

**Annual  
Financial Report**

of the

**Rahway Valley  
Sewerage Authority**

For the Years Ended December 31, 2015 and 2014

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 – 15

**BASIC FINANCIAL STATEMENTS**

**EXHIBITS**

“A” Statements of Net Position - December 31, 2015 and 2014	16 – 17
“B” Statements of Revenues, Expenses and Changes in Net Position for the Years Ended December 31, 2015 and 2014	18
“C” Statements of Cash Flows for the Years Ended December 31, 2015 and 2014	19
Notes to Financial Statements – December 31, 2015 and 2014	20 – 47

**SUPPLEMENTARY INFORMATION**

**SCHEDULES**

“1” Schedule of Revenues, Expenses and Changes in Net Position Reserved and Unreserved - Years Ended December 31, 2015 and 2014	48
“2” Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Cash Equivalents – Unrestricted Accounts (Operating and Revenue Accounts) - Years Ended December 31, 2015 and 2014	49
“3” Schedule of Cash Receipts, Cash Disbursements, Changes in Cash, Cash Equivalents and Investments - Restricted Accounts - Years Ended December 31, 2015 and 2014	50
“4” Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to Budget for the Years Ended December 31, 2015 and 2014	51 – 52
“R-1” Schedule of Authority's Proportionate Share of the Net Pension Liability – Public Employees Retirement System – Last Ten Years	53

	<u>PAGE NUMBER</u>
“R-2” Schedule of Authority’s Contributions – Public Employees Retirement System – Last Ten Years	54
“R-3” Schedule Related to Accounting and Reporting for Pension (GASB 68) – Note to RSI III	55
Roster of Officials - December 31, 2015	56
General Comments and Recommendations	57

**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, 2015 and 2014, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

## **SUPLEE, CLOONEY & COMPANY**

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

We believe 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, 2015 and 2014, 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.

### ***Emphasis of Matter***

#### *Change in Accounting Principle*

As discussed in Note 2 to the basic financial statements, in 2015, the Authority adopted Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date (an amendment of GASB Statement 68). Our opinions are not modified with respect to this matter.

### ***Other Matters***

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion analysis, budgetary comparison information, and the schedules related to accounting and reporting for pensions in Schedule R-1 through R-3 identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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## *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 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental data schedules 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 financial statements and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 7, 2016 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.

June 7, 2016

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.





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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, 2015, 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 June 7, 2016.

***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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

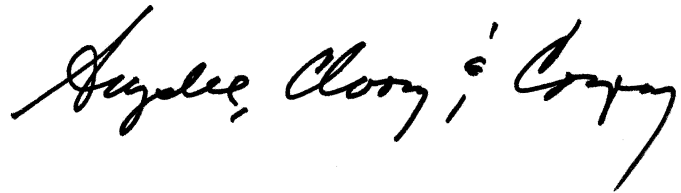
***Compliance and Other Matters***

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

June 7, 2016

A handwritten signature in black ink that reads "Suplee, Clooney & Company". The signature is written in a cursive, flowing style.

**MANAGEMENT DISCUSSION AND ANALYSIS**

**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015 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 (*consisting principally of deferred credits on debt refundings and pension information*) 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.

In 2015, the Government Accounting Standards Board (GASB) Statement 68 requires state and local governmental entities to disclose their unfunded pension liabilities. The Authority participates in the pension plan sponsored by the State of New Jersey, which has a publicized, large unfunded liability. Although the Authority is not responsible for making pension payments to employees when they retire, GASB 68 dictates that the pro-rata share represented by Authority employees participating in PERS (Public Employee Retirement System) be reported in the audited financial statements to promote better financial clarity. Understandably, the net pension liability of \$11,907,625, shown within non-current liabilities, is a significant amount at December 31, 2015. Notes to the Financial Statements No. 2, 10 and 11 explain pension plan accounting in greater detail.

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 include 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>2015</u>	<u>2014</u>	<u>2013</u>
Unrestricted assets	\$ 2,330,608	\$ 1,729,894	\$ 2,197,320
Restricted assets	7,750,718	7,303,629	6,378,105
Capital assets, at cost	269,753,296	267,437,221	266,542,077
Accumulated depreciation	(66,095,307)	(57,356,242)	(49,320,232)
Deferred outflow of resources – Pension related	<u>1,571,184</u>	<u>324,084</u>	<u>--</u>
<u>Total assets</u>	<u>\$215,310,499</u>	<u>\$219,438,586</u>	<u>\$225,797,270</u>
 <u>Current liabilities:</u>			
Payable from unrestricted assets	\$ 890,846	\$ 637,482	\$ 749,405
Payable from restricted assets	<u>11,858,529</u>	<u>11,768,792</u>	<u>11,579,855</u>
<u>Total current liabilities</u>	\$ 12,749,375	\$ 12,406,274	\$ 12,329,260
Long-term debt, net of current maturities	\$152,849,784	\$158,989,175	\$166,807,663
Net pension liability	<u>11,907,625</u>	<u>9,981,863</u>	<u>--</u>
<u>Total noncurrent liabilities</u>	<u>\$164,757,409</u>	<u>\$168,971,038</u>	<u>\$166,807,663</u>
<u>Total liabilities</u>	<u>\$177,506,784</u>	<u>\$181,377,312</u>	<u>\$179,136,923</u>
 <u>Deferred inflows of resources:</u>			
Credits on debt refundings	\$ 3,047,301	\$ 3,404,909	\$ 3,762,515
Deferred bond premium	64,105	--	--
Pension related	<u>234,142</u>	<u>594,865</u>	<u>--</u>
<u>Total Deferred inflows of resources</u>	<u>\$ 3,345,548</u>	<u>\$ 3,999,774</u>	<u>\$ 3,762,515</u>
 <u>Total net position</u>	 <u>\$ 34,458,167</u>	 <u>\$ 34,061,500</u>	 <u>\$ 42,897,832</u>
 <u>Total liabilities, deferred inflows of resources, and total net position</u>	 <u>\$215,310,499</u>	 <u>\$219,438,586</u>	 <u>\$225,797,270</u>

Unrestricted assets at December 31, 2015 and 2014, consisting principally of cash and cash equivalents, amounted to \$2.3 million and \$1.7 million, respectively. The Authority appropriated \$700 thousand and \$425 thousand of Unrestricted Net Position to fund a portion of its Operating Budgets for the Years 2016 and 2015, respectively. Total current liabilities payable from unrestricted assets at December 31, 2015 and 2014 principally consists of accounts payable and accrued expenses.

Restricted assets at December 31, 2015 and 2014 consist principally of cash and cash equivalents.

### Condensed Statements of Net Position (Cont'd.)

The Authority's capital assets, at cost, at December 31, 2015 and 2014 amounted to \$269.8 million and \$267.4 million, respectively. Reference is made to the Authority's Year 2002 Capital Improvement Program (CIP) that is discussed in detail in another section of the MD&A. Net property, plant and equipment at December 31, 2015 and 2014 amounted to \$203.7 million and \$210.1 million, respectively.

Total liabilities of the Authority at December 31, 2015 and 2014 amounted to \$177.5 million and \$181.4 million, respectively, of which \$163.3 million and \$169.3 million, respectively, relate to debt obligations principally attributable to the funding of capital asset additions under the Authority's Year 2002 CIP. The Authority's debt obligations outstanding at December 31, 2015 relate principally to financing under the New Jersey Environmental Infrastructure Trust (NJEIT) Loan Program (\$106.5 million) and the accreted value of Capital Appreciation Bonds (\$56.8 million). In addition, Total Liabilities includes a Net Pension Liability of \$11.9 million and \$10.0 million at December 31, 2015 and 2014, respectively.

Deferred inflows of resources (*consisting principally of deferred credits on debt refundings related to NJEIT loan obligations*) at December 31, 2015 and 2014 amounted to \$3.3 million and \$4.0 million, respectively.

Total Net Position of the Authority at December 31, 2015 and 2014 amounted to \$34.4 million and \$34.1 million respectively. Net Position includes:

	<u>2015</u>	<u>2014</u>
	Thousands	
Investments in Capital Assets, net of related liabilities	\$37,689	\$37,056
Restricted	5,899	6,165
Unrestricted, Unappropriated	740	667
Unrestricted, Appropriated	700	425
Unrestricted, Net Pension Related	<u>(10,570)</u>	<u>(10,252)</u>
	<u>\$34,458</u>	<u>\$34,061</u>

An appropriation of \$700 thousand and \$425 thousand, respectively, of the Unrestricted Net Position at December 31, 2015 and 2014 has been made to fund a portion of the Years 2016 and 2015 Operating Budgets, respectively.

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

	<u>Years Ended December 31</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues	<u>\$25,862,186</u>	<u>\$26,418,785</u>	<u>\$25,814,878</u>
<u>Operating expenses:</u>			
Costs of providing services	8,758,568	9,107,952	8,924,994
General and administrative	3,033,137	2,947,516	2,918,234
Pension Related Costs	<u>317,939</u>	<u>—</u>	<u>—</u>
Total operating expenses, before depreciation	12,109,644	12,055,468	11,843,228
Depreciation	<u>8,819,323</u>	<u>8,036,010</u>	<u>7,288,549</u>
Total operating expenses	<u>\$20,928,967</u>	<u>\$20,091,478</u>	<u>\$19,131,777</u>
Operating income	\$4,933,219	\$6,327,307	\$6,683,101
<u>Nonoperating expenses, net:</u>			
Interest expense, net	(4,845,168)	(4,917,567)	(5,025,308)
Other income, net	<u>308,616</u>	<u>6,572</u>	<u>60,614</u>
Net income	\$ 396,667	\$ 1,416,312	\$ 1,718,407
<u>Net Position:</u>			
Beginning of year	34,061,500	42,897,832	
Restatement to include Net Pension Liability		<u>(10,252,644)</u>	
Beginning of year – Restated		<u>32,645,188</u>	<u>41,179,425</u>
End of year	<u>\$34,458,167</u>	<u>\$34,061,500</u>	<u>\$42,897,832</u>

Budgeted and realized member annual assessments included in operating revenues for the years ended December 31, 2015 and 2014, amounted to \$24.7 million and \$24.9 million, respectively. Member annual assessments represented 96% and 95% of total operating revenues realized in the years ended December 31, 2015 and 2014.

Total operating expenses before depreciation for the years ended December 31, 2015 and 2014 were \$12.1 million in each year. Operating expenses consist principally of personnel related costs, utilities, residual disposal, maintenance, compliance monitoring and professional services. Operating expenses in the 2015 year includes \$318 thousand in amortization of pension related costs.

Operating income in the Year 2015, net of depreciation expense of \$8.8 million, was \$4.9 million as compared to operating income in the Year 2014 of \$6.3 million.

Actual operating expenses in the Year 2015 of \$11.8 million were \$428 thousand below budget.

## **Condensed Statements of Revenues, Expenses and Changes in Net Position (Cont'd.)**

Non-operating expenses, net (*consisting principally of interest expense*) in the Year 2015 were \$4.5 million as compared to \$4.9 million in the Year 2014.

Net income in the Year 2015 was \$397 thousand as compared to net income of \$1.4 million in the Year 2014.

## **Condensed Statements of Cash Flows**

	<u>Years Ended December 31</u>		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Net cash provided by operating activities	\$14,240,245	\$14,341,199	\$13,826,734
Net cash used in capital and financing activities	(13,738,350)	(13,799,868)	(14,689,069)
Net cash provided by investing activities	<u>7,551</u>	<u>7,701</u>	<u>60,334</u>
Net increase/(decrease) in cash and cash equivalents	\$509,446	\$549,032	\$(802,001)
<u>Cash and cash equivalents:</u>			
Beginning of year	<u>8,972,272</u>	<u>8,423,240</u>	<u>9,225,241</u>
End of year	<u>\$9,481,718</u>	<u>\$8,972,272</u>	<u>\$8,423,240</u>

Net cash provided by operating activities amounted to \$14.2 million and \$14.3 million in the years ended December 31, 2015 and 2014, respectively.

Net cash used in capital/financing activities in the Years 2015 and 2014 relate to the funding of construction projects, and debt service payments. Payments for net capital asset additions in the Year 2015 were \$2.3 million as compared to \$1.1 million in 2014. Debt service payments amounted to \$13.0 million and \$13.1 million in the years ended December 31, 2015 and 2014, respectively.

Net cash provided by investing activities amounted to \$8 thousand in each of the Years 2015 and 2014, 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 54 employees as of December 31, 2015, including its Executive Director and Secretary/Treasurer, of which 30 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 new 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, 2015, 2014 and 2013 (representing a substantial portion of operating income in each year) follow:

<u>Municipality</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
Woodbridge	\$ 6,777,908	\$ 6,857,271	\$ 6,678,298
Rahway	3,930,585	3,737,209	3,183,662
Westfield	3,376,411	3,497,223	3,556,005
Springfield	2,490,677	2,378,801	2,223,410
Clark	2,302,117	2,221,965	2,545,581
Cranford	1,708,833	1,936,270	2,106,280
Scotch Plains	1,444,048	1,547,241	1,590,724
Mountainside	916,571	936,185	948,269
Garwood	621,794	535,366	498,002
Kenilworth	590,830	725,282	880,941
Roselle Park	<u>550,226</u>	<u>603,687</u>	<u>631,828</u>
	<u>\$24,710,000</u>	<u>\$24,976,500</u>	<u>\$24,843,000</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 actions arose 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; that action is currently stayed pending mediation. The Authority continues to investigate the extent to which it can mitigate its damages. In addition, certain settlements have been realized in 2016 on both the arbitration and litigation with several parties.

During the Year 2005, the New Jersey Department of Environmental Protection filed a lawsuit against the Occidental Chemical Corporation and other parties seeking the recovery of damages for the purported discharge of contaminants into various bodies of water. In October 2008, Occidental and other defendants filed third party actions against many public entities including the Authority. The Authority answered the third party action in September 2010. A settlement was reached between the State of New Jersey and the majority of the Third Party Defendants, including the Authority. The settlement cost of \$95,000 was paid to the State of New Jersey in January 2014.

## **Commitments and Contingencies**

The Authority's Year 2002 Capital Improvement Program (CIP), with a cost of approximately \$225 million is discussed in the last paragraph presented on Page 13. A substantial portion (95%) of such cost is related to projects required by the Judicial Consent Order (JCO).

The major sources of financing for the CIP were borrowings under the NJEIT loan program and the issuance of Capital Appreciation Bonds (CABS). Total borrowings outstanding under the NJEIT Trust/Fund Loan Program at December 31, 2015 were \$106.5 million. The NJEIT borrowings mature over a twenty-year period ending in the Year 2034. 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 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 (96% for the year ended December 31, 2015).

## **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.

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**BASIC FINANCIAL STATEMENTS**

RAHWAY VALLEY SEWERAGE AUTHORITY

STATEMENTS OF NET POSITION  
DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
Unrestricted Assets:		
Cash and Cash Equivalents	\$ 2,152,691	\$ 1,668,643
Accounts Receivable	61,917	163
Prepaid Expenses and Other	<u>116,000</u>	<u>61,088</u>
<u>Total Unrestricted Assets</u>	<u>\$ 2,330,608</u>	<u>\$ 1,729,894</u>
Restricted Assets:		
Cash and Cash Equivalents	\$ 7,329,027	\$ 7,303,629
Accounts Receivable	<u>421,691</u>	<u>-</u>
<u>Total Restricted Assets</u>	<u>\$ 7,750,718</u>	<u>\$ 7,303,629</u>
Property, Plant and Equipment, at Cost		
Less: Accumulated Depreciation	\$ 269,753,296	\$ 267,437,221
	<u>66,095,307</u>	<u>57,356,242</u>
<u>Net Property, Plant and Equipment</u>	<u>\$ 203,657,989</u>	<u>\$ 210,080,979</u>
Deferred Outflow of Resources:		
Pension Related	<u>1,571,184</u>	<u>324,084</u>
<u>TOTAL ASSETS</u>	<u>\$ 215,310,499</u>	<u>\$ 219,438,586</u>

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



RAHWAY VALLEY SEWERAGE AUTHORITYSTATEMENTS OF NET POSITION  
DECEMBER 31, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>LIABILITIES</u>		
Current Liabilities Payable From Unrestricted Assets:		
Accounts Payable and Accrued Expenses	\$ <u>890,846</u>	\$ <u>637,482</u>
<u>Total Current Liabilities Payable From Unrestricted Assets</u>	\$ <u>890,846</u>	\$ <u>637,482</u>
Current Liabilities Payable From Restricted Assets:		
Current Portion of Long-term Debt	\$ 10,473,000	\$ 10,335,536
Accounts Payable	316,105	305,370
Retainage Due Contractors	50,738	23,318
Accrued Interest Payable	<u>1,018,686</u>	<u>1,104,568</u>
<u>Total Current Liabilities Payable From Restricted Assets</u>	\$ <u>11,858,529</u>	\$ <u>11,768,792</u>
Noncurrent Liabilities:		
Total Long-Term Debt, Net of Current Maturities	\$ 152,849,784	\$ 158,989,175
Net Pension Liability	<u>11,907,625</u>	<u>9,981,863</u>
<u>Total Noncurrent Liabilities</u>	\$ <u>164,757,409</u>	\$ <u>168,971,038</u>
<u>TOTAL LIABILITIES</u>	\$ <u>177,506,784</u>	\$ <u>181,377,312</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Credits on Debt Refundings	\$ 3,047,301	\$ 3,404,909
Pension Related	234,142	594,865
Deferred Bond Premium	<u>64,105</u>	<u>-</u>
<u>TOTAL DEFERRED INFLOWS OF RESOURCES</u>	\$ <u>3,345,548</u>	\$ <u>3,999,774</u>
Net Position:		
Net Investments in Capital Assets	\$ 37,689,279	\$ 37,056,865
Restricted	5,899,710	6,164,867
Unrestricted	<u>(9,130,822)</u>	<u>(9,160,232)</u>
<u>TOTAL NET POSITION</u>	\$ <u>34,458,167</u>	\$ <u>34,061,500</u>
<u>TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION</u>	\$ <u>215,310,499</u>	\$ <u>219,438,586</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
Operating Revenues:		
Member Annual Assessments	\$ 24,710,000	\$ 24,976,500
Discharge, Permit and Other Fees	1,075,450	759,459
Other Income, Net	76,736	682,826
	<hr/>	<hr/>
<u>Total Operating Revenues</u>	\$ 25,862,186	\$ 26,418,785
Operating Expenses:		
Costs of Providing Services	\$ 8,758,568	\$ 9,107,952
General and Administrative	3,351,076	2,947,516
Depreciation	8,819,323	8,036,010
	<hr/>	<hr/>
<u>Total Operating Expenses</u>	\$ 20,928,967	\$ 20,091,478
<u>Operating Income</u>	\$ 4,933,219	\$ 6,327,307
Nonoperating Revenues (Expenses):		
Interest Income - Unrestricted Funds	\$ 3,523	\$ 2,854
Interest Income - Restricted Funds	4,028	3,718
Grant Income/Loan Forgiveness	301,065	-
Interest Expense, Net	(4,845,168)	(4,917,567)
	<hr/>	<hr/>
<u>Net Income</u>	\$ 396,667	\$ 1,416,312
Net Position, Beginning of Year - As Originally Reported	\$ 34,061,500	\$ 42,897,832
Restatement to Include Net Pension Liability		<hr/>
		(10,252,644)
Net Position, Beginning of Year - Restated	<hr/>	<hr/>
		32,645,188
Net Position, End of Year	\$ <u>34,458,167</u>	\$ <u>34,061,500</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, 2015 AND 2014

	<u>2015</u>	<u>2014</u>
<u>Cash Flows from Operating Activities:</u>		
Receipts from Member Annual Assessments	\$ 24,710,000	\$ 24,976,500
Receipts for Discharge, Permit and Other Fees	1,013,696	794,352
Insurance Proceeds and Other Income	36,968	549,995
Sewer "Spur" Renovation	-	132,831
Other Receipts	72,834	-
Payments to Suppliers	(7,279,713)	(8,004,610)
Payments to Employees	(4,313,540)	(4,107,869)
	<u>14,240,245</u>	<u>14,341,199</u>
<u>Net Cash Provided by Operating Activities</u>	<u>\$ 14,240,245</u>	<u>\$ 14,341,199</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Capital Assets	\$ (2,337,086)	\$ (1,059,031)
Principal Payments on Long-Term Debt	(10,335,536)	(10,280,128)
Interest Paid on Bonds	(2,650,278)	(2,834,847)
Proceeds from the NJ Environmental Infrastructure Trust Loan Program	1,584,550	-
Capital Asset Insurance Proceeds	-	153,284
Capital Asset Reimbursements	-	220,854
	<u>(13,738,350)</u>	<u>(13,799,868)</u>
<u>Net Cash Used in Capital and Financing Activities</u>	<u>\$ (13,738,350)</u>	<u>\$ (13,799,868)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest Received	\$ 7,551	\$ 7,701
	<u>7,551</u>	<u>7,701</u>
<u>Net Cash Provided by Investing Activities</u>	<u>\$ 7,551</u>	<u>\$ 7,701</u>
Net Increase in Cash and Cash Equivalents	\$ 509,446	\$ 549,032
Cash and Cash Equivalents, Beginning of Year	<u>8,972,272</u>	<u>8,423,240</u>
Cash and Cash Equivalents, End of Year	<u>\$ 9,481,718</u>	<u>\$ 8,972,272</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>		
Operating Income	\$ 4,933,219	\$ 6,327,307
Depreciation	8,819,323	8,036,010
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(61,754)	34,893
Prepaid Expenses	(54,912)	54,912
Accounts Payable and Accrued Expenses	253,364	(111,923)
Pension Related	351,005	-
	<u>14,240,245</u>	<u>14,341,199</u>
Net Cash Provided by Operating Activities	<u>\$ 14,240,245</u>	<u>\$ 14,341,199</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, 2015 AND 2014

(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, 2015 AND 2014

(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.

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, 2014.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting and Financial Reporting for Pensions (Continued)

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.

At transition to Statement 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported. Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(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 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.

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 one item that qualifies for reporting in this category, deferred amounts related to pensions.

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 three items that qualify in this category: credits on debt refundings, deferred amounts related to pension, and deferred bond premium.

Restricted Assets

In accordance with the Bond Resolution related to certain debt obligations of the Authority (see note 7), 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, 2015 AND 2014

(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, 2015 AND 2014

(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, 2015 AND 2014

(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, 2015 AND 2014

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment (continued)

Details of property, plant and equipment as of December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Land	\$ 3,300	\$ 3,300
Buildings and Improvements	160,198,436	159,977,459
Sewer Mains	17,691,080	17,691,080
Other Improvements	34,649,020	34,649,020
Machinery and Equipment	54,675,075	54,422,134
Vehicles	258,437	218,026
Construction in Progress	<u>2,277,948</u>	<u>476,202</u>
	269,753,296	267,437,221
Less: Accumulated Depreciation	<u>66,095,307</u>	<u>57,356,242</u>
Net Property, Plant and Equipment	<u>\$203,657,989</u>	<u>\$210,080,979</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, 2015 AND 2014

(4) CASH AND CASH EQUIVALENTS

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

	<u>Unrestricted</u>	<u>Restricted</u>
December 31, 2015:		
Cash and Cash Equivalents	<u>\$2,152,691</u>	<u>\$7,329,027</u>
December 31, 2014:		
Cash and Cash Equivalents	<u>\$1,668,643</u>	<u>\$7,303,629</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, 2015, 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, 2015 AND 2014

(6) PROPERTY PLANT AND EQUIPMENT

Property, Plant and Equipment is summarized as follows:

	<u>Balance</u> <u>Dec 31, 2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>Dec 31, 2015</u>
Land	\$ 3,300			\$ 3,300
Buildings and Improvements	159,977,459	\$ 220,977		160,198,436
Sewer Mains	17,691,080			17,691,080
Other Improvements	34,649,020			34,649,020
Machinery and Equipment	54,422,134	333,200	\$ 80,258	54,675,076
Vehicles	218,026	40,411		258,437
Construction in Progress	<u>476,202</u>	<u>2,154,369</u>	<u>352,624</u>	<u>2,277,947</u>
	267,437,221	2,748,957	432,882	269,753,296
Less: Accumulated Depreciation	<u>57,356,242</u>	<u>8,819,323</u>	<u>80,258</u>	<u>66,095,307</u>
Net Property, Plant and Equipment	<u>\$210,080,979</u>	<u>\$(6,070,366)</u>	<u>\$ 352,624</u>	<u>\$203,657,989</u>

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(7) DEBT OBLIGATIONS

	<u>2015</u>	<u>2014</u>
A summary of long-term debt follows:		
New Jersey Environmental Infrastructure Trust 2002 Obligations, due August 2022	\$ 2,271,681	\$ 2,566,192
New Jersey Environmental Infrastructure Trust 2003 Obligations, due August 2023	12,163,880	13,561,879
New Jersey Environmental Infrastructure Trust 2004 Obligations, due August 2024	63,418,796	69,654,011
New Jersey Environmental Infrastructure Trust 2004 Obligations, due August 2024	1,863,974	2,046,363
New Jersey Environmental Infrastructure Trust 2005 Obligations, due August 2025	25,078,712	27,304,134
New Jersey Environmental Infrastructure Trust 2015 A & B Obligations, due August 2034	1,693,887	--
Sewer Revenue Bonds, 2005 (Capital Appreciation Bonds), due September 2035	56,831,854	54,192,132
Total Debt	<u>\$163,322,784</u>	<u>\$169,324,711</u>
Less Current Maturities	10,473,000	10,335,536
Total Long-Term Debt	<u>\$152,849,784</u>	<u>\$158,989,175</u>

Aggregate long-term principal debt payment requirements (in millions) during the next five years are as follows: 2016 - \$10.5, 2017 - \$10.9, 2018 - \$11.2, 2019 - \$11.4 and 2020 \$11.7.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(7) DEBT OBLIGATIONS (CONTINUED)

Detail information regarding Debt Obligations at December 31, 2015 and 2014 follows:

New Jersey Environmental Infrastructure Trust (NJEIT)

Total obligations payable to the NJEIT at December 31, 2015 and 2014 amounted to \$106.5 million and \$115.1 million, respectively. A summary of the NJEIT obligations follow:

- A. In November 2002, the Authority issued \$5.5 million NJEIT 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 \$365 thousand through the year 2022. The annual interest rate on the outstanding principal amount of \$1,251,697 of such obligations approximates 3.3% over the remaining term. No interest is due on the remaining principal amount of \$1,019,984.
  
- B. In November 2003, the Authority issued \$25.1 million NJEIT 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 \$6,895,000 of such obligations approximates 3.0% over the remaining term. No interest is due on the remaining principal amount of \$5,268,880.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(7) DEBT OBLIGATIONS (CONTINUED)

New Jersey Environmental Infrastructure Trust (NJEIT) (Continued)

- C. In November 2004, the Authority issued \$114.2 million NJEIT 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 \$8.1 million through the year 2024. The annual interest rate on the outstanding principal amount of \$34,067,076 of such obligations approximates 3.0% over the remaining term. No interest is due on the remaining principal amount of \$29,351,720.
- D. In November 2004, the Authority issued \$3.5 million NJEIT 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 \$239 thousand through the year 2024. The annual interest rate on the outstanding principal amount of \$1,004,081 of such obligations approximates 3.1% over the remaining term. No interest is due on the remaining principal amount of \$859,893.
- E. In November, 2005, the Authority issued \$41.2 million NJEIT 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 \$2.9 million through the year 2025. The annual interest rate on the outstanding principal amount of \$14,551,795 approximates 2.9% over the remaining term. No interest is due on the remaining principal amount of \$10,526,917.



RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(7) DEBT OBLIGATIONS (CONTINUED)

New Jersey Environmental Infrastructure Trust (NJEIT) (Continued)

F. In May 2015, the Authority issued \$1.7 million NJEIT 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 \$515,000 of such obligations approximates 4.5% over the remaining term. No interest is due on the remaining principal amount of \$1,178,887.

As part of this financing, the Authority was granted \$399,980 of loan forgiveness which is being treated as grant income on the financial statements. The Authority recorded \$301,065 of this loan forgiveness as grant income in 2015.

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, 2015 and 2014 amounted to \$56,831,854 and \$54,192,132, respectively. These amounts include \$22,159,282 and \$19,519,561 of accreted interest at December 31, 2015 and 2014, respectively.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(8) CREDITS ON DEBT REFUNDINGS

The Credits on Debt Refundings relate to “principal balance refunding credits” realized on NJEIT 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 the each of the years 2015 and 2014, which reduced interest expense. The unamortized balance of the Credits on Debt Refundings amounted to \$3,047,301 and \$3,404,909 at December 31, 2015 and 2014, respectively. The Credits on Debt Refundings are presented in the Statements of Net Position at December 31, 2015 and 2014 under the caption “Deferred Inflows of Resources”.

(9) NET POSITION

The components of net position are as follows:

	<u>December 31,</u>	
	<u>2015</u>	<u>2014</u>
Net Position:		
Invested in Capital Assets, net of related liabilities	\$37,689,279	\$37,056,865
Restricted:		
Capital Replacement Fund	1,584,925	1,797,956
Operating Reserve Fund	3,148,750	3,090,150
Debt Service Fund	<u>1,166,035</u>	<u>1,276,761</u>
Total Restricted	<u>\$ 5,899,710</u>	<u>\$ 6,164,867</u>
Unrestricted:		
Appropriated Budget	\$ 700,000	\$ 425,000
Unappropriated	739,761	667,412
Net Pension Liability	<u>(10,570,583)</u>	<u>(10,252,644)</u>
Total Unrestricted	<u>\$(9,130,822)</u>	<u>\$(9,160,232)</u>
Total Net Position	<u>\$34,458,167</u>	<u>\$ 34,061,500</u>

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(10) 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](http://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.

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, 2015 AND 2014

(10) 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, 2019 actuarial valuation (July 1, 2018 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, 2015 AND 2014

(10) 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>
2015	\$456,048	100%	\$456,048
2014	439,514	100%	439,514
2013	401,235	100%	401,235

DCRP Contributions

The Authority did not make DCRP contributions for the years ended December 31, 2015 and 2014.

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

Public Employees Retirement System (PERS)

At December 31, 2015, the Authority reported a liability of \$11,907,625 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating local units, actuarially determined. At June 30, 2015, the Authority's proportion was 0.0530453797 percent, which was a decrease of 0.0002687505 percent from its proportion measured as of June 30, 2014.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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

Public Employees Retirement System (PERS) (Continued)

For the year ended December 31, 2015, the Authority recognized pension expense of \$773,970. At December 31, 2015, 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		\$1,278,784
Net difference between expected and actual experience		284,074
Net difference between projected and actual earnings on pension plan investments	\$191,452	
Changes in proportion and differences between Authority contributions and proportionate share of contributions	<u>42,690</u>	<u>8,326</u>
	<u>\$234,142</u>	<u>\$1,571,184</u>

The \$1,571,184 reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date (i.e. for the period ending June 30, 2016, the plan measurement date is June 30, 2015) will be recognized as a reduction of the net pension liability in the year ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended	
<u>June 30</u>	<u>Amount</u>
2016	\$242,599
2017	242,599
2018	242,599
2019	391,316
2020	217,929

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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

Public Employees Retirement System (PERS) (Continued)

Additional Information

Collective balances at June 30, 2015 and 2014 are as follows:

	<u>6/30/2015</u>	<u>6/30/2014</u>
Collective deferred outflows of resources	\$ 5,086,138,484	\$ 1,032,618,058
Collective deferred inflows of resources	478,031,236	1,726,631,532
Collective net pension liability	22,447,996,119	18,722,735,003
Authority's Proportion	0.0530453797 %	0.0533141302%

Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of July 1, 2014, which rolled forward to June 30, 2015. The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of July 1, 2013. These actuarial valuations used the following assumptions, applied to all periods in the measurement.

	<u>6/30/2015</u>	<u>6/30/2014</u>
Inflation	3.04 Percent	3.01 Percent
Salary Increases (based on age):		
2012-2021	2.15-4.40 Percent	2.15-4.40 Percent
Thereafter	3.15-5.40 Percent	3.15-5.40 Percent
Investment Rate of Return	7.90 Percent	7.90 Percent

The actuarial assumptions used were based on the results of an actuarial experience study for the period July 1, 2008 to June 30, 2011. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more that the experience deviates, the larger the impact on future financial statements.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

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

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions (Continued)

Mortality Rates

Mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirement and beneficiaries of former members with adjustments for mortality improvements from the base year of 2012 based on Projection Scale AA. The RP-2000 Disabled Mortality Tables (setback 3 years for males and setback 1 year for females) are used to value disabled retirees.



RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(11) 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 is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. Best estimates of arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2015 and 2014 are summarized in the following table:

<u>Asset Class</u>	<u>6/30/2015</u>		<u>6/30/2014</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Cash	5.00%	1.04%	6.00%	0.80%
Core Bond			1.00%	2.49%
Intermediate Term Bonds			11.20%	2.26%
Mortgages	2.10%	1.62%	2.50%	2.17%
High Yield Bonds	2.00%	4.03%	5.50%	4.82%
Inflation Indexed Bonds	1.50%	3.25%	2.50%	3.51%
Broad U.S. Equities	27.25%	8.52%	25.90%	8.22%
Developed Foreign Markets	12.00%	6.88%	12.70%	8.12%
Emerging Market Equities	6.40%	10.00%	6.50%	9.91%
Private Equity	9.25%	12.41%	8.25%	13.02%
Hedge Funds/Absolute Returns	12.00%	4.72%	12.25%	4.92%
Real Estate (Property)	2.00%	6.83%	3.20%	5.80%
Commodities	1.00%	5.32%	2.50%	5.35%
U.S. Treasuries	1.75%	1.64%		
Investment Grade Credit	10.00%	1.79%		
Global Debt ex US	3.50%	-0.40%		
REIT	4.25%	5.12%		
	<u>100.00%</u>		<u>100.00%</u>	

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(11) 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 4.90% and 5.39% as of June 30, 2015 and 2014, respectively. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.9%, and a municipal bond rate of 4.30% and 4.29% as of June 30, 2015 and 2014, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the average of the last five years of contributions made in relation to the last five years of recommended contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2033. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2033, and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the collective net pension liability to changes in the discount rate.

The following presents the collective net pension liability of the participating employers as of June 30, 2015 calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1 -percentage point lower or 1- percentage-point higher than the current rate:

	1% Decrease <u>3.90%</u>	June 30, 2015 At Current Discount Rate <u>4.90%</u>	1% Increase <u>5.90%</u>
Authority's proportionate share of the pension liability	\$14,799,721	\$11,907,625	\$9,482,913

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).

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(12) 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, 2015 and 2014 amounted to \$188,000 and \$179,000, respectively.

(13) POST-RETIREMENT HEALTH BENEFITS

The Authority provides post-retirement health benefits to employees who retire with 25 years or more of service within the system. Employees with ten (10) or more years of service may also qualify for benefits under the Disability Retirement Provisions of the Plan. There are currently twenty-three (23) retirees who meet this requirement and are receiving benefits. In addition, there are ten (10) current employees who are eligible upon their retirement.

Plan Description. The Authority contributes to the State Health Benefits Program (SHBP) a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq. to provide health benefits to State employees, retirees, and their dependents. The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to eligible retirees and their covered dependents. The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(13) POST-RETIREMENT HEALTH BENEFITS (CONTINUED)

That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at <http://www.state.nj.us/treasury/pensions>.

Funding Policy. Contributions to pay for the health premiums of participating employees in the SHBP are billed to the Authority on a monthly basis. Participating employers are also contractually required to contribute based on the amount of premiums attributable to certain retirees. In accordance with Chapter 62, P.L. 1994, post-retirement medical benefits have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis. The Authority's net cost of payments to the SHBP related to active employees for the years ended December 31, 2015 and 2014 approximated \$753 thousand and \$800 thousand, respectively. The Authority's net cost of payments to the SHBP related to retired employees for the years ended December 31, 2015 and 2014 approximated \$290 thousand in both years.

(14) 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 (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 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, 2015 AND 2014

(15) LITIGATION AND RELATED MATTERS

During the year 2009, litigation actions arose 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 continues to investigate the extent to which it can mitigate its damages. In addition, certain settlements have been realized in 2016 on both the arbitration and litigation with several parties.

During the Year 2005, the New Jersey Department of Environmental Protection filed a lawsuit against the Occidental Chemical Corporation and other parties seeking the recovery of damages for the purported discharge of contaminants into various bodies of water. In October 2008, Occidental and other defendants filed third party actions against many public entities including the Authority. The Authority answered the third party action in September 2010. A settlement was reached between the State of New Jersey and the majority of the Third Party Defendants, including the Authority. The settlement cost of \$95,000 was paid to the State of New Jersey in January 2014.

(16) RESTATEMENT

As stated in Note 11, in 2015, the Authority implemented GASB 68. As a result the Authority's Net Position at December 31, 2014 was restated as follows:

	<u>Governmental Activities</u>
Beginning Net Position 12/31/2014	\$ 42,897,832
Adjustments:	
Recognition of Net Pension Liability (Measurement Date)	<u>(10,252,674)</u>
Beginning Net Position 12/31/14 (as Restated)	\$ <u>32,645,188</u>

The Unrestricted Net Asset balance was restated to properly reflect the Authority's Net Position under GASB 68.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(17) COMMITMENTS AND CONTINGENCIES

The Authority's Year 2002 Capital Improvement Program (CIP), with a cost of approximately \$225 million is discussed in Note 13. 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 NJEIT loan program and the issuance of Capital Appreciation Bonds (CABS). Total borrowings outstanding under the NJEIT Trust/Fund Loan Program at December 31, 2015 were \$106.5 million. The NJEIT borrowings outstanding at December 31, 2015 mature in the Year 2024. 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 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 (96% for the year ended December 31, 2015).

(18) GRANT AGREEMENTS

The Authority has been awarded grant funds under two (2) grant agreements:

- a. Office of Homeland Security and Preparedness grant award under the Fiscal Year 2015 Urban Areas Security Initiative Grant Program. As a subrecipient, the Authority has been awarded \$150 thousand to be used for security equipment and fencing. The grant funds are to be requisitioned by August 31, 2018.
- b. FEMA Hazard Mitigation Grant Program award. Under a sub-grant agreement, the Authority has been awarded a grant of \$225 thousand toward estimated equipment enhancement project costs of \$320 thousand. The grant funds are to be requisitioned by June 2, 2018.

The Authority received no reimbursements nor incurred any costs for these projects in 2015. It is expected that these projects will be completed by 2017.

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2015 AND 2014

(19) SUBSEQUENT EVENTS

The Authority has evaluated subsequent events occurring after the financial statement date through June 7, 2016, which is the date the financial statements were available to be issued. Based on this evaluation, the Authority has determined that no subsequent events have occurred which require disclosure in the financial statements.

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**SUPPLEMENTARY INFORMATION**

RAHWAY VALLEY SEWERAGE AUTHORITY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES  
IN NET POSITION RESERVED AND UNRESERVED  
YEARS ENDED DECEMBER 31, 2015 AND 2014

	OPERATING AND REVENUE FUNDS AND INVESTMENT IN CAPITAL ASSETS, NET	CAPITAL REPLACEMENT FUND	OPERATING RESERVE FUND	DEBT SERVICE FUND	TOTAL 2015	TOTAL 2014
Operating Revenues:						
Member Annual Assessments	\$ 24,710,000	\$ -	\$ -	\$ -	\$ 24,710,000	\$ 24,976,500
Discharge, Permit and Other Fees	1,075,450				1,075,450	759,459
Other Income, Net	76,736				76,736	682,826
<b>Total Operating Revenues</b>	<b>\$ 25,862,186</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 25,862,186</b>	<b>\$ 26,418,785</b>
Operating Expenses:						
Costs of Providing Services	\$ 8,758,568	\$ -	\$ -	\$ -	\$ 8,758,568	\$ 9,107,952
General and Administrative	3,351,076				3,351,076	2,947,516
Depreciation	8,819,323				8,819,323	8,036,010
<b>Total Operating Expenses</b>	<b>\$ 20,928,967</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20,928,967</b>	<b>\$ 20,091,478</b>
Operating Income	\$ 4,933,219	\$ -	\$ -	\$ -	\$ 4,933,219	\$ 6,327,307
Nonoperating Revenues (Expenses):						
Interest Income - Unrestricted Funds	\$ 3,523	\$ -	\$ -	\$ -	\$ 3,523	\$ 2,854
Interest Income - Restricted Funds				4,028	4,028	3,718
Grant Income/Forgiveness				301,065	301,065	-
Interest Expense, Net	(2,280,102)			(2,565,066)	(4,845,168)	(4,917,667)
Income (Loss) Before Transfers	\$ 2,656,640	\$ -	\$ -	(2,259,973)	\$ 396,667	\$ 1,416,312
Interfund Transactions	\$ (2,295,879)	\$ (213,031)	\$ 58,600	\$ 2,450,310	\$ -	\$ -
Net Position, Beginning of Year	\$ 27,896,635	\$ 1,797,956	\$ 3,090,150	\$ 1,276,759	\$ 34,061,500	\$ 42,897,832
Restatement to Include Net Pension Liability						(10,252,644)
Net Position, Beginning of Year - Restated						32,645,188
Net Position, End of Year	\$ 28,257,396	\$ 1,584,925	\$ 3,148,750	\$ 1,467,096	\$ 34,458,167	\$ 34,061,500

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, 2015 AND 2014

	<u>TOTAL 2015</u>	<u>TOTAL 2014</u>
Cash and Cash Equivalents, Beginning of Year	\$ 1,668,643	\$ 2,045,135
Cash Receipts:		
Member Annual Assessments	\$ 24,710,000	\$ 24,976,500
Discharge Fees	796,400	577,421
Permit Fees	208,064	205,920
Sewer Connection Fees	9,232	11,175
Interest on Investments	3,522	3,983
Insurance Proceeds	36,968	549,995
Sewer "Spur" Renovation	-	132,831
Other, Net	73,501	302,023
Transfers from Restricted Funds	<u>2,850,000</u>	<u>2,079,106</u>
<u>Total Cash and Cash Equivalents Available</u>	<u>\$ 30,356,330</u>	<u>\$ 30,884,089</u>
Cash Disbursements:		
Operations	\$ 11,593,253	\$ 12,112,479
Transfers to Restricted Funds	<u>16,610,386</u>	<u>17,102,967</u>
<u>Total Cash Disbursements</u>	<u>\$ 28,203,639</u>	<u>\$ 29,215,446</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,152,691</u>	<u>\$ 1,668,643</u>

RAHWAY VALLEY SEWERAGE AUTHORITY

SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS,  
CHANGES IN CASH, CASH EQUIVALENTS AND INVESTMENTS-RESTRICTED ACCOUNTS  
YEARS ENDED DECEMBER 31, 2015 AND 2014

	CAPITAL REPLACEMENT FUND	OPERATING RESERVE FUND	BUILDING AND EQUIPMENT FUND	CONSTRUCTION FUND	DEBT SERVICE FUND	TOTAL 2015	TOTAL 2014
Cash and Cash Equivalents, Beginning of Year	\$ 1,797,956	\$ 3,090,150	\$ 32,536	\$ 1,659	\$ 2,381,328	\$ 7,303,629	\$ 6,378,105
Cash Receipts:							
Proceeds from the NJEIT Loan Program			1,584,550			1,584,550	3,718
Interest on Investments					3,362	3,362	71,951
Other							
Transfers From Unrestricted Funds	886,968	2,908,600			12,814,818	16,610,386	17,102,967
Transfers From Other Funds	300,000		1,428,973			1,728,973	1,123,094
<b>Total Cash Receipts</b>	<b>\$ 2,984,924</b>	<b>\$ 5,998,750</b>	<b>\$ 3,046,059</b>	<b>\$ 1,659</b>	<b>\$ 15,199,508</b>	<b>\$ 27,230,900</b>	<b>\$ 24,679,835</b>
Cash Disbursements:							
Payments of Bond Principal					10,335,536	10,335,536	10,280,128
Payments of Bond Interest					2,650,278	2,650,278	2,834,847
Capital Assets			2,337,086			2,337,086	1,059,031
Transfers to Unrestricted Funds	1,400,000	2,850,000				2,850,000	2,079,106
Transfers to Other Funds			300,000		28,973	1,728,973	1,123,094
<b>Total Cash Disbursements</b>	<b>\$ 1,400,000</b>	<b>\$ 2,850,000</b>	<b>\$ 2,637,086</b>	<b>\$ -</b>	<b>\$ 13,014,787</b>	<b>\$ 19,901,873</b>	<b>\$ 17,376,206</b>
Cash and Cash Equivalents, End of Year	\$ 1,584,924	\$ 3,148,750	\$ 408,973	\$ 1,659	\$ 2,184,721	\$ 7,329,027	\$ 7,303,629

RAHWAY VALLEY SEWERAGE AUTHORITY

SCHEDULE OF OPERATING REVENUES  
AND COSTS FUNDED BY OPERATING  
REVENUES COMPARED TO BUDGET  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	<u>2015</u> <u>BUDGET</u>	<u>2015</u> <u>ACTUAL</u>	<u>2014</u> <u>ACTUAL</u>
Revenues:			
Member Annual Assessments:			
Township of Woodbridge	\$ 6,777,908	\$ 6,777,908	\$ 6,857,271
City of Rahway	3,930,585	3,930,585	3,737,209
Town of Westfield	3,376,411	3,376,411	3,497,223
Township of Springfield	2,490,677	2,490,677	2,378,801
Township of Clark	2,302,117	2,302,117	2,221,965
Township of Cranford	1,708,833	1,708,833	1,936,270
Township of Scotch Plains	1,444,048	1,444,048	1,547,241
Borough of Mountainside	916,571	916,571	936,185
Borough of Garwood	621,794	621,794	535,366
Borough of Kenilworth	590,830	590,830	725,282
Borough of Roselle Park	550,226	550,226	603,687
	<u>24,710,000</u>	<u>24,710,000</u>	<u>24,976,500</u>
<u>Total Member Assessments</u>	<u>\$ 24,710,000</u>	<u>\$ 24,710,000</u>	<u>\$ 24,976,500</u>
Other Operating Income:			
Discharge Fees	\$ 500,000	\$ 858,154	\$ 542,364
Permit Fees	206,000	208,064	205,920
Sewer Connection Fees	4,000	9,232	11,175
Other Income, Net	8,900	76,736	682,826
	<u>718,900</u>	<u>1,152,186</u>	<u>1,442,285</u>
<u>Total Other Operating Income</u>	<u>\$ 718,900</u>	<u>\$ 1,152,186</u>	<u>\$ 1,442,285</u>
Interest on Investments - Operating Fund	\$ 1,000	\$ 3,523	\$ 2,854
	<u>1,000</u>	<u>3,523</u>	<u>2,854</u>
<u>TOTAL REVENUES</u>	<u>\$ 25,429,900</u>	<u>\$ 25,865,709</u>	<u>\$ 26,421,639</u>

RAHWAY VALLEY SEWERAGE AUTHORITY

SCHEDULE OF OPERATING REVENUES  
AND COSTS FUNDED BY OPERATING  
REVENUES COMPARED TO BUDGET  
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015 <u>BUDGET</u>	2015 <u>ACTUAL</u>	2014 <u>ACTUAL</u>
Expenses:			
Costs of Providing Services:			
Labor	\$ 1,960,000	\$ 2,009,149	\$ 1,955,145
Supervision	910,000	1,011,942	890,595
Fringe Benefits	1,351,360	1,363,495	1,362,583
Utilities	2,075,000	1,680,387	2,446,576
Residual Disposal	907,000	685,017	883,683
Maintenance	870,000	1,247,453	684,410
Compliance Monitoring	221,000	246,688	265,667
Chemicals and Fuels	336,000	266,379	255,113
Permit Fees	155,000	133,203	144,031
Other	290,500	114,855	220,149
Total Costs of Providing Services	\$ <u>9,075,860</u>	\$ <u>8,758,568</u>	\$ <u>9,107,952</u>
General and Administrative Expenses:			
Salaries and Wages	\$ 1,295,000	\$ 1,273,737	\$ 1,247,286
Fringe Benefits	899,640	860,326	802,200
Professional Services	464,000	462,433	415,686
General Insurance	238,000	180,659	265,548
Information Technology	80,000	97,943	76,644
Other	167,500	158,039	140,152
Total General and Administrative Expenses	\$ <u>3,144,140</u>	\$ <u>3,033,137</u>	\$ <u>2,947,516</u>
Other Costs Funded by Revenues:			
Debt Service Payment Requirements	\$ 12,784,900	\$ 12,985,814	\$ 13,114,974
Capital Replacement Fund Appropriation	850,000	850,000	975,000
Spur Sewer Refurbishment	-	-	132,831
Operating Reserve Compliance Requirement	-	(35,147)	58,025
Total Other Costs	\$ <u>13,634,900</u>	\$ <u>13,800,667</u>	\$ <u>14,280,830</u>
TOTAL COSTS	\$ 25,854,900	\$ 25,592,372	\$ 26,336,298
Unreserved Retained Earnings Utilized	<u>(425,000)</u>	<u>(425,000)</u>	<u>(620,300)</u>
Net Total Appropriations	<u>25,429,900</u>	<u>25,167,372</u>	<u>25,715,998</u>
EXCESS OF REVENUES OVER COSTS	\$ <u><u>-</u></u>	\$ <u><u>698,337</u></u>	\$ <u><u>705,641</u></u>

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

<u>Fiscal Year</u> Ending <u>June 30,</u>	<u>Authority's</u> Proportion Share of the Net Pension <u>Liability (Asset)</u>	<u>Authority's</u> Proportionate Share of the Net Pension <u>Liability (Asset)</u>	<u>Authority's</u> Covered-Employee <u>Payroll</u>	<u>Authority's</u> Proportion Share of the Net Pension Liability (Asset) as a percentage of it's Covered- <u>Employee Payroll</u>	<u>Plan Fiduciary</u> Net Position as a percentage of the total <u>Pension Liability</u>
2014	0.0532509458%	\$ 10,177,314	\$ 3,724,815	273.23%	40.71%
2015	0.0533141302%	9,981,863	3,840,814	259.89%	42.74%

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>Fiscal Year</u> <u>Ending</u> <u>June 30,</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>
2014	\$ 439,514	\$ 439,514	-0-	3,724,815	11.80%
2015	456,048	456,048	-0-	3,840,814	11.87%

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, 2015

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 (4.29%) to the current measurement date (3.80%), resulting in a change in the discount rate from 5.39% to 4.90%. This change in the discount rate is considered to be a change in actuarial assumptions under GASB No. 68.

RAHWAYVALLEY SEWERAGE AUTHORITY

DECEMBER 31, 2015

ROSTER OF OFFICIALS

<u>Name</u>	<u>Title</u>
Allen Chin	Chairman
Michael Furci	Vice Chairman
Mark P. Dugan	Commissioner
Stephen D. Greet	Commissioner
Robert B. LaCosta	Commissioner
Richard J. LoForte	Commissioner
Frank G. Mazzarella	Commissioner
Robert Rachlin	Commissioner
Scott L. Thompson	Commissioner
John J. Tomaine	Commissioner
Attilio S. Ventura	Commissioner
James J. Meehan	Executive Director
Robert J. Materna	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, 2015

GENERAL COMMENTS AND RECOMMENDATIONS

NONE



