	Chevalier Avenue and Main Street	2,229,300.00
257	3.052	Off Main Street	437,300.00
257.01	1	Chevalier Avenue	14,770,000.00
257.01	1.10	Off Main Street	25,000.00
257.01	5	Along Raritan River	151,000.00
257.01	6	Near Raritan River	10,000.00
257.01	20	Chevalier Avenue	104,200.00
257.02	1	Chevalier Avenue	27,900.00
257.02	1.01	Chevalier Avenue	30,000.00
257.02	22	Chevalier Avenue	14,000.00
257.03	2	Route 9 and Highway 35	1,070,000.00
259	1.01	Highway 35	28,300.00
260	1.02	Raritan River/Highway 35	10,800.00
270	1.01	Raritan River/Highway 35	66,200.00
270	1.12	Raritan River/Highway 35	63,800.00
280	1.11	Off Highway 35	67,500.00
			\$22,692,200.00

SAYREVILLE ECONOMIC AND REDEVELOPMENT AGENCY
COMPONENT UNIT
ANALYSIS OF ACCOUNTS PAYABLE - UNRESTRICTED
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

Schedule 5

Balance January 1, 2019	\$ 19,163.50
Increased by:	
Unpaid Charges 2019:	
Budget Appropriations	2,486.50
	<u>21,650.00</u>
Decreased by:	
Cash Disbursed	<u>7,000.00</u>
Balance December 31, 2019	<u>\$ 14,650.00</u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
ROSTER OF OFFICIALS
GENERAL COMMENTS, FINDINGS AND RECOMMENDATIONS
YEAR ENDED DECEMBER 31, 2019**

550 BROAD STREET, 11TH FLOOR
NEWARK, N.J. 07102-9969
PHONE (973) 624-6100
FAX (973) 624-6101

36 WEST MAIN STREET, SUITE 303
FREEHOLD, N.J. 07728-2291
PHONE (732) 780-2600
FAX (732) 780-1030

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

The Board of Commissioners
Sayreville Economic and Redevelopment Agency
Sayreville, New Jersey 08872

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, the financial statements of Sayreville Economic and Redevelopment Agency as of and for the year ended December 31, 2019 and the related notes to the financial statements, which collectively comprise Sayreville Economic and Redevelopment Agency's basic financial statements, and have issued our report thereon dated February 19, 2021.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

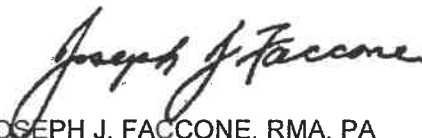
As part of obtaining reasonable assurance about whether Sayreville Economic and Redevelopment Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



SAMUEL KLEIN AND COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS



JOSEPH J. FACCONI, RMA, PA

Newark, New Jersey
February 19, 2021

ROSTER OF OFFICIALS AS OF DECEMBER 31, 2019

<u>Name</u>	<u>Title</u>
Michael D'Addio	Chairperson
Donald Newton	Vice Chairperson
Raniero Travisano	Commissioner
Vincent Conti	Commissioner
Rosetta Fisher	Commissioner
Victoria Kilpatrick	Commissioner
Thomas Pollando	Commissioner
Dennis Grobelny	Commissioner
David McGill	Commissioner
Joseph P. Ambrosio, Esq.	Executive Director
Michael J. Baker, Esq.	Attorney
David J. Samuel, PE, PP	Engineer

GENERAL COMMENTS AND FINDINGS

Other Post-Employment Benefits

Local Finance Notice 2007-15 requires local units that provide non-pension benefits to retired employees, such as health insurance coverage, prescription or other benefits, to disclose the annual payment for currently retired employees and future cost for those employees in the Notes to the Financial Statements.

Those municipalities that are not members of the State Health Benefits Plan or other cost-sharing plans must obtain an actuarially calculated post-employment benefit on a periodic basis for inclusion in the Notes to the Financial Statements.

The Borough of Sayreville maintains private health coverage and provides certain retired employees with post-employment benefits which require appropriate disclosure in the Notes to the Financial Statements in accordance with regulations promulgated by the Local Finance Board.

As of December 31, 2019, the Sayreville Economic and Redevelopment Agency did not have any employees eligible for Post-Employment Benefits.

Filing Audit Report, N.J.S. 40A:5A-15

A copy of this report has been filed with the Division of Local Government Services.

RECOMMENDATIONS

NONE

Acknowledgment

We desire to express our appreciation for the assistance and courtesies rendered by the Agency officials and employees during the course of the examination.

Respectfully submitted,

A handwritten signature in cursive script that reads "Samuel Klein and Company LLP".

SAMUEL KLEIN AND COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS

A handwritten signature in cursive script that reads "Joseph J. Faccione".

JOSEPH J. FACCONI, RMA, PA

Newark, New Jersey
February 19, 2021

