Annual
Financial Report

of the

Rahway Valley
Sewerage Authority

For the Years Ended December 31, 2017 and 2016

Prepared By

Rahway Valley Sewerage Authority

Finance Department

RAHWAY VALLEY SEWERAGE AUTHORITY

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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, 2017 and 2016, 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.

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, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion analysis and the schedules related to accounting 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.

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 21, 2018 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 21, 2018

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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, 2017, 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 21, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rahway Valley Sewerage Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Rahway Valley Sewerage Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

June 21, 2018

MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2017 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 required 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 $13,379,199 and $16,203,505 for the years ended December 31, 2017 and 2016, respectively, shown within non-current liabilities, are significant amounts. Notes to the Financial Statements No. 2, 11 and 12 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

	December 31		
Assets	2017	2016	2015
Unrestricted assets	$ 7,075,334	$ 7,221,970	$ 2,330,608
Restricted assets	11,752,525	6,739,087	7,750,718
Capital assets, at cost	272,862,236	271,282,922	269,753,296
Accumulated depreciation	(83,256,653)	(74,678,922)	(66,095,307)
Deferred outflow of resources – Pension related	4,343,296	5,039,439	1,571,184
Total assets	$ 212,776,738	$ 215,604,496	$ 215,310,499
Current liabilities:			
Payable from unrestricted assets	$ 1,299,555	$ 1,498,596	$ 890,846
Payable from restricted assets	12,393,170	11,940,071	11,858,529
Total current liabilities	$ 13,692,725	$ 13,438,667	$ 12,749,375
Long-term debt, net of current maturities	136,394,599	144,650,561	152,849,784
NJEIT Interim Financing	6,210,947	-	-
Net pension liability	13,379,199	16,203,505	11,907,625
Total noncurrent liabilities	$ 155,984,745	$ 160,854,066	$ 164,757,409
Total liabilities	$ 169,677,470	$ 174,292,733	$ 177,506,784
Deferred inflows of resources:			
Credits on debt refundings	$ 2,332,088	$ 2,689,694	$ 3,047,301
Deferred bond premium	57,206	60,656	64,105
Pension related	2,710,167	33,646	234,142
Total Deferred inflows of resources	$ 5,099,461	$ 2,783,996	$ 3,345,548
Total net position	$ 37,999,807	$ 38,527,767	$ 34,458,167
Total liabilities, deferred inflows of resources, and total net position	$ 212,776,738	$ 215,604,496	$ 215,310,499

Unrestricted assets of $7.1 million at December 31, 2017, consist principally of cash and cash equivalents of $2.6 million and receivables of $4.3 million. The $4.3 million receivable relates to litigation settlements discussed on Page 14. Total current liabilities payable from unrestricted assets at December 31, 2017 consists of accounts payable and accrued expenses.

Restricted assets of $11.8 million at December 31, 2017 consists of cash and cash equivalents of $5.5 million and $6.2 million related to capital project funds held by the New Jersey Environmental Infrastructure Trust (NJEIT).

Condensed Statements of Net Position (Cont'd.)

The Authority's capital assets, at cost, at December 31, 2017 and 2016 amounted to $272.9 million and $271.3 million, respectively. Reference is made to the Authority's Year 2002 Capital Improvement Program (CIP) that is discussed on Page 12. Net property, plant and equipment at December 31, 2017 and 2016 amounted to $189.6 million and $196.6 million, respectively.

Total liabilities of the Authority at December 31, 2017 and 2016 amounted to $169.7 million and $174.3 million, respectively, of which $147.5 million and $155.5 million, respectively, relate to debt obligations principally attributable to the funding of capital asset additions under the Authority's Year 2002 CIP. Additional temporary/interim financing was secured from NJEIT totaling $6.2 million to provide financing for additional projects related to the Authority's Digester Covers and Gas Flares and the construction of a Food Waste Station. The Authority's debt obligations outstanding at December 31, 2017 relate to financing under the New Jersey Environmental Infrastructure Trust (NJEIT) Loan Program ($91.3 million) and the accreted value of Capital Appreciation Bonds ($62.5 million). In addition, Total Liabilities include a Net Pension Liability of $13.4 million and $16.2 million at December 31, 2017 and 2016, respectively.

Deferred inflows of resources at December 31, 2017 and 2016 of $5.1 million and $2.8 million, respectively, relate principally to credits on debt refundings as well as pension obligations.

Total Net Position of the Authority at December 31, 2017 and 2016 amounted to $38.0 million and $38.5 million respectively. Net Position includes:

	2017	2016
	Thousands	
Investments in Capital Assets, net of related liabilities	$39,424	$38,685
Restricted	8,841	9,717
Unrestricted, Unappropriated	898	610
Unrestricted, Appropriated	583	714
Unrestricted, Net Pension Related	(11,746)	(11,197)
	$38,000	$38,528

An appropriation of $583 thousand and $714 thousand of the Unrestricted Net Position in each of the years ended December 31, 2017 and 2016 has been made to fund a portion of the Years 2018 and 2017 Operating Budgets, respectively.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Years Ended December 31		
	2017	2016	2015
Operating revenues	$ 24,865,346	$ 25,501,076	$ 25,862,186
Operating expenses:			
Costs of providing services	$ 8,509,773	$ 9,014,205	$ 8,758,568
General and administrative	3,485,201	3,207,272	3,033,137
Pension expense charge	548,358	1,113,164	317,939
Total operating expenses, before depreciation	$ 12,543,332	$ 13,334,641	$ 12,109,644
Depreciation	8,577,734	8,716,516	8,819,323
Total operating expenses	$ 21,121,066	$ 22,051,157	$ 20,928,967
Operating income	$ 3,744,280	$ 3,449,919	$ 4,933,219
Nonoperating income/(expense), net:			
Interest expense, net	$ (4,588,071)	$ (4,726,645)	$ (4,845,168)
Capital Litigation Settlements	-	5,250,000	-
Other income, net	315,831	96,326	308,616
Net income (loss)	$ (527,960)	$ 4,069,600	$ 396,667
Net Postion:			
Beginning of year	$ 38,527,767	$ 34,458,167	$ 34,061,500
End of year	$ 37,999,807	$ 38,527,767	$ 34,458,167

Budgeted and realized member annual assessments included in operating revenues for the years ended December 31, 2017 and 2016, amounted to $24.4 million and $24.8 million, respectively. Member annual assessments represent 98% and 97% of total operating revenues realized in the years ended December 31, 2017 and 2016.

Total operating expenses for the years ended December 31, 2017 and 2016 were $21.1 million and $22.0 million, respectively. Operating expenses consist principally of personnel related costs, utilities, residual disposal, maintenance, compliance monitoring and professional services.

Operating income in the Year 2017, net of depreciation expense of $8.6 million, was $3.7 million as compared to operating income in the Year 2016 of $3.4 million.

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

Non-operating income in 2017 includes $150 thousand in grant funds for specified projects. Non-operating income in 2016 includes $5,250,000 in Capital Litigation Settlements and $79 thousand in grant income from loan forgiveness.

Interest expense in 2017 amounted to $4.6 million as compared to $4.7 million in 2016.

Net loss in the Year 2017 was $528 thousand as compared to net income of $4.1 million in the Year 2016. The 2017 decrease in net income is principally attributable to litigation settlements received in 2016 discussed on Page 14.

Condensed Statements of Cash Flows

	Years Ended December 31		
	2017	2016	2015
Net cash provided by operating activities	$ 12,638,993	$ 13,418,761	$ 14,240,245
Net cash used in capital and financing activities	(13,913,979)	(13,602,084)	(13,738,350)
Net cash provided by investing activities	31,195	17,318	7,551
Net increase(decrease) in cash and cash equivalents	$ (1,243,791)	$ (166,005)	$ 509,446
Cash and cash equivalents:			
Beginning of year	9,315,713	9,481,718	8,972,272
End of year	$ 8,071,922	$ 9,315,713	$ 9,481,718

Net cash provided by operating activities amounted to $12.6 million and $13.4 million in the years ended December 31, 2017 and 2016, respectively.

Net cash used in capital/financing activities in the Years 2017 and 2016 relate principally to the funding of construction projects, and debt service payments. Payments for net capital asset additions in the Year 2017 were $1.3 million as compared to $1.9 million in 2016. Debt service payments amounted to $13.0 million and $12.9 million in the years ended December 31, 2017 and 2016, respectively.

Net cash provided by investing activities amounted $31 thousand and $17 thousand in the Years 2017 and 2016, respectively, and relates to interest income.

AUTHORITY OVERVIEW

General

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

The Authority had 54 employees as of December 31, 2017, including its Executive Director and Secretary/Treasurer, of which 31 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 covey peak wet weather flows to the facility. One Combined Sewer Overflow was closed and another Combined Sewer Overflow was reconfigured as an emergency plant protection system. Tertiary treatment utilizing sand filters, an ultraviolet disinfection system and other treatment facility enhancements were added to improve the quality of the effluent discharged into the Arthur Kill in Carteret. The Authority disposes its anaerobic digested, dewatered, and dried sludge to third parties who use the material for beneficial use.

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

Municipality Service Charges

Budgeted and realized member municipality annual assessments for the years ended December 31, 2017, 2016 and 2015 (representing a substantial portion of operating income in each year) follow:

Municipality	2017	2016	2015
Woodbridge	6,355,627	$ 6,851,367	$ 6,777,908
Rahway	4,262,858	4,022,482	3,930,585
Westfield	3,512,422	3,369,896	3,376,411
Springfield	2,537,893	2,561,213	2,490,677
Clark	2,059,105	2,161,067	2,302,117
Cranford	1,626,631	1,734,010	1,708,833
Scotch Plains	1,399,297	1,512,061	1,444,048
Mountainside	875,574	841,064	916,571
Kenilworth	707,549	676,057	621,794
Garwood	634,103	567,173	590,830
Roselle Park	450,441	504,610	550,226
	$24,421,500	$24,801,000	$24,710,000

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

Litigation Settlement Related to the Capital Improvement Program

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

Litigation and Related Matters

During the year 2009, litigation was commenced by the Authority in connection with the Authority's Cogeneration Facility (the "Facility"). The RVSA constructed the Facility on the basis that operating the Facility as the WWTP's primary power source would lower annual operating costs by over $1 million per year. It was determined that operating the Facility as designed actually imposed increases in operating costs to the Authority. On March 24, 2011 the RVSA filed a Demand for Arbitration asserting claims against various parties including the design engineer, the construction oversight manager, the general contractor, the supplier of the gas generators and other parties. A related action was commenced by the Authority on October 1, 2012 against parties with whom the Authority did not have an arbitration requirement. Settlements were realized in 2016 as to both arbitration and litigation.

Settlements aggregated approximately $7.1 million. In 2016, $850 thousand was received. The remaining $6.2 million is being paid under the terms of a Funding Agreement as follows:

Period	Annual Amount	Total Amount
2017 to 2031	$234,000	$3,510,000
2032	265,000	265,000
2033	300,000	300,000
2034	500,000	500,000
2035	750,000	750,000
2036	900,000	900,000
		$6,225,000

A total of $5,250,000 in settlements was recorded in the year ended December 31, 2016. This amount represents the $850,000 realized in the year 2016 along with a receivable for $4,400,000 funded under the Funding Agreement. Interest income is being recorded on the funding agreement as payments are received.

Commitments and Contingencies

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

The major sources of financing for the CIP were borrowings under the NJEIT loan program and the issuance of Capital Appreciation Bonds (CABS). Total borrowings outstanding under the NJEIT Trust/Fund Loan Program related to the CIP at December 31, 2017 were $85 million. The NJEIT borrowings outstanding at December 31, 2017 mature in the Year 2035. The CABS, with an issue value of $34.7 million and a maturity value of $112.9 million, will be paid over a twelve-year period beginning in the Year 2024 and ending in the Year 2035.

Debt service payment requirements related to the year 2002 CIP will continue to be a significant component of assessments to member municipalities through the Year 2035. Annual debt service payment requirements will be in the $13 million range through the Year 2024, $12 million in the Year 2025 and in the $10 million range each year thereafter through the Year 2035. A significant portion of the Authority's operating revenues are generated by annual assessments to its member municipalities (98% for the year ended December 31, 2017).

B. In January 2017, the Authority signed an agreement for a Public Private Partnership (PPP) to accept specified feedstock (food waste) for co digestion with its bio solids and entered a 10 to 20 year contract. The contract is a design/build construction contract which entails the refurbishing of an existing sludge thickening tank that will be utilized as a feedstock receiving station. The project is expected to generate energy savings, tip fees, and energy credits over the first 10 years approximating $6 million which will be used to offset the cost of operating the Authority. The project is expected to take 3 to 4 years to ramp up to maximum operations. Live operations began in April 2018 with feedstock deliveries. The official contracted commercial operating date should begin in the very near future after full acceptance of the construction project and the appurtenant equipment.

C. In conjunction with the aforementioned PPP project, in December 2017 the Authority issued a $2.0 million Note with the NJEIT that is due June 30, 2021. The Note bears no interest. This interim financing was secured for the construction of a Food Waste Station. In April 2018 the Note was increased to approximately $2.4 million. The Authority expects to permanently finance the Note prior to maturity through the NJEIT financing program. Permanent financing is expected to consist of 75% of the bond to bear no interest while 25% to bear interest at then current market rates. Each bond is expected to be amortized on a level debt service basis for a period of not less than 20 years and not more than 30 years.

D. In December 2017 the Authority issued a $4.2 million Note with the NJEIT that is due June 30, 2021. The Note bears no interest. This interim financing was secured for improvements to the Authority's Digesters and Gas Flares. The Authority expects to permanently finance the Note prior to maturity through the NJEIT financing program. Permanent financing is expected to consist of 75% of the bond to bear no interest while 25% to bear interest at then current market rates. Each bond is expected to be amortized on a level debt service basis for a period of not less than 20 years and not more than 30 years.

Contacting the Authority's Management

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

BASIC FINANCIAL STATEMENTS

EXHIBIT A
SHEET #1

RAHWAY VALLEY SEWERAGE AUTHORITY

STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

	2017	2016
A S S E T S		
Unrestricted Assets - Current:		
Cash and Cash Equivalents	$ 2,588,222	$ 2,661,500
Trade Receivables	13,308	2,470
Prepaid Expenses	179,500	158,000
Other Receivables	108,778	105,696
Total Unrestricted Assets - Current	$ 2,889,808	$ 2,927,666
Restricted Assets:		
Cash and Cash Equivalents	$ 5,483,700	$ 6,654,213
Capital Project Funds Held by the New Jersey Environmental Infrastructure Trust	6,268,825	84,874
Total Restricted Assets - Current	$ 11,752,525	$ 6,739,087
Unrestricted Assets - Long Term:		
Property, Plant and Equipment, at Cost	$ 272,862,236	$ 271,282,922
Less: Accumulated Depreciation	83,256,653	74,678,922
Net Property, Plant and Equipment	$ 189,605,583	$ 196,604,000
Other Receivable - Long Term	4,185,526	4,294,304
Total Unrestricted Assets - Long Term	$ 193,791,109	$ 200,898,304
Deferred Outflow of Resources:		
Pension Related	4,343,296	5,039,439
TOTAL ASSETS	$ 212,776,738	$ 215,604,496

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

EXHIBIT A
SHEET #2

RAHWAY VALLEY SEWERAGE AUTHORITY

STATEMENTS OF NET POSITION
DECEMBER 31, 2017 AND 2016

	2017	2016
LIABILITIES		
Current Liabilities Payable From Unrestricted Assets:		
Accounts Payable and Accrued Expenses	$ 1,299,555	$ 1,498,596
Total Current Liabilities Payable From Unrestricted Assets	$ 1,299,555	$ 1,498,596
Current Liabilities Payable From Restricted Assets:		
Accounts Payable	$ 351,504	$ 77,903
Retainage Due Contractors	29,588	5,991
Accrued Interest Payable	853,089	958,177
Current Portion of Long-term Debt	11,158,989	10,898,000
Total Current Liabilities Payable From Restricted Assets	$ 12,393,170	$ 11,940,071
Noncurrent Liabilities:		
Total Long-Term Debt, Net of Current Maturities	$ 136,394,599	$ 144,650,561
NJEIT Interim Financing	6,210,947	-
Net Pension Liability	13,379,199	16,203,505
Total Noncurrent Liabilities	$ 155,984,745	$ 160,854,066
TOTAL LIABILITIES	$ 169,677,470	$ 174,292,733
DEFERRED INFLOWS OF RESOURCES		
Credits on Debt Refundings	$ 2,332,088	$ 2,689,694
Pension Related	2,710,167	33,646
Deferred Bond Premium	57,206	60,656
TOTAL DEFERRED INFLOWS OF RESOURCES	$ 5,099,461	$ 2,783,996
Net Position:		
Invested in Capital Assets, net of Related Liabilities	$ 39,423,629	$ 38,684,697
Restricted	8,840,773	9,717,407
Unrestricted	(10,264,595)	(9,874,337)
TOTAL NET POSITION	$ 37,999,807	$ 38,527,767
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$ 212,776,738	$ 215,604,496

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

EXHIBIT B

RAHWAY VALLEY SEWERAGE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Operating Revenues:		
Member Annual Assessments	$ 24,421,500	$ 24,801,000
Discharge, Permit and Other Fees	433,943	693,627
Other Income, Net	9,903	6,449
Total Operating Revenues	$ 24,865,346	$ 25,501,076
Operating Expenses:		
Costs of Providing Services	$ 8,509,773	$ 9,014,205
General and Administrative	3,485,201	3,207,272
Pension Expense Charge	548,358	1,113,164
Depreciation	8,577,734	8,716,516
Total Operating Expenses	$ 21,121,066	$ 22,051,157
Operating Income	$ 3,744,280	$ 3,449,919
Nonoperating Revenues (Expenses):		
Interest Income - Unrestricted Funds	$ 135,061	$ 5,862
Interest Income - Restricted Funds	24,438	11,456
Capital Litigation Settlements	-	5,250,000
Grant Income/Loan Forgiveness	6,332	79,008
Grants	150,000	-
Interest Expense, Net	(4,588,071)	(4,726,645)
Net Income (loss)	$ (527,960)	$ 4,069,600
Net Position, Beginning of Year	$ 38,527,767	$ 34,458,167
Net Position, End of Year	$ 37,999,807	$ 38,527,767

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

EXHIBIT C

RAHWAY VALLEY SEWERAGE AUTHORITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash Flows from Operating Activities:		
Receipts from Member Annual Assessments	$ 24,421,500	$ 24,801,000
Receipts for Discharge, Permit and Other Fees	423,257	753,074
Other Receipts	9,903	6,449
Payments to Suppliers	(7,576,636)	(7,687,879)
Payments to Employees	(4,639,031)	(4,453,883)
Net Cash Provided by Operating Activities	$ 12,638,993	$ 13,418,761
Cash Flows from Capital and Related Financing Activities:		
Capital Assets	$ (1,282,118)	$ (1,945,473)
Principal Payments on Long-Term Debt	(10,898,152)	(10,542,528)
Interest Paid on Bonds	(2,151,037)	(2,379,908)
Proceeds from the NJ Environmental Infrastructure Trust Loan Program	33,328	415,825
Capital Litigation Settlements (Principal and Interest)	234,000	850,000
Grants	150,000	-
Net Cash Used in Capital and Financing Activities	$ (13,913,979)	$ (13,602,084)
Cash Flows from Investing Activities:		
Interest Received	$ 31,195	$ 17,318
Net Cash Provided by Investing Activities	$ 31,195	$ 17,318
Net Decrease in Cash and Cash Equivalents	$ (1,243,791)	$ (166,005)
Cash and Cash Equivalents, Beginning of Year	9,315,713	9,481,718
Cash and Cash Equivalents, End of Year	$ 8,071,922	$ 9,315,713
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	$ 3,744,280	$ 3,449,919
Depreciation	8,577,734	8,716,516
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(10,838)	59,447
Prepaid Expenses	(21,500)	(42,000)
Accounts Payable and Accrued Expenses	(199,041)	121,715
Pension Related	548,358	1,113,164
Net Cash Provided by Operating Activities	$ 12,638,993	$ 13,418,761

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

RAHWAY VALLEY SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

(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.

(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, 2015.

(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.

(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.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

FUND	AMOUNT	USE FOR WHICH RESTRICTED
Revenue	Revenues received by the Authority from municipality service charges.	Authorized operating expenses and transfers to the various accounts described below.
Operating	Amount required toequal 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).

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND	AMOUNT	USE FOR WHICH RESTRICTED
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.

(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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment (continued)

Details of property, plant and equipment as of December 31, 2017 and 2016 are as follows:

	2017	2016
Land	$ 454,919	$ 454,919
Buildings and Improvements	160,665,604	160,566,852
Sewer Mains	17,691,080	17,691,080
Other Improvements	34,690,746	34,690,746
Machinery and Equipment	55,384,766	54,896,326
Vehicles	365,446	292,782
Construction in Progress	3,609,675	2,690,217
	272,862,236	271,282,922
Less: Accumulated Depreciation	83,256,653	74,678,922
Net Property, Plant and Equipment	$189,605,583	$196,604,000

(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.

(4) CASH AND CASH EQUIVALENTS

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

	Unrestricted	Restricted
December 31, 2017:		
Cash and Cash Equivalents	$2,588,222	$5,483,700
December 31, 2016:		
Cash and Cash Equivalents	$2,661,500	$6,654,213

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, 2017, 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.

(6) OTHER RECEIVABLE

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

In 2016, the Authority recorded a receivable in the amount of $4,400,000 reflecting the litigation settlement amount. Interest on the settlement payments are recorded as payments are received. In 2017, the Authority received the initial payment of $234,000 in accordance with the funding schedule. This payment included interest that was realized in the amount of $128,304. The receivable balance of the settlement amount at present value at December 31, 2017 amounts to $4,294,304.

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

Period	Annual Amount	Total Amount
2018 to 2031	$234,000	$3,276,000
2032	265,000	265,000
2033	300,000	300,000
2034	500,000	500,000
2035	750,000	750,000
2036	900,000	900,000
		$5,991,000

(7) PROPERTY PLANT AND EQUIPMENT

Property, Plant and Equipment is summarized as follows:

	Balance Dec 31, 2016	Increase	Decrease	Balance Dec 31, 2017
Land	$ 454,919			$ 454,919
Buildings and Improvements	160,566,852	$ 98,752		160,665,604
Sewer Mains	17,691,080			17,691,080
Other Improvements	34,690,746			34,690,746
Machinery and Equipment	54,896,326	488,440		55,384,766
Vehicles	292,782	72,664		365,446
Construction in Progress	2,690,217	919,458		3,609,675
	271,282,922	1,579,314		272,862,236
Less: Accumulated Depreciation	74,678,922	8,577,731		83,256,653
Net Property, Plant and Equipment	$196,604,000	$(6,998,417)		$189,605,583

(8) DEBT OBLIGATIONS

	2017	2016
A summary of long-term debt follows:		
New Jersey Environmental Infrastructure Trust 2002 Obligations, due August 2022	$ 1,666,742	$ 1,974,474
New Jersey Environmental Infrastructure Trust 2003 Obligations, due August 2023	9,277,883	10,735,642
New Jersey Environmental Infrastructure Trust 2004 Obligations, due August 2024	50,524,707	57,062,324
New Jersey Environmental Infrastructure Trust 2004 Obligations, due August 2024	1,482,618	1,676,212
New Jersey Environmental Infrastructure Trust 2005 Obligations, due August 2025	20,489,909	22,805,865
New Jersey Environmental Infrastructure Trust 2015 A & B Obligations, due August 2034	1,608,392	1,693,887
Sewer Revenue Bonds, 2005 (Capital Appreciation Bonds), due September 2035	62,503,337	59,600,157
New Jersey Environmental Infrastructure Trust - Interim Construction Financing – 2017; Digester Covers and Gas Flares, due June 2021	4,210,947	--
New Jersey Environmental Infrastructure Trust - Interim Construction Financing – 2017; Food Waste Station, due June 2021	2,000,000	--
Total Debt	$153,764,535	$155,548,561
Less Current Maturities	11,158,989	10,898,000
Total Long-Term Debt	$142,605,546	$144,650,561

Aggregate long-term principal debt payment requirements (in millions) during the next five years are as follows: 2018 - $11.2, 2019 - $11.4, 2020 - $11.7, 2021 - $12.0 and 2022 - $12.3.

(8) DEBT OBLIGATIONS (CONTINUED)

Detail information regarding Debt Obligations at December 31, 2017 and 2016 follows:

New Jersey Environmental Infrastructure Trust (NJEIT)

Total obligations payable to the NJEIT at December 31, 2017 and 2016 amounted to $91.3 million and $95.9 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 $937,585 of such obligations approximates 3.3% over the remaining term. No interest is due on the remaining principal amount of $729,157.

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 $5,325,000 of such obligations approximates 3.0% over the remaining term. No interest is due on the remaining principal amount of $3,952,883.

(8) 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 $27,697,057 of such obligations approximates 3.0% over the remaining term. No interest is due on the remaining principal amount of $22,827,650.

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 $814,752 of such obligations approximates 3.1% over the remaining term. No interest is due on the remaining principal amount of $667,866.

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 $12,069,256 approximates 2.9% over the remaining term. No interest is due on the remaining principal amount of $8,420,653.

(8) 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 $495,000 of such obligations approximates 4.5% over the remaining term. No interest is due on the remaining principal amount of $1,113,392.

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 $6,332 and $79,008 of this loan forgiveness as grant income in the years 2017 and 2016, respectively.

G. In December 2017, for purposes of temporary/interim financing during construction, the Authority issued non-interest-bearing Notes to the NJEIT in the amounts of $4,210,947 and $2,000,000 which are due on June 30, 2021. These Notes represent funding for improvements to the Authority's Digester Covers and Gas Flares and the construction of a Food Waste Station, respectively. Proceeds of the Notes are held by the NJEIT for the benefit of the Authority upon submission of approved construction cost requisitions. The Authority expects to permanently finance these Notes prior to maturity through the NJEIT financing program. At the time of such permanent financing, the Authority expects to deliver a non-interest-bearing bond to the NJEIT for approximately 75% of the financing and bonds at the then current market rates for approximately 25% of the financing. Each bond is expected to be amortized on a level debt service basis for a period of not less than twenty years and not more than thirty years.

(8) DEBT OBLIGATIONS (CONTINUED)

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, 2017 and 2016 amounted to $62,503,337 and $59,600,157, respectively. These amounts include $27,830,766 and $24,927,586 of accreted interest at December 31, 2017 and 2016, respectively.

(9) 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 2017 and 2016, which reduced interest expense. The unamortized balance of the Credits on Debt Refundings amounted to $2,332,088 and $2,689,694 at December 31, 2017 and 2016, respectively. The Credits on Debt Refundings are presented in the Statements of Net Position at December 31, 2017 and 2016 under the caption “Deferred Inflows of Resources”.

(10) NET POSITION

The components of net position are as follows:

	December 31, 2017	December 31, 2016
Net Position:		
Invested in Capital Assets, net of related liabilities	$39,423,629	$38,684,697
Restricted:		
Building and Equipment Fund	4,294,303	4,400,000
Capital Replacement Fund	325,245	1,092,424
Operating Reserve Fund	3,090,000	3,148,750
Debt Service Fund	1,131,225	1,076,233
Total Restricted	$ 8,840,773	$ 9,717,407
Unrestricted:		
Appropriated Budget	$ 583,000	$ 713,500
Unappropriated	898,476	609,875
Net Pension Liability	(11,746,071)	(11,197,712)
Total Unrestricted	$(10,264,595)	$(9,874,337)
Total Net Position	$37,999,807	$38,527,767

(11) PENSION PLAN

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

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

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

Significant Legislation

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

Pension Plan Design Changes

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

(11) PENSION PLAN (CONTINUED)

Funding Changes

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

(11) PENSION PLAN (CONTINUED)

Contribution Requirements:

Three Year Trend Information for PERS

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2017	$532,442	100%	$532,442
2016	486,035	100%	486,035
2015	456,048	100%	456,048

DCRP Contributions

The Authority did not make DCRP contributions for the years ended December 31, 2017 and 2016.

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

Public Employees Retirement System (PERS)

At December 31, 2017, the Authority reported a net pension liability of $13,379,199 for its proportionate share of the net pension liability. The total pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2017, the Authority's proportion was 0.0574747310 percent, which was an increase of 0.0027648238 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2017, the State recognized an actuarially determined pension expense of $1,133,874 for the Authority’s proportionate share of the total pension expense. The pension expense recognized in the Authority’s financial statement based on the April 1, 2017 billing was $486,035.

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

Public Employees Retirement System (PERS) (Continued)

At December 31, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	Deferred Inflow of Resources	Deferred Outflow of Resources
Changes of assumptions	$2,685,565	$2,695,447
Net difference between expected and actual experience		315,034
Net difference between projected and actual earnings on pension plan investments		91,103
Changes in proportion and differences between Authority contributions and proportionate share of contributions	24,602	709,269
Contributions subsequent to the measurement date		532,443
	$2,710,167	$4,343 296

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

Year Ended June 30	Amount
2018	$466,070
2019	614,786
2020	442,769
2021	(211,442)
2022	(211,497)
	$1,100,686

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

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions

The total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016, which rolled forward to June 30, 2017. These actuarial valuations used the following assumptions:

	6/30/2017	6/30/2016
Inflation	2.25 Percent	3.08 Percent
Salary Increases (based on age):		
Through 2026	1.65-4.15 Percent	1.65-4.15 Percent
Thereafter	2.65-5.15 Percent	2.65-5.15 Percent
Investment Rate of Return	7.00 Percent	7.65 Percent

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA.

In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified MP-2014 projection scale. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back 3 years for males and set forward 1 year for females).

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

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

Public Employees Retirement System (PERS) (Continued)

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2017 and 7.65% at June 30, 2016) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2017 are summarized in the following table:

	June 30, 2017	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Absolute return/risk mitigation	5.00%	5.51%
Cash	5.50%	1.00%
U.S. Treasuries	3.00%	1.74%
Investment Grade Credit	10.00%	1.79%
Public High Yield	2.50%	1.67%
Global Diversified Credit	5.00%	4.56%
Credit Oriented Hedge Funds	1.00%	3.44%
Debt Related Private Equity	2.00%	8.53%
Debt Related Real Estate	1.00%	6.83%
Private Real Estate	2.50%	11.83%
Equity Related Real Estate	6.25%	9.23%
U.S. Equity	30.00%	9.95%
Non-U.S. Developed Market Equity	11.50%	12.40%
Emerging Markets Equity	6.50%	4.68%
Buyouts Venture Capital	8.25%	6.91%
	100.00%	

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

Public Employees Retirement System (PERS) (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 5.00% and 3.98% as of June 30, 2017 and 2016. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00% and 7.65% and a municipal bond rate of 3.58% and 2.85% as of June 30, 2017 and 2016, respectively, based on the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 40% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 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, 2017 respectively, calculated using the discount rate as disclosed above as well as what the collective net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1- percentage point higher than the current rate:

	1% Decrease 4.00%	June 30, 2017 At Current Discount Rate 5.00%	1% Increase 6.00%
Authority's proportionate share of the pension liability	$16,597,804	$13,379,199	$10,697,702

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Financial Report for the State of New Jersey Public Employees Retirement System (PERS). The report may be obtained at State of New Jersey Division of Pensions and Benefits P.O. Box 295 Trenton, New Jersey 08625-0295 http://www.state.nj.us/treasury/pensions.

(13) 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, 2017 and 2016 amounted to $200,000 and $209,000, respectively.

(14) 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-six (26) retirees who meet this requirement and are receiving benefits. In addition, there are five (5) 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.

(14) 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, 2017 and 2016 approximated $903 thousand and $871 thousand, respectively. The Authority's net cost of payments to the SHBP related to retired employees for the years ended December 31, 2017 and 2016 approximated $355 thousand and $311 thousand, respectively.

(15) LITIGATION SETTLEMENT RELATED TO CAPITAL IMPROVEMENT PROGRAM

The Authority was a party defendant in an action initiated in the New Jersey Superior Court, Chancery Division, Union County, by the New Jersey Department of Environmental Protection. A public interest environmental group was granted permission by the Court to intervene in the action ofthe 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.

(16) LITIGATION AND RELATED MATTERS

During the year 2009, litigation was commenced by the Authority in connection with the Authority's Cogeneration Facility (the "Facility"). The RVSA constructed the Facility on the basis that operating the Facility as the WWTP's primary power source would lower annual operating costs by over $1 million per year. It was determined that operating the Facility as designed actually imposed increases in operating costs to the Authority. On March 24, 2011 the RVSA filed a Demand for Arbitration asserting claims against various parties including the design engineer, the construction oversight manager, the general contractor, the supplier of the gas generators and other parties. A related action was commenced by the Authority on October 1, 2012 against parties with whom the Authority did not have an arbitration requirement. The Authority continued to investigate the extent to which it can mitigate its damages. Certain settlements were realized in 2016 on both the arbitration and litigation with several parties who had arbitration provisions in their contracts.

Efforts to resolve the dispute were successful. Settlements with the third parties aggregated approximately $7.1 million of which $850 thousand was received in 2016. The remaining $6.2 million will be paid under the terms of a Funding Agreement as follows:

Period	Annual Amount	Total Amount
2017 to 2031	$234,000	$3,510,000
2032	265,000	265,000
2033	300,000	300,000
2034	500,000	500,000
2035	750,000	750,000
2036	900,000	900,000
		$6,225,000

A total of $5,250,000 of the settlement amount is included in nonoperating income in the year ended December 31, 2016. This total represents the $850,000 received along with a receivable for $4,400,000 funded under the Funding Agreement. Interest income will be recorded on the funding agreement settlement as payments are received.

(17) COMMITMENTS AND CONTINGENCIES

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

The major sources of financing for the CIP were borrowings under the NJEIT loan program and the issuance of Capital Appreciation Bonds (CABS). Total borrowings outstanding under the NJEIT Trust/Fund Loan Program related to the CIP at December 31, 2017 were $85 million. The NJEIT borrowings outstanding at December 31, 2017 mature 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 related to the year 2002 CIP will continue to be a significant component of assessments to member municipalities through the Year 2035. Annual debt service payment requirements will be in the $13 million range through the Year 2024, $12 million in the Year 2025 and in the $10 million range each year thereafter through the Year 2035. A significant portion of the Authority's operating revenues are generated by annual assessments to its member municipalities (98% for the year ended December 31, 2017).

B. In January 2017, the Authority signed an agreement for a Public Private Partnership (PPP) to accept specified feedstock (food waste) for co digestion with its bio solids and entered a 10 to 20 year contract. The contract is a design/build construction contract which entails the refurbishing of an existing sludge thickening tank that will be utilized as a feedstock receiving station. The project is expected to generate energy savings, tip fees, and energy credits over the first 10 years approximating $6 million which will be used to offset the cost of operating the Authority. The project is expected to take 3 to 4 years to ramp up to maximum operations. Live operations began in April 2018 with feedstock deliveries. The official contracted commercial operating date should begin in the very near future after full acceptance of the construction project and the appurtenant equipment.

C. In conjunction with the aforementioned PPP project, in December 2017 the Authority issued a $2.0 million Note with the NJEIT that is due June 30, 2021. The Note bears no interest. This interim financing was secured for the construction of a Food Waste Station. In April 2018 the Note was increased to approximately $2.4 million. The Authority expects to permanently finance the Note prior to maturity through the NJEIT financing program. Permanent financing is expected to consist of 75% of the bond to bear no interest while 25% to bear interest at then current market rates. Each bond is expected to be amortized on a level debt service basis for a period of not less than 20 years and not more than 30 years.

(17) COMMITMENTS AND CONTINGENCIES (CONTINUED)

D. In December 2017 the Authority issued a $4.2 million Note with the NJEIT that is due June 30, 2021. The Note bears no interest. This interim financing was secured for improvements to the Authority's Digesters and Gas Flares. The Authority expects to permanently finance the Note prior to maturity through the NJEIT financing program. Permanent financing is expected to consist of 75% of the bond to bear no interest while 25% to bear interest at then current market rates. Each bond is expected to be amortized on a level debt service basis for a period of not less than 20 years and not more than 30 years.

(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. This project was completed in 2017. The grant funds have been requisitioned and received in full in 2017.

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 $150 thousand for the security grant in 2017 and no reimbursements for the hazard mitigation grant. It is expected that the hazard mitigation grant project will be completed by June 2018.

(19) SUBSEQUENT EVENTS

The Authority has evaluated subsequent events occurring after the financial statement date through June 21, 2018, 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.

SUPPLEMENTARY INFORMATION

SCHEDULE 1

RAHWAY VALLEY SEWERAGE AUTHORITY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION RESERVED AND UNRESERVED
YEARS ENDED DECEMBER 31, 2017 AND 2016

	OPERATING AND REVENUE FUNDS AND INVESTMENT IN CAPITAL ASSETS, NET	CAPITAL REPLACEMENT FUND	OPERATING RESERVE FUND	DEBT SERVICE FUND	TOTAL 2017	TOTAL 2016
Operating Revenues:						
Member Annual Assessments	$ 24,421,500	$	$	$	$ 24,421,500	$ 24,801,000
Discharge, Permit and Other Fees	433,943				433,943	693,627
Other Income, Net	9,903				9,903	6,449
Total Operating Revenues	$ 24,865,346	$ -	$ -	$ -	$ 24,865,346	$ 25,501,076
Operating Expenses:						
Costs of Providing Services	$ 8,509,773	$	$	$	$ 8,509,773	$ 9,014,205
General and Administrative	3,485,201				3,485,201	3,207,272
Pension Expense Adjustment	548,358				548,358	1,113,164
Depreciation	8,577,734				8,577,734	8,716,516
Total Operating Expenses	$ 21,121,066	$ -	$ -	$ -	$ 21,121,066	$ 22,051,157
Operating Income	$ 3,744,280	$ -	$ -	$ -	$ 3,744,280	$ 3,449,919
Nonoperating Revenues (Expenses):						
Interest Income - Unrestricted Funds	$ 135,061	$	$	$	$ 135,061	$ 5,862
Interest Income - Restricted Funds	-			24,438	24,438	11,456
Capital Litigation Settlements	-				-	5,250,000
Grant Income/Forgiveness	6,332				6,332	79,008
Grants	150,000				150,000	-
Interest Expense, Net	(2,903,180)			(1,684,891)	(4,588,071)	(4,726,645)
Income (Loss) Before Transfers	$ 1,132,493	$ -	$ -	$ (1,660,453)	$ (527,960)	$ 4,069,600
Interfund Transactions	$ (889,515)	$ (767,180)	$ (58,750)	$ 1,715,445	$ -	$
Net Position, Beginning of Year	33,210,359	1,092,425	3,148,750	1,076,233	38,527,767	34,458,167
Net Position, End of Year	$ 33,453,337	$ 325,245	$ 3,090,000	$ 1,131,225	$ 37,999,807	$ 38,527,767

SCHEDULE 2

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, 2017 AND 2016

	TOTAL 2017	TOTAL 2016
Cash and Cash Equivalents, Beginning of Year	$ 2,661,500	$ 2,152,691
Cash Receipts:		
Member Annual Assessments	$ 24,421,500	$ 24,801,000
Discharge Fees	213,250	525,660
Permit Fees	200,033	216,950
Sewer Connection Fees	9,975	10,464
Interest on Investments	6,757	5,862
Capital Litigation Settlement (Principal and Interest)	234,000	-
Other, Net	9,903	6,448
Transfers from Restricted Funds	3,374,486	3,475,000
Total Cash and Cash Equivalents Available	$ 31,131,404	$ 31,194,075
Cash Disbursements:		
Operations	$ 12,215,667	$ 12,141,762
Transfers to Restricted Funds	16,327,515	16,390,813
Total Cash Disbursements	$ 28,543,182	$ 28,532,575
Cash and Cash Equivalents, End of Year	$ 2,588,222	$ 2,661,500

SCHEDULE 3

RAHWAY VALLEY SEWERAGE AUTHORITY

SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS,
CHANGES IN CASH, CASH EQUIVALENTS AND INVESTMENTS-RESTRICTED ACCOUNTS
YEARS ENDED DECEMBER 31, 2017 AND 2016

	CAPITAL REPLACEMENT FUND	OPERATING RESERVE FUND	BUILDING AND EQUIPMENT FUND	CONSTRUCTION FUND	DEBT SERVICE FUND	TOTAL 2017	TOTAL 2016
Cash and Cash Equivalents, Beginning of Year	$ 1,092,424	$ 3,148,750	$ 376,969	$ 1,659	$ 2,034,410	$ 6,654,212	$ 7,329,027
Cash Receipts:							
Proceeds from the NJEIT Loan Program			33,328			33,328	415,825
Grant Funds Received			150,000			150,000	
Interest on Investments					24,438	24,438	11,456
Capital Litigation Settlement						-	850,000
Transfers From Unrestricted Funds	534,000	2,631,250	296,917		12,865,348	16,327,515	16,390,813
Transfers From Other Funds	-		650,000		76,000	726,000	1,492,500
Total Cash Receipts	$ 1,626,424	$ 5,780,000	$ 1,507,214	$ 1,659	$ 15,000,196	$ 23,915,493	$ 26,489,621
Cash Disbursements:							
Payments of Bond Principal	$	$	$ 33,307	$	$ 10,864,845	$ 10,898,152	$ 10,542,528
Payments of Bond Interest					2,151,037	2,151,037	2,379,908
Capital Assets			1,282,118			1,282,118	1,945,473
Transfers to Unrestricted Funds	651,180	2,690,000	33,306			3,374,486	3,475,000
Transfers to Other Funds	650,000		76,000			726,000	1,492,500
Total Cash Disbursements	1,301,180	2,690,000	1,424,731	-	13,015,882	18,431,793	19,835,409
Cash and Cash Equivalents, End of Year	$ 325,244	$ 3,090,000	$ 82,483	$ 1,659	$ 1,984,314	$ 5,483,700	$ 6,654,212

RAHWAY VALLEY SEWERAGE AUTHORITY

SCHEDULE OF OPERATING REVENUES
AND COSTS FUNDED BY OPERATING
REVENUES COMPARED TO BUDGET
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017 BUDGET	2017 ACTUAL	2016 ACTUAL
Revenues:			
Member Annual Assessments:			
Township of Woodbridge	$ 6,355,627	$ 6,355,627	$ 6,851,367
City of Rahway	4,262,858	4,262,858	4,022,482
Town of Westfield	3,512,422	3,512,422	3,369,896
Township of Springfield	2,537,893	2,537,893	2,561,213
Township of Clark	2,059,105	2,059,105	2,161,067
Township of Cranford	1,626,631	1,626,631	1,734,010
Township of Scotch Plains	1,399,297	1,399,297	1,512,061
Borough of Mountainside	875,574	875,574	841,064
Borough of Kenilworth	707,549	707,549	567,173
Borough of Garwood	634,103	634,103	676,057
Borough of Roselle Park	450,441	450,441	504,610
Total Member Assessments	$ 24,421,500	$ 24,421,500	$ 24,801,000
Other Operating Income:			
Discharge Fees	$ -	$ 223,935	$ 466,213
Permit Fees	196,500	200,033	216,950
Sewer Connection Fees	13,000	9,975	10,464
Grants	375,000	150,000	-
Other Income, Net	19,750	9,903	6,448
Total Other Operating Income	$ 604,250	$ 593,846	$ 700,075
Interest on Investments - Operating Fund	$ 3,000	$ 6,757	$ 17,318
TOTAL REVENUES	$ 25,028,750	$ 25,022,103	$ 25,518,393

RAHWAY VALLEY SEWERAGE AUTHORITY

SCHEDULE OF OPERATING REVENUES
AND COSTS FUNDED BY OPERATING
REVENUES COMPARED TO BUDGET
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017 BUDGET	2017 ACTUAL	2016 ACTUAL
Expenses:			
Costs of Providing Services:			
Labor	$ 2,466,000	$ 2,662,757	$ 2,197,359
Supervision	700,000	531,725	1,070,353
Fringe Benefits	1,538,000	1,454,867	1,460,715
Utilities	1,495,000	1,545,459	1,466,537
Residual Disposal	370,000	315,854	315,479
Maintenance	1,094,000	982,453	1,551,591
Compliance Monitoring	380,000	375,913	282,222
Chemicals and Fuels	458,000	270,867	290,447
Permit Fees	201,000	221,228	182,420
Other	96,500	148,650	197,082
Total Costs of Providing Services	$ 8,798,500	$ 8,509,773	$ 9,014,205
General and Administrative Expenses:			
Salaries and Wages	$ 1,400,000	$ 1,450,573	$ 1,206,226
Fringe Benefits	1,000,000	1,021,235	891,765
Professional Services	565,750	499,250	610,442
General Insurance	310,000	246,590	223,284
Information Technology	104,000	92,514	105,531
Other	181,750	175,039	170,024
Total General and Administrative Expenses	$ 3,561,500	$ 3,485,201	$ 3,207,272
Other Costs Funded by Revenues:			
Debt Service Payment Requirements	$ 13,000,000	$ 13,016,016	$ 12,922,433
Capital Replacement Fund Appropriation	675,000	300,000	300,000
Capital Litigation Settlement	(234,000)	(234,000)	-
Operating Reserve Compliance Requirement	(58,750)	(58,750)	93,750
Total Other Costs	$ 13,382,250	$ 13,023,266	$ 13,316,183
TOTAL COSTS	$ 25,742,250	$ 25,018,240	$ 25,537,660
Unreserved Retained Earnings Utilized	(713,500)	(713,500)	(700,000)
Net Total Appropriations	25,028,750	24,304,740	24,837,660
EXCESS OF REVENUES OVER COSTS	$ -	$ 717,363	$ 680,733

SCHEDULE 5

RAHWAY VALLEY SEWERAGE AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2017

FEDERAL GRANTOR/PROGRAM TITLE		FEDERAL C.F.D.A. NUMBER	GRANT PERIOD	PROJECT NUMBER	GRANT AWARD AMOUNT	2017 EXPENDITURES	CUMULATIVE EXPENDITURES
Direct Programs							
Department of Environmental Protection Agency							
Passed Thru:							
NJ Department of Environmental Protection	N.J. Infrastructure Trust	66.458	2015/2017	S340547-12	$ 2,105,156	$ 33,328	$ 2,033,703
Office of Homeland Security and Preparedness							
Passed Thru:							
NJ Office of Homeland Security and Preparedness	Urban Areas Security Initiative	97.067	9/1/17-8/31/18	EMW-2015-SS-00039-S01	150,000	150,000	150,000
					$ 2,255,156	$ 183,328	$ 2,183,703

SCHEDULE "R-1"

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

Measurement Date Ending June 30,	Authority's Proportion of the Net Pension Liability (Asset)	Authority's Proportionate Share of the Net Pension Liability (Asset)	Authority's Covered-Employee Payroll	Authority's Proportion of the Net Pension Liability (Asset) as a percentage of it's Covered-Employee Payroll	Plan Fiduciary Net Position as a percentage of the total Pension Liability
2013	0.0532509458%	$ 10,177,314	$ 3,685,013	276.18%	48.72%
2014	0.0533141302%	9,981,863	3,701,026	269.71%	52.08%
2015	0.0530453797%	11,907,625	3,812,625	312.32%	47.92%
2016	0.0547099070%	16,203,505	3,956,545	409.54%	40.13%
2017	0.0574747310%	13,379,199	4,165,545	321.19%	48.10%

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

Year Ending December 31,	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contributions	Contribution Deficiency (Excess)	Authority's Covered-Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2013	$ 401,235	$ 401,235	$ -0-	$ 3,724,815	10.77%
2014	439,514	439,514	-0-	3,840,814	11.44%
2015	456,048	456,048	-0-	4,046,905	11.27%
2016	486,035	486,035	-0-	4,186,024	11.61%
2017	532,442	532,442	-0-	4,165,545	12.78%

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

SCHEDULE "R-3"

RAHWAY VALLEY SEWERAGE AUTHORITY
SCHEDULES RELATED TO ACCOUNTING AND REPORTING FOR PENSION (GASB 68)
NOTE TO RSI III
FOR THE YEAR ENDED DECEMBER 31, 2017

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 (2.85%) to the current measurement date (3.58%), resulting in a change in the discount rate from 3.98% to 5.00%. This change in the discount rate is considered to be a change in actuarial assumptions under GASB No. 68.

RAHWAYVALLEY SEWERAGE AUTHORITY

DECEMBER 31, 2017

ROSTER OF OFFICIALS

Name	Title
Robert B. LaCosta	Chairman
Robert Rachlin	Vice Chairman
Vacant	Commissioner
Michael Furci	Commissioner
Michael J. Gelin	Commissioner
Stephen D. Greet	Commissioner
Loren Harms	Commissioner
Louis C. Lambe	Commissioner
Richard J. LoForte	Commissioner
Frank G. Mazzarella	Commissioner
John J. Tomaine	Commissioner
James J. Meehan	Executive Director
Robert J. Materna	Senior Secretary/Treasurer
Karen A. Musialowicz	Secretary/Treasurer
Dennis A. Estis, Esq. Greenbaum, Rowe, Smith & Davis, LLP	General Counsel
Howard Matteson, P.E. CDM Smith, Inc.	Consulting Engineer

RAHWAY VALLEY SEWERAGE AUTHORITY

DECEMBER 31, 2017

GENERAL COMMENTS AND RECOMMENDATIONS

NONE