

**Annual
Financial Report**

of the

**Rahway Valley
Sewerage Authority**

For the Years Ended December 31, 2020 and 2019

Prepared By

Rahway Valley Sewerage Authority

Finance Department

RAHWAY VALLEY SEWERAGE AUTHORITY

I N D E X

**PAGE
NUMBER**

FINANCIAL SECTION

Independent Auditor's Report	1-3
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	4-5
Management Discussion and Analysis (Unaudited)	6-16

BASIC FINANCIAL STATEMENTS

EXHIBITS

"A" Statements of Net Position - December 31, 2020 and 2019	17-18
"B" Statements of Revenues, Expenses and Changes in Net Position for the Years Ended December 31, 2020 and 2019	19
"C" Statements of Cash Flows for the Years Ended December 31, 2020 and 2019	20
Notes to Financial Statements - December 31, 2020 and 2019	21-55

SUPPLEMENTARY INFORMATION

SCHEDULES

"1" Schedule of Revenues, Expenses and Changes in Net Position Reserved and Unreserved - Years Ended December 31, 2020 and 2019	56
"2" Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Cash Equivalents - Unrestricted Accounts (Operating and Revenue Accounts) - Years Ended December 31, 2020 and 2019	57
"3" Schedule of Cash Receipts, Cash Disbursements, Changes in Cash, Cash Equivalents and Investments - Restricted Accounts - Years Ended December 31, 2020 and 2019	58
"4" Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to Budget for the Years Ended December 31, 2020 and 2019	59-60
Schedule "5" - Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2020	61

	<u>PAGE NUMBER</u>
Notes to the Schedule of Expenditures of Federal Awards for the Year Ended December 31, 2020	62
"R-1" Schedule of Authority's Proportionate Share of the Net Pension Liability - Public Employees Retirement System - Last Ten Years	63
"R-2" Schedule of Authority's Contributions - Public Employees Retirement System - Last Ten Years	64
"R-3" Schedule Related to Accounting and Reporting for Pension (GASB 68) - Note to RSI III	65
"S-1" Schedule of Authority's Proportionate Share of the Net OPEB Liability - State Health Benefits Local Government Retired Employees Plan - Last Ten Years	66
"S-2" Schedule of Authority's Contributions - State Health Benefits Local Government Retired Employees Plan - Last Ten Years	67
"S-3" Schedule Related to Accounting and Reporting for OPEB (GASB 75) - Note to RSI III	68
Roster of Officials - December 31, 2020	69
General Comments and Recommendations	70

FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
Rahway Valley Sewerage Authority
Rahway, New Jersey 07065

Report on the Financial Statements

We have audited the accompanying financial statements of the Rahway Valley Sewerage Authority, as of and for the years ended December 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Rahway Valley Sewerage Authority, as of December 31, 2020 and 2019, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion analysis and the schedules related to accounting, reporting for pensions in Schedule R-1 through R-3, and the schedule related to accounting and reporting for postretirement benefits other than pensions (OPEB) in Schedule S-1 through S-3 are 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 Rahway Valley Sewerage Authority's basic financial statements. The supplemental data schedules and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental data schedules and schedule of expenditures of federal awards, as required by the Uniform Guidance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental data schedules and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2022 on our consideration of the Rahway Valley Sewerage Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Rahway Valley Sewerage Authority's internal control over financial reporting and compliance.

March 10, 2022

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

The Board of Commissioners
Rahway Valley Sewerage Authority
Rahway, New Jersey 07065

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 Rahway Valley Sewerage Authority as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise Rahway Valley Sewerage Authority's financial statements, and have issued our report thereon dated March 10, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rahway Valley Sewerage Authority's 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 Rahway Valley Sewerage Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Rahway Valley Sewerage 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 Rahway Valley Sewerage Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rahway Valley Sewerage 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 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 Rahway Valley Sewerage Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

March 10, 2022

A handwritten signature in cursive script that reads "Suplee, Clooney & Company". The signature is written in black ink and is positioned to the right of the date.

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2020 UNAUDITED

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplementary information.

OVERVIEW OF ANNUAL FINANCIAL REPORT

The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's budget, bond resolutions and other management tools were used for this analysis.

The Authority's audited financial statements are presented in conformity with generally accepted accounting principles as applied to governmental units. The basic financial statements include: Statements of Net Position; Statements of Revenues, Expenses and Changes in Net Position; Statements of Cash Flows; and Notes to Financial Statements.

The Statements of Net Position present the Assets, Liabilities, Deferred Inflows and Outflows of Resources and Total Net Position of the Authority on a historical cost basis. Over time, increases and decreases in the components of the Authority's Total Net Position are indicators of whether the financial position of the Authority is improving or deteriorating.

While the Statements of Net Position provide information about the nature and amount of resources and obligations at year-end, the Statements of Revenues, Expenses and Changes in Net Position present the results of the business activities over the course of the Fiscal Year and information as to how the net position changed during the year.

The Statements of Cash Flows present changes in cash and cash equivalents, resulting from operating, financing, and investing activities. These statements present cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The Notes to Financial Statements (Notes) provide required disclosures and other information that are essential to an understanding of material data provided in the basic financial statements. The Notes present information that includes accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

AUTHORITY'S FINANCIAL REPORT

Condensed Statements of Net Position

	<u>December 31</u>		
<u>Assets</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Unrestricted assets	7,984,976	7,864,623	7,078,405
Restricted assets	6,689,780	7,169,782	7,802,224
Capital assets, at cost	282,364,342	279,764,638	277,731,991
Accumulated depreciation	(110,143,381)	(100,917,362)	(91,979,427)
Deferred outflow of resources	<u>6,484,849</u>	<u>3,193,325</u>	<u>5,036,227</u>
 <u>Total assets</u>	 <u>193,380,566</u>	 <u>197,075,006</u>	 <u>205,669,420</u>
 <u>Current liabilities:</u>			
Payable from unrestricted assets	1,535,735	1,360,956	1,732,239
Payable from restricted assets	<u>13,436,773</u>	<u>13,277,747</u>	<u>12,655,544</u>
<u>Total current liabilities</u>	<u>14,972,508</u>	<u>14,638,703</u>	<u>14,387,783</u>
Long-term debt, net of current maturities	110,897,029	119,500,016	127,989,261
NJEIT Interim Financing	6,567,507	6,567,507	6,567,507
Net pension liability	9,314,465	10,783,169	11,889,949
Net OPEB liability	<u>15,156,453</u>	<u>10,174,860</u>	<u>12,858,377</u>
<u>Total noncurrent liabilities</u>	<u>141,935,454</u>	<u>147,025,552</u>	<u>159,305,094</u>
<u>Total liabilities</u>	<u>156,907,962</u>	<u>161,664,255</u>	<u>173,692,877</u>
 <u>Deferred inflows of resources:</u>			
Credits on debt refundings	1,259,267	1,616,874	1,974,481
Deferred bond premium	46,857	50,307	53,756
Pension related	4,503,632	4,066,414	3,990,168
OPEB related	<u>7,582,411</u>	<u>8,216,464</u>	<u>6,165,098</u>
<u>Total Deferred inflows of resources</u>	<u>13,392,167</u>	<u>13,950,059</u>	<u>12,183,503</u>
 <u>Total net position</u>	 <u>23,080,437</u>	 <u>21,460,692</u>	 <u>19,793,040</u>
 <u>Total liabilities, deferred inflows of resources, and total net position</u>	 <u>193,380,566</u>	 <u>197,075,006</u>	 <u>205,669,420</u>

Unrestricted assets of \$8.0 million at December 31, 2020, consists principally of cash and cash equivalents of \$3.8 million and receivables of \$4.1 million. The \$4.1 million in receivables largely includes a litigation settlement. Total current liabilities payable from unrestricted assets at December 31, 2020 of \$1.5 million consisting of accounts payable and accrued expenses.

Restricted assets of \$6.7 million at December 31, 2020 consists of cash and cash equivalents of \$5.8 million and \$.9 million related to capital project funds held by the New Jersey Infrastructure Bank (NJIB).

Condensed Statements of Net Position (Cont'd.)

The Authority's capital assets, at cost, at December 31, 2020 and 2019 amounted to \$282.4 million and \$279.8 million, respectively. Reference is made to the Authority's Year 2002 Capital Improvement Program (CIP). Net property, plant and equipment at December 31, 2020 and 2019 amounted to \$172.2 million and \$178.8 million, respectively.

Total liabilities of the Authority at December 31, 2020 and 2019 amounted to \$156.9 million and \$161.6 million, respectively, of which \$129.4 million and \$137.8 million, respectively, relate to debt obligations principally attributable to the funding of capital asset additions under the Authority's Year 2002 CIP. Additional temporary/interim financing was secured from NJIB totaling \$6.6 million to provide financing for additional projects related to the Authority's Digester Covers and Gas Flares and the construction of a Food Waste Station. The Authority's debt obligations outstanding at December 31, 2020 relate to financing under the New Jersey Infrastructure Bank (NJIB) Loan Program (\$57.3 million) and the accreted value of Capital Appreciation Bonds (\$72.1 million). In addition, Total Liabilities include a Net Pension Liability of \$9.3 million and \$10.8 million, and a net OPEB liability of \$15.1 million and \$10.2million at December 31, 2020 and 2019, respectively.

Deferred inflows of resources at December 31, 2020 and 2019 of \$13.4 million and \$13.9 million, respectively, relate principally to credits on debt refundings as well as Pension and OPEB obligations.

Total Net Position of the Authority at December 31, 2020 and 2019 amounted to \$23.1 million and \$21.5 million, respectively. Net Position includes:

	Thousands	
	<u>2020</u>	<u>2019</u>
Net Investment in Capital Assets	\$41,620	\$39,662
Restricted	9,041	9,561
Unrestricted, Appropriated	1,260	750
Unrestricted, Unappropriated	931	1,335
Unrestricted, Rate Stabilization Fund	300	200
Unrestricted, Net Pension Related	(13,149)	(12,497)
Unrestricted, Net OPEB Related	<u>(16,923)</u>	<u>(17,550)</u>
	<u>\$23,080</u>	<u>\$21,461</u>

An appropriation of \$1.260 million and \$750 thousand of the Unrestricted Net Position in each of the years ended December 31, 2020 and 2019 has been made to fund a portion of the Years 2021 and 2020 Operating Budgets, respectively.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	<u>Years Ended December 31</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating revenues	28,606,580	27,806,972	26,017,215
Operating expenses:			
Costs of providing services	10,990,893	9,879,345	9,314,104
General and administrative	3,404,733	3,498,608	3,588,528
Pension expense charge	26,566	482,700	269,111
OPEB expense adjustment	<u>(2,035)</u>	<u>(498,030)</u>	<u>198,046</u>
Total operating expenses, before depreciation	14,420,157	13,362,623	13,369,789
Depreciation	<u>9,243,843</u>	<u>8,961,850</u>	<u>8,762,529</u>
Total operating expenses	<u>23,664,000</u>	<u>22,324,473</u>	<u>22,132,318</u>
Operating income	4,942,580	5,482,499	3,884,897
Nonoperating income/(expense), net:			
Interest expense, net	(4,168,697)	(4,286,343)	(4,443,253)
Other income, net	<u>845,862</u>	<u>471,496</u>	<u>201,272</u>
Net income (loss)	1,619,745	1,667,652	(357,084)
<u>Net Position:</u>			
Beginning of year	<u>21,460,692</u>	<u>19,793,040</u>	<u>20,150,124</u>
Net Position end of year	<u>23,080,437</u>	<u>21,460,692</u>	<u>19,793,040</u>

Budgeted and realized member annual assessments included in operating revenues for the years ended December 31, 2020 and 2019, amounted to \$27.1 million and \$26.3 million, respectively. Member annual assessments represent 95% of total operating revenues realized in each of the years ended December 31, 2020 and 2019.

Total operating expenses for the years ended December 31, 2020 and 2019 were \$23.7 million and \$22.3 million, respectively. Operating expenses consist principally of personnel related costs, utilities, residual disposal, maintenance, compliance monitoring and professional services.

Operating income in the Year 2020, net of depreciation expense of \$9.2 million, was \$4.9 million as compared to operating income in the Year 2019 of \$5.5 million.

Interest expense in 2020 amounted to \$4.2 million as compared to \$4.3 million in 2019.

Net income in the Year 2020 was \$1.6 million as compared to \$1.7 million in the Year 2019.

Condensed Statements of Cash Flows

	<u>Years Ended December 31</u>		
	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net cash provided by operating activities	\$ 15,160,107	\$ 14,119,806	\$ 13,239,747
Net cash used in capital and financing activities	(15,212,120)	(13,087,666)	(12,926,160)
Net cash provided by investing activities	<u>43,985</u>	<u>124,446</u>	<u>64,774</u>
Net increase(decrease) in cash and cash equivalents	\$ (8,028)	\$ 1,156,586	\$ 378,361
<u>Cash and cash equivalents:</u>			
Beginning of year	<u>9,606,869</u>	<u>8,450,283</u>	<u>8,071,922</u>
End of year	<u>\$ 9,598,841</u>	<u>\$ 9,606,869</u>	<u>\$ 8,450,283</u>

Net cash provided by operating activities amounted to \$15.1 million and \$14.1 million in the years ended December 31, 2020 and 2019, respectively.

Net cash used in capital/financing activities in the Years 2020 and 2019 relate principally to the funding of construction projects, and debt service payments. Payments for net capital asset additions in the Year 2020 were \$2.5 million as compared to \$1.6 million in 2019. Debt service payments amounted to \$13.0 million in each of the years ended December 31, 2020 and 2019. Debt service payments will increase for the 2021 year with the completion of the permanent financing of the Food Waste and Digester Covers projects.

Net cash provided by investing activities amounted \$44 thousand and \$124 thousand in the Years 2020 and 2019, respectively, and relates to interest income.

AUTHORITY OVERVIEW

General

The Rahway Valley Sewerage Authority and its predecessor, known as the Rahway Valley Joint Meeting, has provided for the disposal of sewage wastes collected in the Rahway Valley region since 1937. On October 20, 1928, a contract was entered into by the nine municipalities, that is, the Boroughs of Garwood, Kenilworth and Roselle Park, the City of Rahway, the Town of Westfield and the Townships of Clark, Cranford and Springfield all in Union County and the Township of Woodbridge in Middlesex County. The purpose of such contract, as amended on March 3, 1932 and August 31, 1936, was jointly to construct, maintain, rebuild, repair and operate trunk sewers and a sewage treatment plant within the Rahway Valley, such municipalities being united in a Joint Meeting pursuant to statute. The Rahway Valley Sewerage Authority was created by virtue of parallel ordinances adopted in 1951 by the governing bodies of the Member Municipalities. Scotch Plains and Mountainside became members in 1995 and 1999, respectively. The Authority has perpetual existence as a public body politic and corporate constituting a political subdivision of the State of New Jersey.

The Authority had 58 employees as of December 31, 2020, including its Executive Director and Secretary/Treasurer, of which 24 employees are represented by the United Steel Workers Union.

Service Agreement

The present Service Agreement includes the Boroughs of Garwood, Kenilworth, Mountainside and Roselle Park, the City of Rahway, the Town of Westfield, and the Townships of Clark, Cranford, Scotch Plains, Springfield and Woodbridge, Municipal Corporations of the State of New Jersey. Pursuant to the Service Agreement, the Authority prepares a statement of its Municipality Service Charges each Fiscal Year which includes all amounts required for payment during such Fiscal Year of Operating Expenses, Debt Service, Reserves and other requirements. The Authority then allocates the various amounts set forth in its statement of charges amongst the individual Municipalities principally on the basis of their proportional average daily share of the use of the System (flow, biochemical oxygen demand and total suspended solids). Each Municipality's share of the annual service charge is due and payable in two equal installments on April 1 and July 1 of each Fiscal Year. The obligations of each Municipality under the Service Agreement are not joint and several. A Municipality may sell or assign its unused authorized flow rights as may be determined by the Authority, in whole or in part, to a member Municipality or to a nonmember municipality subject, however, to a right of first refusal reserved to the member Municipalities.

The System

The Rahway Valley Sewerage Authority Service Area is located in Union and Middlesex Counties. The estimated population served is 250,000 with an additional 3,500 commercial and industrial facilities. The Authority owns and operates Trunk Sewer Lines varying in size from 36" to 72" diameter and four major Spur Lines varying in size from 15" to 36" in diameter. The construction of the 17.5-mile collection system was completed in 1930. The collection system flows by gravity to the Authority's treatment plant.

The treatment plant is located on the borders of Rahway and Woodbridge and was placed into operation in 1937. Upgrades and expansion over the past few years have resulted in a facility that now accommodates wet weather flows of up to 105 MGD. Gravity Relief Sewers were constructed to convey peak wet weather flows to the facility. One Combined Sewer Overflow was closed and another Combined Sewer Overflow was reconfigured as an emergency plant protection system. Tertiary treatment utilizing sand filters, an ultraviolet disinfection system and other treatment facility enhancements were added to improve the quality of the effluent discharged into the Arthur Kill in Carteret. The Authority disposes its anaerobic digested, dewatered, and dried sludge to third parties who use the material for beneficial use.

The Authority's Year 2002 Capital Improvement Program (CIP) included the following segments: (i) improvements to the wastewater treatment plant (WWTP), consisting of new influent pumping, grit and screenings removal, additional primary and secondary settling tanks, upgraded aeration system, filtration, UV disinfection, cascade aeration, effluent pumping, improved sludge thickening facilities and related appurtenances; (ii) a Gravity Relief Sewer (GRS); and (iii) a power generating sludge drying facility (Cogeneration Facility). The cost of the CIP was approximately \$225 million of which 95% related to projects required under a Judicial Consent Order (JCO) that is discussed in the caption (Litigation Settlement related to the Capital Improvement Program). Reference is also made to the captions (Litigation and Related Matters) and (Commitments and Contingencies) concerning additional comments related to the Authority's Year 2002 CIP.

Municipality Service Charges

Budgeted and realized member municipality annual assessments for the years ended December 31, 2020, 2019 and 2018 (representing a substantial portion of operating income in each year) follow:

<u>Municipality</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Woodbridge	\$ 6,875,030	\$ 6,939,142	\$ 6,535,702
Rahway	4,281,575	3,991,702	4,124,408
Westfield	4,279,550	4,068,672	3,770,425
Springfield	2,637,999	2,646,409	2,598,606
Clark	2,118,441	2,148,595	1,997,106
Cranford	2,107,454	1,852,138	1,671,502
Scotch Plains	1,488,793	1,511,843	1,430,752
Kenilworth	1,243,355	1,052,977	908,922
Mountainside	959,089	978,076	927,921
Garwood	709,831	749,523	697,718
Roselle Park	<u>351,383</u>	<u>351,423</u>	<u>396,938</u>
	<u>\$27,052,500</u>	<u>\$26,290,500</u>	<u>\$25,060,000</u>

Reference is made to the caption "Commitments and Contingencies" concerning comments related to the Authority's Year 2002 Capital Improvement Program.

Litigation Settlement Related to the Capital Improvement Program

The Authority was a party defendant in an action initiated in the New Jersey Superior Court, Chancery Division, Union County, by the New Jersey Department of Environmental Protection. A public interest environmental group was granted permission by the Court to intervene in the action of the plaintiff. The plaintiffs alleged that the Authority violated several provisions of its New Jersey Pollutant Discharge Elimination System (NJPDES) Permit over a period of time. The Authority denied the allegations and asserted defenses to the plaintiffs' claims. While in trial, the parties agreed on a settlement of all claims among the parties. A \$965,000 provision for the litigation settlement was included as a charge to operations in the year ended December 31, 2000. Pursuant to the terms of the settlement agreement, the Authority paid \$365,000 in the Year 2001 and the remainder of \$600,000, with interest, was paid in the Year 2002. The basic terms of the settlement included in a Judicial Consent Order (JCO) entered by the Court in October, 2001 requiring the Authority to significantly improve its treatment capabilities and the effluent quality. The requirements of the JCO were incorporated into the Authority's Year 2002 Capital Improvement Program (CIP). The CIP included the following segments: (i) Wastewater Treatment Plant (WWTP) improvements; (ii) a new Gravity Relief Sewer (GRS); and (iii) a Power Generating Sludge Drying Facility (Cogeneration Facility). The CIP established a short, intermediate and long-term schedule for achieving permit compliance and closing the Authority's combined sewer overflows. The requirements of the JCO have been satisfied.

Litigation and Related Matters

During the year 2009, litigation was commenced by the Authority in connection with the Authority's Cogeneration Facility (the "Facility"). The RVSA constructed the Facility on the basis that operating the Facility as the WWTP's primary power source would lower annual operating costs by over \$1 million per year. It was determined that operating the Facility as designed actually imposed increases in operating costs to the Authority. On March 24, 2011 the RVSA filed a Demand for Arbitration asserting claims against various parties including the design engineer, the construction oversight manager, the general contractor, the supplier of the gas generators and other parties. A related action was commenced by the Authority on October 1, 2012 against parties with whom the Authority did not have an arbitration requirement. Settlements were realized in 2017 as to both arbitration and litigation.

The settlement aggregates approximately \$7.1 million. In 2016, \$850 thousand was received. The remaining \$6.2 million is being paid under the terms of a Funding Agreement with remaining payments as of December 31, 2020 as follows:

<u>Period</u>	<u>Annual Amount</u>	<u>Total Amount</u>
2021 to 2031	\$234,000	\$2,808,000
2032	265,000	265,000
2033	300,000	300,000
2034	500,000	500,000
2035	750,000	750,000
2036	900,000	<u>900,000</u>
		<u>\$5,523,000</u>

Interest income is being recorded on the funding agreement as payments are received.

Commitments and Contingencies

- A. The Authority's Year 2002 Capital Improvement Program (CIP), with a cost of approximately \$225 million is discussed in Note 16. A substantial portion (95%) of such costs is related to the Judicial Consent order (JCO).

The major sources of financing for the CIP were borrowings under the NJIB loan program and the issuance of Capital Appreciation Bonds (CABS). Total borrowings outstanding under the NJIB Trust/Fund Loan Program related to the CIP at December 31, 2020 were \$74 million. The NJIB borrowings outstanding at December 31, 2020 mature in the Year 2035. The CABS, with an issue value of \$34.7 million and a maturity value of \$112.9 million, will be paid over a twelve-year period beginning in the Year 2024 and ending in the Year 2035.

Debt service payment requirements related to the year 2002 CIP will continue to be a significant component of assessments to member municipalities through the Year 2035. Annual debt service payment requirements will be in the \$13 million range through the Year 2024, \$12 million in the Year 2025 and in the \$10 million range each year thereafter through the Year 2035. A significant portion of the Authority's operating revenues are generated by annual assessments to its member municipalities (95% for the year ended December 31, 2020).

- B. In January 2017, the Authority signed an agreement for a Public Private Partnership (PPP) to accept specified feedstock (food waste) for co digestion with its bio solids and entered into a contract with an initial term of 10 years with an optional renewal for 3 to 10 years. The contract is a design/build construction contract which entails the refurbishing of an existing sludge thickening tank that is being utilized as a feedstock receiving station. The project is expected to generate energy savings, tip fees, and energy credits over the first 10 years approximating \$6 million which will be used to offset the cost of operating the Authority. The project is expected to take 3 to 4 years to ramp up to maximum operations. Live operations began in April 2018 with feedstock deliveries. The official contracted commercial operating date began August 1, 2018 after full acceptance of the construction project and the appurtenant equipment.
- C. In conjunction with the aforementioned PPP project, in December 2017 the Authority issued a \$2.0 million Note with the NJIB that is due June 30, 2021. The Note bears no interest. This interim financing was secured for the construction of a Food Waste Station. In April 2018 the Note was increased to approximately \$2.4 million.
- D. In December 2017 the Authority issued a \$4.2 million Note with the NJEIT that is due June 30, 2021. The Note bears no interest. This interim financing was secured for improvements to the Authority's Digesters and Gas Flares.

The Authority completed permanent financing of these two Notes through the NJIB financing program in June 2021. Permanent financing totaled \$6.3 million. No interest is due on \$4.7 million of this debt.

Contacting the Authority's Management

Questions concerning the Authority's annual financial report should be addressed to the Authority's Secretary/Treasurer at the Rahway Valley Sewerage Authority, 1050 East Hazelwood Avenue, Rahway, New Jersey 07065.

BASIC FINANCIAL STATEMENTS

RAHWAY VALLEY SEWERAGE AUTHORITY

STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>ASSETS</u>		
Unrestricted Assets - Current:		
Cash and Cash Equivalents	\$ 3,824,762	\$ 3,352,788
Trade Receivables	109,609	123,124
Prepaid Expenses	92,244	142,844
Other Receivables	<u>118,574</u>	<u>287,506</u>
<u>Total Unrestricted Assets - Current</u>	<u>\$ 4,145,189</u>	<u>\$ 3,906,262</u>
Restricted Assets:		
Cash and Cash Equivalents	\$ 5,774,079	\$ 6,254,081
Capital Project Funds Held by the New Jersey Environmental Infrastructure Trust	<u>915,701</u>	<u>915,701</u>
<u>Total Restricted Assets - Current</u>	<u>\$ 6,689,780</u>	<u>\$ 7,169,782</u>
Unrestricted Assets - Long Term:		
Property, Plant and Equipment, at Cost	\$ 282,364,342	\$ 279,764,638
Less: Accumulated Depreciation	<u>110,143,381</u>	<u>100,917,362</u>
Net Property, Plant and Equipment	<u>\$ 172,220,961</u>	<u>\$ 178,847,276</u>
Other Receivable - Long Term	<u>3,839,787</u>	<u>3,958,361</u>
<u>Total Unrestricted Assets - Long Term</u>	<u>\$ 176,060,748</u>	<u>\$ 182,805,637</u>
<u>TOTAL ASSETS</u>	<u>\$ 186,895,717</u>	<u>\$ 193,881,681</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Pension Related	\$ 1,293,649	\$ 2,351,700
OPEB Related	<u>5,191,200</u>	<u>841,625</u>
<u>Total Deferred Outflows of Resources</u>	<u>\$ 6,484,849</u>	<u>\$ 3,193,325</u>
<u>TOTAL ASSETS AND DEFERRED OUTFLOWS</u>	<u>\$ 193,380,566</u>	<u>\$ 197,075,006</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

RAHWAY VALLEY SEWERAGE AUTHORITY

STATEMENTS OF NET POSITION
DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>LIABILITIES</u>		
Current Liabilities Payable From Unrestricted Assets:		
Accounts Payable and Accrued Expenses	\$ <u>1,535,735</u>	\$ <u>1,360,956</u>
<u>Total Current Liabilities Payable From Unrestricted Assets</u>	\$ <u>1,535,735</u>	\$ <u>1,360,956</u>
Current Liabilities Payable From Restricted Assets:		
Accounts Payable	\$ 977,246	\$ 967,717
Accrued Interest Payable	508,029	627,824
Current Portion of Long-term Debt	<u>11,951,498</u>	<u>11,682,206</u>
<u>Total Current Liabilities Payable From Restricted Assets</u>	\$ <u>13,436,773</u>	\$ <u>13,277,747</u>
Noncurrent Liabilities:		
Total Long-Term Debt, Net of Current Maturities	\$ 110,897,029	\$ 119,500,016
NJIB Interim Financing	6,567,507	6,567,507
Net Pension Liability	9,314,465	10,783,169
OPEB Liability	<u>15,156,453</u>	<u>10,174,860</u>
<u>Total Noncurrent Liabilities</u>	\$ <u>141,935,454</u>	\$ <u>147,025,552</u>
<u>TOTAL LIABILITIES</u>	\$ <u>156,907,962</u>	\$ <u>161,664,255</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Credits on Debt Refundings	\$ 1,259,267	\$ 1,616,874
Pension Related	4,503,632	4,066,414
OPEB Related	7,582,411	8,216,464
Deferred Bond Premium	<u>46,857</u>	<u>50,307</u>
<u>TOTAL DEFERRED INFLOWS OF RESOURCES</u>	\$ <u>13,392,167</u>	\$ <u>13,950,059</u>
Net Position:		
Net Investment in Capital Assets	\$ 41,620,652	\$ 39,661,787
Restricted	9,041,017	9,561,520
Unrestricted	<u>(27,581,232)</u>	<u>(27,762,615)</u>
<u>TOTAL NET POSITION</u>	\$ <u>23,080,437</u>	\$ <u>21,460,692</u>
<u>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</u>	\$ <u>193,380,566</u>	\$ <u>197,075,006</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

RAHWAY VALLEY SEWERAGE AUTHORITY
 STATEMENTS OF REVENUES, EXPENSES
 AND CHANGES IN NET POSITION
 FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues:		
Member Annual Assessments	\$ 27,052,500	\$ 26,290,500
Discharge, Permit and Other Fees	1,316,211	1,299,785
Food Waste Fees	217,129	207,844
Other Income, Net	<u>20,740</u>	<u>8,843</u>
<u>Total Operating Revenues</u>	<u>\$ 28,606,580</u>	<u>\$ 27,806,972</u>
Operating Expenses:		
Costs of Providing Services	\$ 10,990,893	\$ 9,879,345
General and Administrative	3,404,733	3,498,608
Pension Expense Charge	26,566	482,700
OPEB Expense Adjustment	(2,035)	(498,030)
Depreciation	<u>9,243,843</u>	<u>8,961,850</u>
<u>Total Operating Expenses</u>	<u>\$ 23,664,000</u>	<u>\$ 22,324,473</u>
<u>Operating Income</u>	<u>\$ 4,942,580</u>	<u>\$ 5,482,499</u>
Nonoperating Revenues (Expenses):		
Interest Income - Unrestricted Funds	\$ 34,463	\$ 63,658
Interest Income - Restricted Funds	128,307	182,838
Grants	683,092	225,000
Interest Expense, Net	<u>(4,168,697)</u>	<u>(4,286,343)</u>
<u>Net Income (Loss)</u>	<u>\$ 1,619,745</u>	<u>\$ 1,667,652</u>
Net Position, Beginning of Year	<u>\$ 21,460,692</u>	<u>\$ 19,793,040</u>
Net Position, End of Year	<u><u>\$ 23,080,437</u></u>	<u><u>\$ 21,460,692</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

RAHWAY VALLEY SEWERAGE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
<u>Cash Flows from Operating Activities:</u>		
Receipts from Member Annual Assessments	\$ 27,052,500	\$ 26,290,500
Receipts for Discharge, Permit and Other Fees	1,333,621	1,286,860
Receipts for Food Waste Fees	213,234	224,132
Other Receipts	20,740	8,843
Payments to Suppliers	(8,255,599)	(8,609,515)
Payments to Employees	(5,887,481)	(5,081,014)
Grants	683,092	-
	<u>15,160,107</u>	<u>14,119,806</u>
<u>Net Cash Provided by Operating Activities</u>	<u>\$ 15,160,107</u>	<u>\$ 14,119,806</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Purchase of Capital Assets	\$ (2,462,875)	\$ (1,574,355)
Principal Payments on Long-Term Debt	(11,682,207)	(11,427,016)
Interest Paid on Bonds	(1,301,038)	(1,569,627)
Proceeds from the NJ Infrastructure Bank Loan Program	-	1,024,332
Capital Litigation Settlement (Principal and Interest)	234,000	234,000
Grants	-	225,000
	<u>(15,212,120)</u>	<u>(13,087,666)</u>
<u>Net Cash Used in Capital and Financing Activities</u>	<u>\$ (15,212,120)</u>	<u>\$ (13,087,666)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest Received	\$ 43,985	\$ 124,446
	<u>43,985</u>	<u>124,446</u>
<u>Net Cash Provided by Investing Activities</u>	<u>\$ 43,985</u>	<u>\$ 124,446</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (8,028)	\$ 1,156,586
Cash and Cash Equivalents, Beginning of Year	<u>9,606,869</u>	<u>8,450,283</u>
Cash and Cash Equivalents, End of Year	<u>\$ 9,598,841</u>	<u>\$ 9,606,869</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>		
Operating Income	\$ 4,942,580	\$ 5,482,499
Depreciation	9,243,843	8,961,850
Changes in Operating Assets and Liabilities:		
Accounts Receivable	40,682	(141,761)
Prepaid Expenses	50,600	35,456
Accounts Payable and Accrued Expenses	174,779	(202,908)
Grants	683,092	-
Other	24,531	(15,330)
	<u>15,160,107</u>	<u>14,119,806</u>
Net Cash Provided by Operating Activities	<u>\$ 15,160,107</u>	<u>\$ 14,119,806</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(1) GENERAL

The Rahway Valley Sewerage Authority (Authority) was created for the construction, operation and maintenance of a joint trunk sewer and wastewater treatment plant to serve municipalities in the Rahway Valley region. The Authority has a service agreement with its member municipalities which obligates each municipality to pay a share of the Authority's operating and capital expenditures, bond service and required reserve additions not met by other sources. Assessments to member municipalities are made in proportion to the contribution of each municipality's percentage share of the total average daily flow, suspended solids and biochemical oxygen demand from the municipality based on a forward moving average of the data for a five-year period. The Board of Commissioners is composed of eleven members, one each for the constituent municipalities.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the accounting policies are described below.

Cash Equivalents

Cash equivalents are stated at cost which approximates market. The Authority considers investments with maturities of three months or less to be cash equivalents.

Inventory

Inventory of spare parts and supplies is recorded as an expense when purchased and accordingly, is not included in the statements of net assets.

Vacation and Sick Leave

Authority employees are granted vacation in varying amounts and earn certain sick leave time. In the event of termination, an employee is reimbursed for accumulated vacation days and certain employees are eligible for the reimbursement of accumulated sick leave on a percentage basis. Accumulated unpaid vacation and sick leave is accrued when incurred.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity

The Authority's financial statements include the operations of the joint trunk sewer and wastewater treatment plant for which the Board of Commissioners of the Authority exercises financial accountability. The Authority is considered a joint venture of the participating governments. Board members are appointed to five-year terms by their respective municipalities. There are no additional entities required to be included in the reporting entity and the Authority is not included in any other reporting entity.

Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis and in accordance with generally accepted accounting principles applicable to enterprise funds of state and local governments. An Enterprise Fund is used to account for operations: (i) that are financed primarily through user charges, or (ii) where the governing body has decided that determination of net income is appropriate.

The accounting and financial reporting applied by the Authority is determined by its measurement focus. The financial statements are reported using the economic measurement focus and the accrual basis of accounting. The transactions of the Authority 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 in the Statements of Net Position. Net Position (totals assets and deferred outflows net of total liabilities and deferred inflows) are segregated into invested in capital assets, restricted and unrestricted components.

Revenue Recognition

FASB has issued ASU 2016-10, (Topic 606) – Revenue from Contracts with Customers, Identifying Performance Obligations and Licensing. The update addresses the complexity and understandability of performance obligations and how an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The Authority recognizes revenue from exchange transactions comprised of primarily member assessments user fees when the earnings process is complete and services have been performed. Such revenues are recognized over the Authority's fiscal year. Revenues largely represent a single performance obligation that is satisfied over the Authority's year.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting and Financial Reporting for Pensions

The Authority implemented GASB 68 in the Year 2015. 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 is effective for periods beginning after June 15, 2015.

The Authority has also implemented GASB Statement 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.

Statement 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 68 requires that the government recognize its contribution as a deferred outflow of resources.

In addition, Statement 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.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting and Financial Reporting for Pensions (Continued)

This Statement amends paragraph 137 of Statement 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 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.

Under GAAP, Authorities are required to recognize the pension liability in the Statements of Revenues, Expenses, Changes in Net Assets (balance sheets) and Notes to the Financial Statements in accordance with GASB 68. The liability required to be displayed by GASB 68 is displayed as a separate line item in the Unrestricted Net Liabilities area of the balance sheet.

Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)

The Governmental Accounting Standards Board (GASB) has issued Statement no. 75, "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*". This statement establishes standards for measuring and recognizing liabilities, deferred outflows and inflows of resources, and expenses for postemployment benefits other than pensions. It also requires the State of New Jersey to calculate and allocate to each participating member, for note disclosure purposes only, the OPEB net liability of New Jersey Health Benefits Local Government Retiree Plan (the Plan). The statement does not alter the amount of funds that must be budgeted for OPEB payment under existing state law.

Under GAAP, Authorities are required to recognize the OPEB liability in the Statements of Revenues, Expenses, Changes in Net Position (balance sheets) and Notes to the Financial Statements in accordance with GASB 75. The liability required to be displayed by GASB 75 is displayed as a separate line item in the Unrestricted Net Liabilities area of the balance sheet.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Currently, the Authority has two items that qualify for reporting in this category, deferred amounts related to pensions and OPEB.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has four items that qualify in this category: credits on debt refundings, deferred amounts related to pension, deferred amounts that relate to OPEB, and deferred bond premium.

Restricted Assets

In accordance with the Bond Resolution related to certain debt obligations of the Authority (see note 8), the Authority established a Construction Fund in which may be deposited the proceeds of Bonds or Notes issued to finance the costs of capital projects. The Authority shall apply the amounts on deposit in the Construction Fund for the payment of costs related to its capital asset plant facilities. The Authority may also apply the balance on deposit in the Construction Fund for the payment of the principal or redemption price of or interest on its Bonds, as defined.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition to the Construction Fund, the Authority established the following Special funds:

<u>FUND</u>	<u>AMOUNT</u>	<u>USE FOR WHICH RESTRICTED</u>
Revenue	Revenues received by the Authority from municipality service charges	Authorized operating expenses and transfers to the various accounts described below
Operating	Amount required to equal the Operating Fund Requirement - The Operating Fund Requirement is defined as the amount of money which is equal to the amount necessary for the payment of operating expenses for the current fiscal year (in accordance with the provisions of the Annual Budget which is in effect at the date of determination) and any additional operating expenses provided for in accordance with generally accepted accounting principles.	Operating expenses
Operating Reserve	Amount of money which is equal to 25% of the operating expenses estimated by the Authority for the next fiscal year	Operating expenses
Debt Service	Amount needed to equal the Debt Service Requirement (as defined in the bond resolution)	Debt obligations
Debt Service Reserve	Amount needed to increase the balance to equal the Debt Reserve Requirement (as defined in the bond resolution)	Compliance with a Supplemental Resolution or Series Certificate, if any
Subordinated Payment Obligations	Amount needed to pay Subordinated Payment Obligations payable during the twelve-month period beginning on the first calendar day of such month	Subordinated Payment Obligations, if any
Capital Replacement	Amount provided in the Annual Budget and designations	Capital asset costs associated with the System (as defined in the bond resolution)

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

<u>FUND</u>	<u>AMOUNT</u>	<u>USE FOR WHICH RESTRICTED</u>
Rebate	Amount subject to rebate to the United States Government pursuant to the provisions of the Internal Revenue Code	Amounts due to the United States Government
General	To the extent that any funds are available	None

The Debt Service Fund, Debt Service Reserve Fund, and the Subordinated Payment Obligations Fund shall be held by the Trustee; all other Funds shall be held by the Authority.

In addition to the foregoing, the Authority established the Building and Equipment Fund to disburse funds for capital expenditures. This fund is under the direct control of the Authority subject to restrictions required under debt obligation agreements.

Capitalized Interest

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of major capital assets that have a construction period of over one year is reflected in the capitalized value of the asset constructed.

Income Taxes

No provision for income taxes has been made as the Authority is exempt from Federal and State income taxes.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

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

- 1) Invested 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 the bond resolution), 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 "invested in capital assets."

Property, Plant and Equipment

Property, plant and equipment is stated at cost which includes construction costs and other expenditures related to construction. Depreciation is determined on a straight-line basis, for all plant and equipment. Depreciation is provided for over the following estimated useful lives:

Buildings and Improvements	20-40 years
Sewer Mains	30 years
Other Improvements	10-20 years
Machinery and Equipment	3-20 years
Vehicles	5 years

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment (continued)

Details of property, plant and equipment as of December 31, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Land	\$ 454,919	\$ 454,919
Buildings and Improvements	160,848,812	160,821,158
Sewer Mains	17,752,868	17,752,867
Other Improvements	43,491,881	39,190,781
Machinery and Equipment	58,677,100	56,585,597
Vehicles	474,936	372,830
Construction in Progress	<u>663,826</u>	<u>4,586,486</u>
	282,364,342	279,764,638
Less: Accumulated Depreciation	<u>110,143,381</u>	<u>100,917,362</u>
Net Property, Plant and Equipment	<u>\$172,220,961</u>	<u>\$178,847,276</u>

(3) BUDGETARY PROCEDURES

The Authority follows these procedures in establishing the Operating Fund budget:

The annual budget for each fiscal year of the Authority is introduced by resolution passed by not less than a majority of the governing body. Copies are submitted to the Director of the Division of Local Government Services Director (Director) for approval prior to its adoption.

The budget must comply with the terms and provisions of loan agreements and is to be in such form and detail as to items of revenue, expenses and other contents as required by law or by rules and regulations of the Local Finance Board.

No authority budget can be finally adopted until the Director has approved the budget.

Public hearings are conducted to obtain citizen comments on the proposed budget.

Operating expense appropriations lapse at the close of the fiscal year to the extent that they have not been expended.

The level at which expenditures cannot exceed the budget is at the total budget level.

The budget may be increased after adoption when an item of revenue has been made available after the adoption date.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(4) CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents are summarized as follows:

	<u>Unrestricted</u>	<u>Restricted</u>
December 31, 2020:		
Cash and Cash Equivalents	<u>\$3,824,762</u>	<u>\$5,774,079</u>
December 31, 2019:		
Cash and Cash Equivalents	<u>\$3,352,788</u>	<u>\$6,254,081</u>

Cash on deposit is partially insured by the Federal Deposit Insurance Corporation in the amount of \$250,000 in each bank depository. Balances above the federal depository insurance amount are insured by the State of New Jersey Governmental Unit Deposit Protection Act (NJGUDPA).

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned. The Authority does not have a specific deposit policy for custodial credit risk other than those policies that adhere to the requirements of statute. As of December 31, 2020, based upon the coverage provided by FDIC and NJGUDPA, no amount of the bank balance was exposed to custodial credit risk.

(5) INVESTMENTS

The Authority's investment policy principally permits the investing of funds in the following types of investments:

Bonds, debentures, notes or other evidences of indebtedness issued by any agency or instrumentality of the United States or by any corporation chartered by the United States to the extent that such obligations are guaranteed by the United States or by another such agency and Defeasance Securities.

Negotiable or nonnegotiable certificates of deposit issued by any bank, trust company, or national banking associations which certificates of deposits shall be continuously secured by obligations described in the first paragraph above.

Deposits in the NJ Cash Management Fund and other deposits defined in the Authority's Bond Resolution.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(6) OTHER RECEIVABLE

Under a Confidential Agreement of Settlement and General Release, the Authority settled a dispute with one of the parties in connection with the Authority's Cogeneration Facility. The agreement provides for a settlement of \$4.4 million. The settlement amount was funded under a Funding Agreement and will be paid periodically over a period of twenty (20) years. Total payments to be received over the twenty-year period amounts to \$6,225,000.

In 2016, the Authority recorded a receivable in the amount of \$4,400,000 reflecting the litigation settlement amount. Interest on the settlement payments are recorded as payments are received. In 2020 and 2019, the Authority received payments of \$234,000 in each year in accordance with the funding schedule. This payment included interest that was realized in the amount of \$118,785 and \$122,050 in the years ended December 31, 2020 and 2019, respectively. The receivable balance of the settlement agreement at present value at December 31, 2020 and 2019 amounts to \$3,958,361 and \$4,073,576, respectively.

The total remaining payments to be received are scheduled as follows:

<u>Period</u>	<u>Annual Amount</u>	<u>Total Amount</u>
2021 to 2031	\$234,000	\$2,574,000
2032	265,000	265,000
2033	300,000	300,000
2034	500,000	500,000
2035	750,000	750,000
2036	900,000	900,000
		<u>\$5,289,000</u>

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(7) PROPERTY PLANT AND EQUIPMENT

Property, Plant and Equipment is summarized as follows:

	<u>Balance</u> <u>Dec 31, 2019</u>	<u>Increase</u>	<u>Transfers/ (Decreases)</u>	<u>Balance</u> <u>Dec 31, 2020</u>
Land	\$ 454,919			\$ 454,919
Buildings and Improvements	160,821,158	\$ 27,655		160,848,813
Sewer Mains	17,752,867			17,752,867
Other Improvements	39,190,781	91,540	4,209,560	43,491,881
Machinery and Equipment	56,585,597	2,015,984	75,519	58,677,100
Vehicles	372,830	127,569	(25,463)	474,936
Construction in Progress	<u>4,586,486</u>	<u>661,996</u>	<u>(4,584,657)</u>	<u>663,825</u>
	279,764,638	\$ 2,924,744	\$ (325,041)	\$282,364,342
Less: Accumulated Depreciation	<u>100,917,362</u>	<u>9,243,843</u>	<u>(17,824)</u>	<u>110,143,381</u>
Net Property, Plant and Equipment	<u>\$178,847,276</u>	<u>\$(6,319,099)</u>	<u>\$ (307,217)</u>	<u>\$172,220,961</u>

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(8) DEBT OBLIGATIONS

	<u>2020</u>	<u>2019</u>
A summary of long-term debt follows:		
New Jersey Infrastructure Bank 2002 Obligations, due August 2022	\$ 689,655	\$ 1,020,022
New Jersey Infrastructure Bank 2003 Obligations, due August 2023	4,721,778	6,255,980
New Jersey Infrastructure Bank 2004 Obligations, due August 2024	29,899,357	36,952,795
New Jersey Infrastructure Bank 2004 Obligations, due August 2024	875,623	1,082,137
New Jersey Infrastructure Bank 2005 Obligations, due August 2025	13,243,715	15,715,907
New Jersey Infrastructure Bank 2015 A & B Obligations, due August 2034	1,328,953	1,414,447
Sewer Revenue Bonds, 2005 (Capital Appreciation Bonds), due September 2035	72,089,445	68,740,934
New Jersey Infrastructure Bank - Interim Construction Financing – 2017; Digester Covers and Gas Flares, due June 2021	4,210,947	4,210,947
New Jersey Infrastructure Bank - Interim Construction Financing – 2017; Food Waste Station, due June 2021	2,356,560	2,356,560
Total Debt	\$129,416,033	\$137,749,729
Less Current Maturities	11,951,498	11,682,206
Total Long-Term Debt	\$110,897,029	\$126,067,523

Aggregate long-term principal debt payment requirements over the next five years are as follows:

2021	\$11,951,498
2022	12,252,156
2023	12,085,677
2024	11,428,788
2025	6,406,523

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(8) DEBT OBLIGATIONS (CONTINUED)

Detail information regarding Debt Obligations at December 31, 2020 and 2019 follows:

New Jersey Infrastructure Bank (NJIB)

Total obligations payable to the NJIB at December 31, 2020 and 2019 amounted to \$57.3 million and \$69.0 million, respectively. A summary of the NJIB obligations follow:

- A. In November 2002, the Authority issued \$5.5 million NJIB Series 2002 obligations due on August 1, 2022. These obligations represent the initial portion of the permanent financing to fund the construction costs related to certain plant upgrades. "Principal balance refunding credits" have been realized on this debt. Refunding credits amounting to \$84,916 have been recorded as a Credit on Debt Refunding and is being amortized over the remaining term of the loan as a credit to interest expense. Annual remaining principal and interest payments under these refunded obligations will average approximately \$360 thousand through the year 2022. The annual interest rate on the outstanding principal amount of \$399,953 of such obligations approximates 3% over the remaining term. No interest is due on the remaining principal amount of \$289,702.

- B. In November 2003, the Authority issued \$25.1 million NJIB Series 2003 obligations due in August 2023. These obligations represent the permanent financing to fund the construction costs related to the Cogeneration Facility, a segment of the Authority's Capital Improvement Program (CIP) and the remainder of certain other plant upgrades. "Principal balance refunding credits" have been realized on this debt. Refunding credits amounting to \$310,000 have been recorded as a Credit on Debt Refunding and are being amortized over the remaining term of the loan as a credit to interest expense. Annual remaining principal and interest payments under these obligations will average approximately \$1.7 million through the year 2023. The annual interest rate on the outstanding principal amount of \$2,745,000 of such obligations approximates 3.0% over the remaining term. No interest is due on the remaining principal amount of \$1,976,778.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(8) DEBT OBLIGATIONS (CONTINUED)

New Jersey Infrastructure Bank (NJIB) (Continued)

- C. In November 2004, the Authority issued \$114.2 million NJIB Series 2004 obligations due in August 2024. These obligations represent a portion of the permanent financing to fund the construction costs related to the wastewater treatment plant improvements that are part of the CIP. "Principal balance refunding credits" have been realized on this debt. Refunding credits amounting to \$3,094,333 have been recorded as a Credit on Debt Refunding and is being amortized over the remaining term of the loan as a credit to interest expense. Annual remaining principal and interest payments under these refunded obligations will average approximately \$7.5 million through the year 2024. The annual interest rate on the outstanding principal amount of \$16,855,987 of such obligations approximates 3.0% over the remaining term. No interest is due on the remaining principal amount of \$13,043,370.
- D. In November 2004, the Authority issued \$3.5 million NJIB Series 2004 obligations due in August 2024. These obligations represent additional permanent financing to fund the construction costs related to the Cogeneration Facility and certain plant upgrades. "Principal balance refunding credits" have been realized on this debt. Refunding credits amounting to \$99,853 have been recorded as a Credit on Debt Refunding and is being amortized over the remaining term of the loan as a credit to interest expense. Annual principal and interest payments under these obligations will average approximately \$219 thousand through the year 2024. The annual interest rate on the outstanding principal amount of \$495,167 of such obligations approximates 3.1% over the remaining term. No interest is due on the remaining principal amount of \$380,456.
- E. In November, 2005, the Authority issued \$41.2 million NJIB Series 2005 obligations due in August 2025. These obligations represent additional permanent financing to fund the construction costs related principally to the wastewater treatment plant and gravity relief sewer segments of the CIP. "Principal balance refunding credits" have been realized on this debt. Refunding credits amounting to \$1,234,954 have been recorded as a Credit on Debt Refunding and is being amortized over the remaining term of the loan as a credit to interest expense. Annual principal and interest payments under these obligations will average approximately \$2.6 million through the year 2025. The annual interest rate on the outstanding principal amount of \$7,980,723 approximates 2.9% over the remaining term. No interest is due on the remaining principal amount of \$5,262,992.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(8) DEBT OBLIGATIONS (CONTINUED)

New Jersey Infrastructure Bank (NJIB) (Continued)

F. In May 2015, the Authority issued \$1.7 million NJIB Series 2015A-I obligations due in August 2034. These obligations represent funding for upgrades to the Digester Gas Treatment System and Chemical Feed System. Annual principal and interest payments under these obligations will average approximately \$110 thousand through the year 2034. The annual interest rate on the outstanding principal amount of \$435,000 of such obligations approximates 4.5% over the remaining term. No interest is due on the remaining principal amount of \$893,953.

As part of this financing, the Authority was granted \$399,980 of loan forgiveness which was being treated as grant income on the financial statements. The full amount of the forgiveness has been received through 2020.

G. In December 2017, for purposes of temporary/interim financing during construction, the Authority issued non-interest-bearing Notes to the NJIB in the amounts of \$4,210,947 and \$2,356,560 which are due on June 30, 2021. These Notes represent funding for improvements to the Authority's Digester Covers and Gas Flares and the construction of a Food Waste Station, respectively. Proceeds of the Notes are held by the NJIB for the benefit of the Authority upon submission of approved construction cost requisitions. See Subsequent Events Footnote. The Authority consummated permanent financing of these Notes prior to maturity through the NJIB financing program.

Sewer Revenue Bonds, 2005 – Capital Appreciation Bonds

In July 2005, the Authority issued Sewer Revenue Bonds (Capital Appreciation Bonds) Series 2005 obligations due in the year 2035. These obligations have an issue value of \$34.7 million and a maturity value of \$112.9 million. These bonds will be paid over a twelve-year period beginning in the year 2024 and ending in September 2035. These obligations represent additional permanent financing to fund the remaining cost of the Year 2002 Capital Improvement Program. Annual principal and interest payments under these obligations will be \$1.7 million in the year 2024, \$9.0 million in the year 2025, and approximately \$10.2 million in each year thereafter through the year 2035. Annual interest rates on these obligations range between 4.68% and 4.88%.

Interest on the Capital Appreciation Bonds is accreted in accordance with an Accreted Value Table. The accreted value of the Capital Appreciation Bonds outstanding at December 31, 2020 and 2019 amounted to \$72,089,445 and \$68,740,934, respectively. These amounts include \$37,416,874 and \$34,068,363 of accreted interest at December 31, 2020 and 2019, respectively.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(9) CREDITS ON DEBT REFUNDINGS

The Credits on Debt Refundings relate to "principal balance refunding credits" realized on NJIB debt obligations. The total savings in principal payments amounted to \$4,757,529. The Credits on Debt Refundings are being amortized through the year 2025 on a straight-line basis. Amortization of \$357,607 was recorded in each of the years 2020 and 2019, which reduced interest expense. The unamortized balance of the Credits on Debt Refundings amounted to \$1,259,267 and \$1,616,874 at December 31, 2020 and 2019, respectively. The Credits on Debt Refundings are presented in the Statements of Net Position at December 31, 2020 and 2019 under the caption "Deferred Inflows of Resources".

(10) NET POSITION

The components of net position are as follows:

	<u>December 31,</u>	
	<u>2020</u>	<u>2019</u>
Net Position:		
Invested in Capital Assets, Net of Related Liabilities	\$41,620,652	\$39,661,787
Restricted:		
Building and Equipment Fund	3,958,361	4,218,700
Capital Replacement Fund	684,509	977,244
Operating Reserve Fund	3,544,500	3,355,000
Debt Service Fund	853,647	1,010,576
Total Restricted	<u>\$ 9,041,017</u>	<u>\$ 9,561,520</u>
Unrestricted:		
Appropriated Budget	\$ 1,260,000	\$ 750,000
Unappropriated	930,881	1,334,967
Rate Stabilization Fund	300,000	200,000
Net Pension Liability	(13,149,292)	(12,497,883)
Net OPEB Liability	<u>(16,922,821)</u>	<u>(17,549,699)</u>
Total Unrestricted	<u>\$(27,581,232)</u>	<u>\$(27,762,615)</u>
Total Net Position	<u>\$ 23,080,437</u>	<u>\$ 21,460,692</u>

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(11) PENSION PLAN

All required full-time employees of the Authority are covered by the Public Employees' Retirement System which has been established by state statute and is administered by the New Jersey Division of Pensions and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the System terminate. The Division issues a publicly available financial report that includes financial statements and required supplementary information for the system. These reports may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625 or online at www.state.nj.us/treasury/pensions.

The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provision 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 or local jurisdiction.

The Defined Contribution Retirement Program (DCRP) was established under the provision of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007 to provide coverage to elected and certain appointed officials and part-time employees, effective July 1, 2007. Part-time employees that earn an annual salary of at least \$5,000 and work less than 35 hours per week are eligible to enroll in the New Jersey Defined Contribution Plan (DCRP). The DCRP is offered through the Prudential Retirement Insurance and Annuity Company. Employees contribute 5.5% of salary and the Authority contributes 3% of salary, for a total contribution of 8.5%. Membership is mandatory for such individuals with vesting occurring after one year of membership. The Authority has no employees enrolled in the DCRP.

Significant Legislation

Effective June 28, 2011, P.L. 2011, c. 78 enacted certain changes in the operations and benefit provisions of the PERS system.

Pension Plan Design Changes

Effective June 28, 2011, P.L. 2011, c. 78, new members of PERS, hired on or after June 28, 2011, will need 30 years of creditable service and have attained the age of 65 for receipt of the early retirement benefit without a reduction of 1/4 of 1% for each month that the member is under age 65. New members will be eligible for a service retirement benefit at age 65.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(11) PENSION PLAN (CONTINUED)

Funding Changes

Under the new legislation, the methodology for calculating the unfunded accrued liability payment portion of the employer's annual pension contribution to the PERS was changed. The unfunded actuarial accrued liability (UAAL) will be amortized for each plan over an open-ended 30-year period and paid in level dollars. Beginning with the July 1, 2020 actuarial valuation (July 1, 2020 for PFRS), the UAAL will be amortized over a closed 30-year period until the remaining period reaches 20, when the amortization period will revert to an open-ended 20-year period.

COLA Suspension

The payment of automatic cost-of-living adjustment to current and future retirees and beneficiaries are suspended until reactivated as permitted by this law.

Vesting and Benefit Provisions

The vesting and benefit provisions of PERS are set by N.J.S.A. 43:15A and 43.3B. All benefits vest after ten years of service, except for post-retirement healthcare benefits that vest after 25 years of service.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Contribution Requirements

The contribution policy is set by N.J.S.A. 43:15A and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation.

Effective June 28, 2011, P.L. 2011, c. 78 provides for increases in the employee contribution rates: from 5.5% to 6.5% plus an additional 1% phased-in over 7 years beginning in the first year, meaning after 12 months, after the law's effective date for PERS.

Employers are required to contribute at an actuarially determined rate for PERS. The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(11) PENSION PLAN (CONTINUED)

Contribution Requirements:

Three Year Trend Information for PERS

<u>Year Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2020	\$624,844	100%	\$624,844
2019	600,658	100%	600,658
2018	532,442	100%	532,442

DCRP Contributions

The Authority did not make DCRP contributions for the years ended December 31, 2020 and 2019.

(12) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68

Public Employees Retirement System (PERS)

At December 31, 2020, the Authority reported a net pension liability of \$9,314,465 for its proportionate share of the net pension liability. The total pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020. 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 employers, actuarially determined. At June 30, 2020, the Authority's proportion was 0.0571180812 percent, which was a decrease of 0.0027269632 percent from its proportion measured as of June 30, 2019.

For the year ended June 30, 2020, the State recognized an actuarially determined pension expense of \$360,351 for the Authority's proportionate share of the total pension expense. The pension expense recognized in the Authority's financial statement based on the April 1, 2020 billing was \$582,116.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(12) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Public Employees Retirement System (PERS) (Continued)

At December 31, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Inflow of Resources</u>	<u>Deferred Outflow of Resources</u>
Changes of assumptions	\$3,900,055	\$ 302,172
Net difference between expected and actual experience	32,940	169,601
Net difference between projected and actual earnings on pension plan investments		318,376
Changes in proportion and differences between Authority contributions and proportionate share of contributions	570,637	503,500
Contributions subsequent to the measurement date	-0-	-0-
	<u>\$4,503,632</u>	<u>\$1,293,649</u>

Other amounts reported by the State as the Authority's proportionate share of deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the State's actuarially calculated pension expense as follows:

Year Ended	
<u>June 30</u>	<u>Amount</u>
2021	\$(1,182,222)
2022	(1,079,014)
2023	(622,382)
2024	(259,679)
2025	<u>(66,686)</u>
	<u><u>\$(3,209,983)</u></u>

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(12) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions

The total pension liability for the June 30, 2020 measurement date was determined by an actuarial valuation as of July 1, 2019, which rolled forward to June 30, 2020. These actuarial valuations used the following assumptions:

	<u>6/30/2020</u>	<u>6/30/2019</u>
Inflation	2.75 Percent	2.25 Percent
Salary Increases (based on):	(years of service)	(age)
Through 2026	2.00-6.00 Percent	1.65-4.15 Percent
Thereafter	3.00-7.00 Percent	2.65-5.15 Percent
Investment Rate of Return	7.00 Percent	7.00 Percent

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-2020.

The actuarial assumptions used in the July 1, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2014 to June 30, 2018.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(12) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at both June 30, 2020 and 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, 2020 are summarized in the following table:

<u>Asset Class</u>	<u>June 30, 2020</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	27.00%	7.71%
Non-U.S. Developed Market Equity	13.50%	8.57%
Emerging Market Equity	5.50%	10.23%
Private Equity	13.00%	11.42%
Real Assets	3.00%	9.73%
Real Estate	8.00%	9.56%
High Yield	2.00%	5.95%
Private Credit	8.00%	7.59%
Investment Grade Credit	8.00%	2.67%
Cash Equivalents	4.00%	0.50%
U.S. Treasury's	5.00%	1.94%
Risk Mitigation Strategies	3.00%	3.40%
	<u>100.00%</u>	

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(12) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION - GASB 68
(CONTINUED)

Public Employees Retirement System (PERS) (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00% and 6.28% as of June 30, 2020 and June 30, 2019, respectively. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers and the nonemployer contributing entity will be based on 78% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for the local employers. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all projected benefit payments to determine the total pension liability.

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

The following presents the Authority's proportionate share of the net pension liability of the participating employers as of June 30, 2020 respectively, calculated using the discount rate as disclosed above as well as what the Authority's proportionate share of the net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease <u>6.00%</u>	June 30, 2020 At Current Discount Rate <u>7.00%</u>	1% Increase <u>8.00%</u>
Authority's proportionate share of the pension liability	\$11,725,358	\$9,314,465	\$7,268,757

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). The report may be obtained at State of New Jersey Division of Pensions and Benefits P.O. Box 295 Trenton, New Jersey 08625-0295 <http://www.state.nj.us/treasury/pensions>.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(13) ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS
OTHER THAN PENSIONS – GASB 75

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This statement establishes standards for measuring and recognizing liabilities, deferred outflows and inflows of resources, and expenses for postemployment benefits other than pensions.

Under current New Jersey budget and financial reporting requirements, the Authority is not required to fund any amounts in excess of their current costs on a pay-as-you-go basis or to accrue funds, create a trust or issue debt to finance their other post-employment benefit liability.

Plan Description and Benefits Provided

The State Health Benefit Local Government Retired Employees Plan (the Plan) 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*; therefore, assets are accumulated to pay associated benefits.

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

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(13) ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS
OTHER THAN PENSIONS – GASB 75 (CONTINUED)

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.

Contributions

The Authority's contributions to SHBP for the years ended December 31, 2020, 2019 and 2018 were \$269,420, \$318,895, and \$383,645, respectively, which equaled the required contributions for each year.

Total Net OPEB Liability

At June 30, 2020, the Plan reported a liability of \$15,156,453 for the Authority's proportionate share of the collective net OPEB liability. The total Net OPEB liability measured as of June 30, 2020 was determined by an actuarial valuation as of June 30, 2019, which was rolled forward to June 30, 2020.

The Authority's proportion of the OPEB liability was based on the ratio of the plan members of the individual employer to the total members of the Plan's nonspecial funding situation during the measurement period July 1, 2019 through June 30, 2020.

At June 30, 2020, the Authority's proportion was 0.0084453 percent, which was an increase of 0.009340 percent from its proportion measured as of June 30, 2019.

For the year ended June 30, 2020, the Authority reported OPEB expense of \$274,477. This OPEB expense was based on the OPEB plan's June 30, 2020 measurement date.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(13) ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS
OTHER THAN PENSIONS – GASB 75 (CONTINUED)

At June 30, 2020, the Authority reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Changes of assumptions	\$ 2,266,928	\$3,370,561
Net difference between expected and actual experience	399,209	2,822,414
Net difference between projected and actual earnings on OPEB plan investments	9,625	--
Changes in proportion	<u>2,515,438</u>	<u>1,389,436</u>
	<u>\$5,191,200</u>	<u>\$7,582,411</u>

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

Year Ended <u>June 30</u>	<u>Amount</u>
2020	\$ (589,535)
2021	(590,274)
2022	(591,468)
2023	(592,559)
2024	(332,408)
Thereafter	<u>305,031</u>
	<u>\$(2,391,211)</u>

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(13) ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS
OTHER THAN PENSIONS – GASB 75 (CONTINUED)

Actuarial Assumptions and Other Inputs

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:

	<u>6/30/2020</u>	<u>6/30/2019</u>
Inflation	2.50 Percent	2.50 Percent
Salary Increases:		
Through 2026	2.00-6.00 Percent	2.00-6.00 Percent
Thereafter	3.00-7.00 Percent	3.00-7.00 Percent

Actuarial assumptions used in the July 1, 2019 valuation were based on the results of the pension plans' experience studies prepared for July 1, 2013 to June 30, 2018 and July 1, 2014 to June 30, 2018, respectively.

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

Health Care Trend Assumptions

For pre-Medicare medical benefits, the trend is initially 5.6% and decreases to a 4.5% long-term trend rate after seven years. For post-65 medical benefits, the actual fully insured Medicare Advantage trend rates for fiscal year 2021 through 2022 are reflected. The rates used for 2023 and 2024 are 21.83% and 18.53%, respectively, trending to 4.5% for all future years. For prescription drug benefits, the initial trend rate is 7.0% and decreases to a 4.5% long-term trend rate after seven years.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(13) ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS
OTHER THAN PENSIONS – GASB 75 (CONTINUED)

Discount Rate

The discount rate for June 30, 2020 was 2.21%. This represents the municipal bond return rate as chosen by the State. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

Sensitivity of the Authority's Proportionate Share of the OPEB Liability to Changes in the Discount Rate

The following presents the OPEB liability associated with the Authority as of June 30, 2020, calculated using the discount rate as disclosed above as well as what the 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:

	<u>June 30, 2020</u>		
	<u>1% Decrease</u>	<u>At Current Discount Rate</u>	<u>1% Increase</u>
Authority's proportionate share of the OPEB liability	\$17,918,130	\$15,156,453	\$12,970,335

Sensitivity of the Authority's Proportionate Share of the OPEB Liability to Changes in Healthcare Trends

The following presents the total Net OPEB Liability associated with the Authority as of June 30, 2020, calculated using the healthcare trend rate as disclosed above as well as what the Net OPEB Liability would be if it was calculated using a healthcare trend rate that is 1- percentage point lower or 1-percentage point higher than the current rate:

	<u>June 30, 2020</u>		
	<u>1% Decrease</u>	<u>At the Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Authority's proportionate share of the Net OPEB liability	\$12,541,981	\$15,156,453	\$18,580,141

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(13) ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS
OTHER THAN PENSIONS – GASB 75 (CONTINUED)

OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan's fiduciary net position is available in the separately issued Financial Report for the State of New Jersey State Health Benefits Local Government Retired Employees Plan. The report may be obtained at State of New Jersey Division of Pensions and Benefits P.O. Box 295 Trenton, New Jersey 08625-0295 <http://www.state.nj.us/treasury/pensions>.

(14) COMPENSATED ABSENCES

Certain employees are allowed to accumulate (with restrictions) unused vacation benefits and sick leave. Accrued expenses related to these costs included in current liabilities at December 31, 2020 and 2019 amounted to \$247,079 and \$201,569, respectively.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(15) LITIGATION SETTLEMENT RELATED TO CAPITAL IMPROVEMENT PROGRAM

The Authority was a party defendant in an action initiated in the New Jersey Superior Court, Chancery Division, Union County, by the New Jersey Department of Environmental Protection. A public interest environmental group was granted permission by the Court to intervene in the action of the plaintiff. The plaintiffs alleged that the Authority violated several provisions of its New Jersey Pollutant Discharge Elimination System (NJPDDES) Permit over a period of time. The Authority denied the allegations and asserted defenses to the plaintiffs' claims. While in trial, the parties agreed on a settlement of all claims among the parties. A \$965,000 provision for the litigation settlement was included as a charge to operations in the year ended December 31, 2000. Pursuant to the terms of the settlement agreement, the Authority paid \$365,000 in the year 2001 and the remaining \$600,000, with interest, was paid in the year 2002. The basic terms of the settlement included in a Judicial Consent Order (JCO) entered by the Court in October, 2001 that required the Authority to significantly increase and improve its treatment capabilities and the effluent quality. The requirements of the JCO were incorporated into the Authority's Year 2002 Capital Improvement Program (CIP). The CIP included the following segments: (i) Wastewater Treatment Plant (WWTP) improvements; (ii) Gravity Relief Sewer (GRS); and (iii) a Power Generating Sludge Drying Facility (Cogeneration Facility). The CIP established short, intermediate and long-term schedules for achieving permit compliance and closing the Authority's combined sewer overflows. The requirements of the JCO have been satisfied.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(16) LITIGATION AND RELATED MATTERS

During the year 2009, litigation was commenced by the Authority in connection with the Authority's Cogeneration Facility (the "Facility"). The RVSA constructed the Facility on the basis that operating the Facility as the WWTP's primary power source would lower annual operating costs by over \$1 million per year. It was determined that operating the Facility as designed actually imposed increases in operating costs to the Authority. On March 24, 2011 the RVSA filed a Demand for Arbitration asserting claims against various parties including the design engineer, the construction oversight manager, the general contractor, the supplier of the gas generators and other parties. A related action was commenced by the Authority on October 1, 2012 against parties with whom the Authority did not have an arbitration requirement. The Authority continued to investigate the extent to which it can mitigate its damages. Certain settlements were realized in 2017 on both the arbitration and litigation with several parties who had arbitration provisions in their contracts.

Efforts to resolve the dispute were successful. Settlements with the third parties aggregated approximately \$7.1 million of which \$850 thousand was received in 2016. The remaining \$6.2 million is being paid under the terms of a Funding Agreement with remaining payments as of December 31, 2020 as follows:

<u>Period</u>	<u>Annual Amount</u>	<u>Total Amount</u>
2021 to 2031	\$234,000	\$2,574,000
2032	265,000	265,000
2033	300,000	300,000
2034	500,000	500,000
2035	750,000	750,000
2036	900,000	<u>900,000</u>
		<u>\$5,289,000</u>

Settlement payments of \$234,000 were received in each of the years ended December 31, 2020 and 2019. Interest income is being recorded on the funding agreement as payments are received.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(17) COMMITMENTS AND CONTINGENCIES

- A. The Authority's Year 2002 Capital Improvement Program (CIP), with a cost of approximately \$225 million is discussed in Note 15. A substantial portion (95%) of such costs is related to the Judicial Consent order (JCO).

The major sources of financing for the CIP were borrowings under the NJIB loan program and the issuance of Capital Appreciation Bonds (CABS). Total borrowings outstanding under the NJIB Trust/Fund Loan Program related to the CIP at December 31, 2020 were \$49 million. The NJIB borrowings outstanding at December 31, 2020 mature in the Year 2025. The CABS, with an issue value of \$34.7 million and a maturity value of \$112.9 million, will be paid over a twelve-year period beginning in the Year 2024 and ending in the Year 2035.

Debt service payment requirements related to the year 2002 CIP will continue to be a significant component of assessments to member municipalities through the Year 2035. Annual debt service payment requirements will be in the \$13 million range through the Year 2024, \$12 million in the Year 2025 and in the \$10 million range each year thereafter through the Year 2035. A significant portion of the Authority's operating revenues are generated by annual assessments to its member municipalities (95% for the year ended December 31, 2021).

- B. In January 2017, the Authority signed an agreement for a Public Private Partnership (PPP) to accept specified feedstock (food waste) for co digestion with its bio solids and entered into a contract with an initial term of 10 years with an optional renewal for 3 to 10 years. The contract is a design/build construction contract which entails the refurbishing of an existing sludge thickening tank that is being utilized as a feedstock receiving station. The project is expected to generate energy savings, tip fees, and energy credits over the first 10 years approximating \$6 million which will be used to offset the cost of operating the Authority. The project is expected to take 3 to 4 years to ramp up to maximum operations. Live operations began in April 2018 with feedstock deliveries. The official contracted commercial operating date began August 1, 2018 after full acceptance of the construction project and the appurtenant equipment.
- C. In conjunction with the aforementioned PPP project, in December 2017 the Authority issued a \$2.0 million Note with the NJIB that is due June 30, 2021. The Note bears no interest. This interim financing was secured for the construction of the Food Waste Station. In April 2018 the Note was increased to approximately \$2.4 million. The Authority permanently financed the Note prior to maturity through the NJIB financing program in June 2021. See Subsequent Events Footnote.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(17) COMMITMENTS AND CONTINGENCIES (CONTINUED)

- D. In December 2017 the Authority issued \$6.6 million in Notes with the NJIB that became due June 30, 2021. These Notes bear no interest. This interim financing was secured for improvements to the Authority's Digesters and Gas Flares.

The Authority permanently financed these Notes prior to maturity through the NJIB financing program. Permanent financing amounted to \$6,254,171. This debt is being amortized over 30 years beginning in 2021.

Principal debt payment requirements on this debt over the next five years are as follows:

2021	\$106,049
2022	189,073
2023	189,073
2024	189,073
2025	194,073

See Subsequent Events Footnote.

(18) GRANTS

- A. In 2020 the Authority applied for and received grant funds under the US Treasury CARES Act. Funds were received to cover additional and emergency expenses relating to the COVID-19 pandemic. A total of \$683,092 was received in 2020.
- B. In 2019 the Authority was awarded and received grant funds under the FEMA Hazard Mitigation Grant Program award. Under a sub-grant agreement, the Authority was awarded a grant of \$225 thousand toward estimated equipment enhancement project costs of \$320 thousand. The project was completed and grant funds were received in 2019.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2020 AND 2019

(19) SUBSEQUENT EVENTS

The Authority has evaluated subsequent events occurring after the financial statement date through March 10, 2022, which is the date the financial statements were available to be issued. Based on this evaluation, the Authority notes the following:

In June 2021, the Authority consummated NJIB debt financing totaling \$6.3 million. This financing represents the permanent financing of the NJIB interim loans totaling approximately \$6.6 million. Annual principal and interest payments under these obligations will average approximately \$208 thousand through 2050. The annual interest on the outstanding principal amount of \$1,535,000 approximates 3%. No interest is due on the remaining principal amount of \$4,719,171.

The Authority has determined that no further subsequent events have occurred which require disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

RAHWAY VALLEY SEWERAGE AUTHORITY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION RESERVED AND UNRESERVED
YEARS ENDED DECEMBER 31, 2020 AND 2019

	OPERATING AND REVENUE FUNDS AND INVESTMENT IN CAPITAL ASSETS, NET	RATE STABILIZATION FUND	CAPITAL REPLACEMENT FUND	OPERATING RESERVE FUND	DEBT SERVICE FUND	TOTAL 2020	TOTAL 2019
Operating Revenues:							
Member Annual Assessments	\$ 27,052,500	\$ -	\$ -	\$ -	\$ -	\$ 27,052,500	\$ 26,280,500
Discharge, Permit and Other Fees	1,316,211					1,316,211	1,299,785
Food Waste Fees	217,129					217,129	207,844
Other Income, Net	20,740					20,740	8,843
Total Operating Revenues	\$ 28,606,580	\$ -	\$ -	\$ -	\$ -	\$ 28,606,580	\$ 27,806,972
Operating Expenses:							
Costs of Providing Services	\$ 10,990,893	\$ -	\$ -	\$ -	\$ -	\$ 10,990,893	\$ 9,879,345
General and Administrative	3,404,733					3,404,733	3,498,608
Pension Expense Charge	26,566					26,566	482,700
OPEB Expense Charge (Benefit)	(2,035)					(2,035)	(498,030)
Depreciation	9,243,843					9,243,843	8,961,850
Total Operating Expenses	\$ 23,664,000	\$ -	\$ -	\$ -	\$ -	\$ 23,664,000	\$ 22,324,473
Operating Income	\$ 4,942,580	\$ -	\$ -	\$ -	\$ -	\$ 4,942,580	\$ 5,482,499
Nonoperating Revenues (Expenses):							
Interest Income - Unrestricted Funds	\$ 34,463	\$ -	\$ -	\$ -	\$ -	\$ 34,463	\$ 185,708
Interest Income - Restricted Funds	-				128,307	128,307	60,788
Grants	683,092					683,092	225,000
Interest Expense, Net	(2,402,434)				(1,766,263)	(4,168,697)	(4,286,343)
Income (Loss) Before Transfers	\$ 3,257,701	\$ -	\$ -	\$ -	(1,637,956)	\$ 1,619,745	\$ 1,667,652
Interfund Transactions, Net	\$ (2,104,606)	\$ 100,000	\$ (292,735)	\$ 189,500	\$ 2,107,841	\$ -	\$ -
Net Position, Beginning of Year	\$ 33,767,554	\$ 200,000	\$ 977,244	\$ 3,355,000	\$ 1,010,576	\$ 39,310,374	\$ 37,642,722
Net Position, End of Year	\$ 34,920,649	\$ 300,000	\$ 684,509	\$ 3,544,500	\$ 1,480,461	\$ 40,930,119	\$ 39,310,374

RAHWAY VALLEY SEWERAGE AUTHORITY

SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
 CHANGES IN CASH AND CASH EQUIVALENTS -
 UNRESTRICTED ACCOUNTS (OPERATING AND REVENUE ACCOUNTS)
YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>TOTAL 2020</u>	<u>TOTAL 2019</u>
Cash and Cash Equivalents, Beginning of Year	\$ 3,352,788	\$ 2,588,092
Cash Receipts:		
Member Annual Assessments	\$ 27,052,500	\$ 26,290,500
Discharge Fees	1,088,364	1,023,183
Permit Fees	229,107	249,527
Sewer Connection Fees	16,150	14,150
Food Waste Fees	213,234	224,132
Interest on Investments	34,463	63,535
Grants	683,092	-
Other, Net	20,740	8,966
Transfers from Restricted Funds	<u>1,080,756</u>	<u>1,500,000</u>
<u>Total Cash and Cash Equivalents Available</u>	<u>\$ 33,771,194</u>	<u>\$ 31,962,085</u>
Cash Disbursements:		
Operations	\$ 14,143,080	\$ 13,638,517
Transfers to Restricted Funds	<u>15,803,352</u>	<u>14,970,780</u>
<u>Total Cash Disbursements</u>	<u>\$ 29,946,432</u>	<u>\$ 28,609,297</u>
Cash and Cash Equivalents, End of Year	<u>\$ 3,824,762</u>	<u>\$ 3,352,788</u>

RAHWAY VALLEY SEWERAGE AUTHORITY

SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS,
CHANGES IN CASH, CASH EQUIVALENTS AND INVESTMENTS-RESTRICTED ACCOUNTS
YEARS ENDED DECEMBER 31, 2020 AND 2019

	CAPITAL REPLACEMENT FUND	OPERATING RESERVE FUND	BUILDING AND EQUIPMENT FUND	CONSTRUCTION FUND	DEBT SERVICE FUND	TOTAL 2020	TOTAL 2019
Cash and Cash Equivalents, Beginning of Year	\$ 977,244	\$ 3,355,000	\$ 281,778	\$ 1,659	\$ 1,638,400	\$ 6,254,081	\$ 5,862,191
Cash Receipts:							
Proceeds from the NJB Loan Program							1,024,332
Grant Funds Received							225,000
Interest on Investments					9,522	9,522	60,788
Capital Litigation Settlement			234,000			234,000	234,000
Transfers From Unrestricted Funds	1,688,265	1,189,500	228,590		12,696,997	15,803,352	14,970,780
Transfers From Other Funds	-		1,981,000			1,981,000	-
<u>Total Cash Receipts</u>	\$ 2,665,509	\$ 4,544,500	\$ 2,725,368	\$ 1,659	\$ 14,344,919	\$ 24,281,955	\$ 22,377,091
Cash Disbursements:							
Payments of Bond Principal							11,427,016
Payments of Bond Interest					11,682,207	11,682,207	1,569,627
Capital Assets			2,462,875		1,301,038	1,301,038	1,626,367
Transfers to Unrestricted Funds	1,981,000	1,000,000	80,756		1,080,756	1,080,756	1,500,000
Transfers to Other Funds						1,981,000	-
<u>Total Cash Disbursements</u>	\$ 1,981,000	\$ 1,000,000	\$ 2,543,631	\$ -	\$ 12,983,245	\$ 18,507,876	\$ 16,123,010
Cash and Cash Equivalents, End of Year	\$ 684,509	\$ 3,544,500	\$ 181,737	\$ 1,659	\$ 1,361,674	\$ 5,774,079	\$ 6,254,081

RAHWAY VALLEY SEWERAGE AUTHORITY

SCHEDULE OF OPERATING REVENUES
AND COSTS FUNDED BY OPERATING
REVENUES COMPARED TO BUDGET
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u> <u>BUDGET</u>	<u>2020</u> <u>ACTUAL</u>	<u>2019</u> <u>ACTUAL</u>
Revenues:			
Member Annual Assessments:			
Township of Woodbridge	\$ 6,875,030	\$ 6,875,030	\$ 6,939,142
City of Rahway	4,281,575	4,281,575	3,991,702
Town of Westfield	4,279,550	4,279,550	4,068,672
Township of Springfield	2,637,999	2,637,999	2,646,409
Township of Clark	2,118,441	2,118,441	2,148,595
Township of Cranford	2,107,454	2,107,454	1,852,138
Township of Scotch Plains	1,488,793	1,488,793	1,511,843
Borough of Kenilworth	1,243,355	1,243,355	1,052,977
Borough of Mountainside	959,089	959,089	978,076
Borough of Garwood	709,831	709,831	749,523
Borough of Roselle Park	351,383	351,383	351,423
	<u>27,052,500</u>	<u>27,052,500</u>	<u>26,290,500</u>
<u>Total Member Assessments</u>	<u>\$ 27,052,500</u>	<u>\$ 27,052,500</u>	<u>\$ 26,290,500</u>
Other Operating Income:			
Discharge Fees	\$ 200,000	\$ 1,070,954	\$ 1,029,608
Food Waste Fees	275,000	217,129	207,844
Permit Fees	215,000	229,107	256,027
Sewer Connection Fees	15,000	16,150	14,150
Grants	-	683,092	225,000
Claim Settlement	234,000	234,000	234,000
Other Income, Net	-	17,879	8,966
	<u>939,000</u>	<u>2,468,311</u>	<u>1,975,595</u>
<u>Total Other Operating Income</u>	<u>\$ 939,000</u>	<u>\$ 2,468,311</u>	<u>\$ 1,975,595</u>
Interest on Investments - Operating Fund	\$ 30,000	\$ 34,463	\$ 63,535
	<u>30,000</u>	<u>34,463</u>	<u>63,535</u>
<u>TOTAL REVENUES</u>	<u>\$ 28,021,500</u>	<u>\$ 29,555,274</u>	<u>\$ 28,329,630</u>

RAHWAY VALLEY SEWERAGE AUTHORITY

SCHEDULE OF OPERATING REVENUES
AND COSTS FUNDED BY OPERATING
REVENUES COMPARED TO BUDGET
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	<u>2020</u> <u>BUDGET</u>	<u>2020</u> <u>ACTUAL</u>	<u>2019</u> <u>ACTUAL</u>
Expenses:			
Costs of Providing Services:			
Labor	\$ 2,795,000	\$ 3,593,190	\$ 2,883,381
Supervision	825,000	851,403	734,175
Fringe Benefits	1,700,000	1,627,633	1,421,781
Utilities	1,450,000	1,611,936	1,438,637
Residual Disposal	610,000	407,392	550,188
Maintenance	1,700,000	1,587,117	1,704,940
Compliance Monitoring	387,000	296,925	398,172
Chemicals and Fuels	540,000	570,598	426,261
Permit Fees	145,000	139,598	126,382
Other	<u>275,000</u>	<u>305,101</u>	<u>195,428</u>
Total Costs of Providing Services	<u>\$ 10,427,000</u>	<u>\$ 10,990,893</u>	<u>\$ 9,879,345</u>
General and Administrative Expenses:			
Salaries and Wages	\$ 1,705,000	\$ 1,505,869	\$ 1,464,422
Fringe Benefits	815,000	818,055	987,453
Professional Services	606,000	552,911	516,368
General Insurance	302,000	274,329	266,200
Information Technology	120,000	113,380	102,250
Other	<u>203,000</u>	<u>140,189</u>	<u>161,915</u>
Total General and Administrative Expenses	<u>\$ 3,751,000</u>	<u>\$ 3,404,733</u>	<u>\$ 3,498,608</u>
Other Costs Funded by Revenues:			
Debt Service Payment Requirements	\$ 13,189,000	\$ 12,996,000	\$ 13,420,000
Capital Replacement Fund Appropriation	1,115,000	1,115,000	1,285,000 (1)
Rate Stabilization Fund	100,000	100,000	100,000
Operating Reserve Compliance Requirement	<u>189,500</u>	<u>189,500</u>	<u>152,500</u>
Total Other Costs	<u>\$ 14,593,500</u>	<u>\$ 14,400,500</u>	<u>\$ 14,957,500</u>
TOTAL COSTS	<u>\$ 28,771,500</u>	<u>\$ 28,796,126</u>	<u>\$ 28,335,453</u>
Unreserved Retained Earnings Utilized	<u>(750,000)</u>	<u>(750,000)</u>	<u>(348,000)</u>
Net Total Appropriations	<u>28,021,500</u>	<u>28,046,126</u>	<u>27,987,453</u>
EXCESS OF REVENUES OVER COSTS	<u>\$ -</u>	<u>\$ 1,509,148</u>	<u>\$ 342,177</u>

(1) 2019 amended with a 2020 resolution

RAHWAY VALLEY SEWERAGE AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020

FEDERAL GRANTOR/PROGRAM TITLE	FEDERAL C.F.D.A. NUMBER	GRANT PERIOD	PROJECT NUMBER	GRANT AWARD AMOUNT	2020 EXPENDITURES	AMOUNT RECEIVED
<u>Direct Programs</u>						
US Department of Treasury: Coronavirus Relief Fund Passed Thru the County of Union Passed Thru the County of Middlesex		2020 2020		\$ 491,473 222,976	\$ 491,473 222,976	\$ 491,473 191,619
				\$ 714,449	\$ 714,449	\$ 683,092

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2020

NOTE 1: GENERAL

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards programs of Rahway Valley Sewerage Authority (Authority). The Authority is defined in the Notes to the Authority's basic financial statements. All federal financial awards received directly from federal agencies, as well as federal financial awards passed through other governmental agencies, is included on the Schedule of Expenditures of Federal Awards.

NOTE 2: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards is presented using the accrual basis of accounting.

NOTE 3: RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Amounts reported in the accompanying schedule agree with amounts reported in the Authority's basic financial statements.

NOTE 4: RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying schedule agree with the amounts reported in the related federal financial reports.

NOTE 5: OTHER

Matching contributions expended by the Rahway Valley Sewerage Authority in accordance with terms of the various grants are not reported in the accompanying schedules.

RAHWAY VALLEY SEWERAGE AUTHORITY
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST TEN YEARS

Measurement Date Ending June 30,	Authority's Proportion of the Net Pension Liability (Asset)	Authority's Proportionate Share of the Net Pension Liability (Asset)	Authority's Covered-Employee Payroll	Authority's Proportion of the Net Pension Liability (Asset) as a percentage of it's Covered-Employee Payroll	Plan Fiduciary Net Position as a percentage of the total Pension Liability
2013	0.0532509458%	\$ 10,177,314	\$ 3,685,013	276.18%	48.72%
2014	0.0533141302%	9,981,863	3,701,026	269.71%	52.08%
2015	0.0530453797%	11,907,625	3,812,625	312.32%	47.92%
2016	0.0547099070%	16,203,505	3,956,545	409.54%	40.13%
2017	0.0574747310%	13,379,199	4,165,545	321.19%	48.10%
2018	0.0603872500%	11,889,949	4,247,984	279.90%	53.60%
2019	0.0598450444%	10,783,169	4,122,659	261.56%	56.27%
2020	0.0571180812%	9,314,465	4,529,516	205.64%	58.32%

Note: Schedule is intended to show ten-year trend. Additional years will be reported as they become available.

SCHEDULE "R-2"

RAHWAY VALLEY SEWERAGE AUTHORITY
SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS
PUBLIC EMPLOYEES RETIREMENT SYSTEM
LAST TEN YEARS

<u>Year</u> <u>Ending</u> <u>December 31,</u>	<u>Contractually</u> <u>Required</u> <u>Contribution</u>	<u>Contributions in</u> <u>Relation to the</u> <u>Contractually</u> <u>Required</u> <u>Contributions</u>	<u>Contribution</u> <u>Deficiency</u> <u>(Excess)</u>	<u>Authority's</u> <u>Covered-</u> <u>Employee</u> <u>Payroll</u>	<u>Contributions as</u> <u>a Percentage of</u> <u>Covered-</u> <u>Employee</u> <u>Payroll</u>
2013	\$ 401,235	\$ 401,235	-0-	3,724,815	10.77%
2014	439,514	439,514	-0-	3,840,814	11.44%
2015	456,048	456,048	-0-	4,046,905	11.27%
2016	486,035	486,035	-0-	4,186,024	11.61%
2017	532,442	532,442	-0-	4,165,545	12.78%
2018	548,358	548,358	-0-	4,247,984	12.91%
2019	582,116	582,116	-0-	4,122,659	14.12%
2020	584,583	584,583	-0-	4,529,516	12.91%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

RAHWAY VALLEY SEWERAGE AUTHORITY
SCHEDULES RELATED TO ACCOUNTING AND REPORTING FOR PENSION (GASB 68)

NOTE TO RSI III
FOR THE YEAR ENDED DECEMBER 31, 2020

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Change in benefit terms

None

Change in assumptions

The calculation of the discount rate used to measure the total pension liability is dependent upon the long-term expected rate of return, and the municipal bond index rate. There was a change in the municipal bond index rate from the prior measurement date (3.50%) to the current measurement date (2.21%), resulting in a change in the discount rate from 6.28% to 7.00%. This change in the discount rate is considered to be a change in actuarial assumptions under GASB No. 68.

SCHEDULE "S-1"

RAHWAY VALLEY SEWERAGE AUTHORITY
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE OPEB LIABILITY
STATE HEALTH BENEFITS LOCAL GOVERNMENT RETIRED EMPLOYEES PLAN
LAST TEN YEARS

Measurement Date Ending June 30,	Authority's Proportion of the Net OPEB Liability (Asset)	Authority's Proportionate Share of the Net OPEB Liability (Asset)	Authority's Covered-Employee Payroll	Authority's Proportion of the Net OPEB Liability (Asset) as a Percentage of it's Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
2017	0.077204%	\$ 15,761,806	\$ 4,165,545	378.39%	1.03%
2018	0.082075%	12,858,377	4,247,984	302.69%	1.97%
2019	0.075113%	10,174,860	4,122,659	246.80%	1.98%
2020	0.084453%	15,156,453	4,529,516	334.62%	0.91%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

SCHEDULE "S-2"

RAHWAY VALLEY SEWERAGE AUTHORITY
SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS
STATE HEALTH BENEFITS LOCAL GOVERNMENT RETIRED EMPLOYEES PLAN
LAST TEN YEARS

Year Ending December 31,	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Authority's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
2017	\$ 355,430	\$ 355,430	-0-	4,165,545	8.53%
2018	383,645	383,645	-0-	4,247,984	9.03%
2019	384,236	384,236	-0-	4,122,659	9.32%
2020	338,374	338,374	-0-	4,529,516	7.47%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

RAHWAY VALLEY SEWERAGE AUTHORITY
SCHEDULES RELATED TO ACCOUNTING AND REPORTING FOR OPEB (GASB 75)
NOTE TO RSI III
FOR THE YEAR ENDED DECEMBER 31, 2020

STATE HEALTH BENEFITS LOCAL GOVERNMENT RETIREMENT EMPLOYEES PLAN

Change in benefit terms

Change in benefit terms

None

Change in assumptions

The discount rate changed from 3.50% to 2.21% as of
June 30, 2020.

RAHWAY VALLEY SEWERAGE AUTHORITY

DECEMBER 31, 2020

ROSTER OF OFFICIALS

<u>Name</u>	<u>Title</u>
Loren Harms	Chairman
Michael J. Gelin	Vice Chairman
Robert M. Beiner	Commissioner
John Del Sordi, Jr.	Commissioner
Michael Furci	Commissioner
Edward Gottko	Commissioner
Stephen D. Greet	Commissioner
Louis C. Lambe	Commissioner
Frank G. Mazzarella	Commissioner
Robert I. Rachlin	Commissioner
John J. Tomaine	Commissioner
James J. Meehan	Executive Director
Karen A. Musialowicz	Secretary/Treasurer
Dennis A. Estis, Esq. Greenbaum, Rowe, Smith & Davis, LLP	General Counsel
Howard Matteson, P.E. CDM Smith, Inc.	Consulting Engineer

RAHWAY VALLEY SEWERAGE AUTHORITY

DECEMBER 31, 2020

GENERAL COMMENTS AND RECOMMENDATIONS

NONE