

**Annual  
Financial Report**

of

**The Linden Roselle  
Sewerage Authority**

For the Years Ended December 31, 2019 and 2018

Prepared By

The Linden Roselle Sewerage Authority

Finance Department



**THE LINDEN ROSELLE SEWERAGE AUTHORITY**

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**FINANCIAL SECTION**



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**INDEPENDENT AUDITOR'S REPORT**

Honorable Chairman and  
Members of the Board  
The Linden Roselle Sewerage Authority  
P.O. Box 4118  
Linden, New Jersey 07036

***Report on the Financial Statements***

We have audited the accompanying financial statements of the Linden Roselle Sewerage Authority, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

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

***Auditor's Responsibility***

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

## **SUPLEE, CLOONEY & COMPANY**

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Linden Roselle Sewerage Authority, as of December 31, 2019 and 2018, and the changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

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

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## *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Linden Roselle 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 supplemental data 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 July 17, 2020 on our consideration of the Linden Roselle 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 Linden Roselle Sewerage Authority's internal control over financial reporting and compliance.

July 17, 2020

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





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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**

Honorable Chairman and  
Members of the Board  
The Linden Roselle Sewerage Authority  
P.O. Box 4118  
Linden, New Jersey 07036

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 the Linden Roselle Sewerage Authority as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the Linden Roselle Sewerage Authority's financial statements, and have issued our report thereon dated July 17, 2020.

***Internal Control Over Financial Reporting***

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

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

## **SUPLEE, CLOONEY & COMPANY**

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

### ***Purpose of This Report***

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

July 17, 2020

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## **MANAGEMENT DISCUSSION AND ANALYSIS**

**MANAGEMENT DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019 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. The financial statements include: Statements of Net Position; Statements of Revenues, Expenses and Changes in Net Position; Statements of Cash Flows; and Notes to Financial Statements.

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

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

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

The Government Accounting Standards Board (GASB) Statement 68 requires state and local governmental entities to disclose their unfunded pension liabilities. The Joint Meeting participates in the pension plan sponsored by the State of New Jersey, which has a much publicized large unfunded liability. Although the Joint Meeting is not responsible for making pension payments to employees when they retire, GASB 68 dictates that the pro-rata share represented by Joint Meeting 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 \$7,673,660 – shown within long-term liabilities – is a significant number at December 31, 2019. Footnotes 2 and 10 explain the pension plan accounting in greater detail.

The Government Accounting Standards Board (GASB) Statement 75 requires state and local governmental entities to disclose their unfunded OPEB (postretirement benefits other than pension) liabilities. The Authority participates in the state health benefits plan sponsored by the State of New Jersey, which has a publicized, large unfunded liability. Although the Authority is not responsible for making postretirement benefit payments to employees when they retire, GASB 75 dictates that the pro-rata share represented by Authority employees participating in SHBP (State Health Benefits Plan) be reported in the audited financial statements to promote better financial clarity. Understandably, the net OPEB liability of \$7,388,840 – shown within liabilities – is a significant number at December 31, 2019. Footnotes 2 and 11 explain the OPEB plan accounting in greater detail.

The Notes to Financial Statements 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		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Current Assets	\$ 11,095,598	\$ 10,679,978	\$ 10,955,906
Capital Assets, Net of Accumulated Depreciation	<u>23,719,433</u>	<u>25,732,860</u>	<u>26,879,200</u>
Total Assets	<u>34,815,031</u>	<u>36,412,838</u>	<u>37,835,106</u>
Deferred Outflows	<u>1,958,952</u>	<u>2,575,724</u>	<u>2,847,246</u>
Total Assets and Deferred Outflows	<u>\$ 36,773,983</u>	<u>\$ 38,988,562</u>	<u>\$ 40,682,352</u>
Accounts Payable and Accrued Expenses	\$ 1,435,596	\$ 1,334,419	\$ 1,707,763
Bonds Payable	8,558,272	9,734,083	10,893,897
Net Pension Liability	7,673,660	7,984,400	9,047,887
Net OPEB Liability	<u>7,388,840</u>	<u>9,076,612</u>	<u>11,869,944</u>
Total Liabilities	<u>25,056,368</u>	<u>28,129,515</u>	<u>33,519,491</u>
Deferred Inflows	8,945,572	7,689,661	4,160,063
Net Position	<u>2,772,043</u>	<u>3,169,386</u>	<u>3,002,798</u>
Total Liabilities, Deferred Inflows and Net Position	<u>\$ 36,773,983</u>	<u>\$ 38,988,562</u>	<u>\$ 40,682,352</u>

Current assets is comprised largely of cash and cash equivalents and accounts receivable. Cash and cash equivalents total \$10.2 million at December 31, 2019 and \$9.8 million at December 31, 2018. Accounts Receivable totals \$893 thousand and \$918 thousand at December 31, 2019 and 2018, respectively; a decrease of \$25 thousand or 2.7%.

Capital assets, net of accumulated depreciation, amounted to \$23.7 million and \$25.7 million at December 31, 2019 and 2018, respectively; a decrease of \$2.0 million. This decrease is the result of capital asset purchases of \$703 thousand, depreciation expense of \$2.7 million. The Authority's capital assets consist of land, buildings and improvements, machinery and equipment, furniture and fixtures, and construction in progress which aggregate \$75.9 million and \$75.2 million at December 31, 2019 and 2018, respectively. Accumulated depreciation amounts to \$52.2 million and \$49.5 million at December 31, 2019 and 2018, respectively.

Bonds payable of \$8.6 million and \$9.7 million at December 31, 2019 and 2018 decreased \$1.2 million or 12.1%.

Net position, totals \$2.8 million and \$3.2 million at December 31, 2019 and 2018, respectively; a decrease of \$397 thousand in 2019. Net position includes: (i) Investments in capital assets, net of related liabilities, totaling \$15.2 million and \$16.0 million at December 31, 2019 and 2018; (ii) Restricted net position totaling \$4.1 million and \$4.2 million at December 31, 2019 and 2018, respectively; and (iii) Unrestricted net position deficit of \$16.5 million and \$17.0 million at December 31, 2019 and 2018, respectively. An appropriation of \$486 thousand and \$202 thousand of unrestricted net position at December 31, 2020 and 2019 has been made to fund a portion of the Year 2019 and 2018 Operating Budgets, respectively.

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

	<u>2019</u>	December 31 <u>2018</u>	<u>2017</u>
Operating Revenues	\$ 10,471,316	\$ 10,652,560	\$ 10,622,710
Operating Expenses	8,704,983	9,009,759	8,242,815
Depreciation	<u>2,716,871</u>	<u>1,852,805</u>	<u>1,850,527</u>
Total Operating Expenses	11,421,854	10,862,564	10,093,342
Operating Income (Loss)	<u>(950,810)</u>	<u>(210,004)</u>	<u>529,368</u>
Non-operating Revenues (Expenses), Net			
Interest Expense, Net	(168,551)	(180,503)	(210,089)
Other, Net	<u>(709,851)</u>	<u>557,095</u>	<u>(574,782)</u>
Change in Net Position	<u>(397,343)</u>	<u>166,588</u>	<u>(255,503)</u>
Net Position:			
Beginning of Year	3,169,386	3,002,798	16,997,631
Restatement to Include Net OPEB Liability			(13,739,330)
Net Position, Beginning of Year - Restated			<u>3,258,301</u>
End of Year	\$ <u>2,772,043</u>	\$ <u>3,169,386</u>	\$ <u>3,002,798</u>

Operating revenues are comprised largely of Service Charges from the City of Linden (City), the Borough of Roselle (Borough) and certain industrial and commercial customers (Major Users) for the recovery of the Authority's operating and maintenance costs, debt service costs, and required reserves appropriated in the annual budget. Operating revenues of \$10.5 million in 2019 compare to \$10.7 million in 2018, an increase of \$181 thousand or 1.7%.

Operating expenses total \$11.4 million in 2019 compared to \$10.9 million in 2018, an increase of \$559 thousand or 5.1%.

Interest expense amounted to \$169 thousand in 2019 compared to \$181 thousand in 2018, a decrease of \$12 thousand or 6.6%. Interest costs are decreasing as the Authority's debt is being repaid.

The service charges to the City, the Borough and Major Users for the last five years are as follows:

<u>Year</u>	<u>City</u>	<u>Borough</u>	<u>Major Users</u>	<u>Total</u>
2019	\$4,866,992	\$2,913,992	\$1,761,538	\$9,542,522
2018	\$4,907,173	\$2,913,849	\$1,870,121	\$9,691,143
2017	\$5,021,012	\$2,872,175	\$1,641,877	\$9,535,064
2016	\$5,054,898	\$2,881,400	\$1,613,083	\$9,549,381
2015	\$4,720,369	\$2,881,000	\$1,572,637	\$9,174,006

#### Condensed Statements of Cash Flows

	<u>Years Ended December 31</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Net Cash Provided by Operating Activities	\$2,070,676	\$1,971,086	\$2,735,356
Net Cash Used in Capital and Financing Activities	(1,654,934)	(2,121,008)	(2,006,205)
Net Cash Provided by Investing Activities	<u>24,941</u>	<u>22,287</u>	<u>13,846</u>
Net Increase (Decrease) in Cash and Cash Equivalents	440,683	(127,635)	742,997
Cash and Cash Equivalents:			
Beginning of Year	<u>9,762,225</u>	<u>9,889,860</u>	<u>9,146,863</u>
End of Year	<u>\$10,202,908</u>	<u>\$9,762,225</u>	<u>\$9,889,860</u>

Net cash provided by operating activities amounted to \$2.3 million and \$2.0 million in the years ended December 31, 2019 and 2018, respectively. The \$290 thousand net increase in the year 2019 was principally due to decreased payments for operations and maintenance.

Net cash used in capital and financing activities largely relate to principal and interest payments on the Authority's long term debt (\$1.2 million in 2019 and \$1.2 million in 2018) along with additions to capital assets (\$703 thousand and \$706 thousand in 2019 and 2018, respectively).

## AUTHORITY OVERVIEW

### General

The Linden Roselle Sewerage Authority (the "Authority") is a public body politic and corporate, organized and existing under the Sewerage Authorities Law, constituting Chapter 138 of the P.L. of 1946 of the State of New Jersey and by parallel ordinances adopted in December 1947 by the City of Linden (the "City") and the Borough of Roselle (the "Borough").

The Authority owns and operates a sanitary sewer system providing treatment and disposal of sewerage from the City and the Borough.

Revenue is provided primarily from annual service charges collected from the City, the Borough and customers classified as major industrial users (Major Users). The service charges are based generally on the Authority's operation and maintenance costs, debt service costs and required reserves appropriated in the annual budget.

The service charges of the City and the Borough are calculated in accordance with provisions of the Municipal Contract, as amended and supplemented, entered into by and among the Authority, the City and the Borough. The service charges to the Major Users are calculated taking into account the volume (flow in million gallons) and strength of their wastewater discharges (biological oxygen demand and suspended solids in tons).

Wastewater beneficial reuse fees are amounts collected from certain power utility companies for reservation of capacity to draw treated effluent from the Authority to be used for cooling water. These revenues are utilized by the Authority to offset the service charges.

The Authority operates in a fully developed service area. The industrial user base has changed substantially with companies relocating, reducing or ceasing manufacturing. This has resulted in a loss of revenue which has been a challenge for the Authority in avoiding large sewer rate increases. With the future reductions in revenue and the increasing costs of operations, maintenance, regulatory compliance and plant upgrades, the Authority maintains strict budgetary controls on expenditures and explores alternative sources of revenues to support its service charge rates. The Authority's future capital projects will downsize the facility organic capacity and implement energy efficient equipment which will result in reduced operating costs for the foreseeable future.

### Contacting the Authority's Management

Questions concerning the Authority's annual financial report should be addressed to the Authority's Executive Director at The Linden Roselle Sewerage Authority, 5005 South Wood Avenue, Linden, New Jersey 07036.



## **BASIC FINANCIAL STATEMENTS**

THE LINDEN ROSELLE SEWERAGE AUTHORITY

STATEMENTS OF NET POSITION  
DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>ASSETS</u>		
Unrestricted Assets:		
Cash and Cash Equivalents	\$ 10,202,908	\$ 5,068,166
Accounts Receivable	<u>783,334</u>	<u>835,464</u>
<u>Total Unrestricted Assets</u>	<u>10,986,242</u>	<u>5,903,630</u>
Restricted Assets:		
Cash and Cash Equivalents		4,694,059
Escrow Deposit	<u>109,356</u>	<u>82,289</u>
<u>Total Restricted Assets</u>	<u>109,356</u>	<u>4,776,348</u>
Property, Plant and Equipment, at Cost	75,935,429	75,231,985
Less: Accumulated Depreciation	<u>52,215,996</u>	<u>49,499,125</u>
<u>Net Property, Plant and Equipment</u>	<u>23,719,433</u>	<u>25,732,860</u>
<u>TOTAL ASSETS</u>	<u>34,815,031</u>	<u>36,412,838</u>
<u>DEFERRED OUTFLOW OF RESOURCES</u>		
Pension Related	1,880,420	2,453,298
OPEB Related	<u>78,532</u>	<u>122,426</u>
<u>TOTAL DEFERRED OUTFLOW OF RESOURCES</u>	<u>1,958,952</u>	<u>2,575,724</u>
<u>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</u>	<u>\$ 36,773,983</u>	<u>\$ 38,988,562</u>

The accompanying Notes are an integral part of these financial statements.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

STATEMENTS OF NET POSITION  
DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION</u>		
Current Liabilities Payable From Unrestricted Assets:		
Accounts Payable	\$ 879,512	\$ 855,669
Accrued Liabilities	356,435	297,495
<u>Total Current Liabilities Payable From Unrestricted Assets</u>	<u>1,235,947</u>	<u>1,153,164</u>
Current Liabilities Payable From Restricted Assets:		
Accrued Interest Payable	86,153	98,966
Escrow Deposit	113,496	82,289
Current Portion of Long-term Debt	1,206,067	1,177,603
<u>Total Current Liabilities Payable From Restricted Assets</u>	<u>1,405,716</u>	<u>1,358,858</u>
Long-Term Liabilities:		
Total Long-Term Debt, Net of Current Maturities	7,352,205	8,556,481
Net Pension Liability	7,673,660	7,984,400
Net OPEB Liability	7,388,840	9,076,612
<u>Total Long-Term Liabilities</u>	<u>22,414,705</u>	<u>25,617,493</u>
<u>Total Liabilities</u>	<u>25,056,368</u>	<u>28,129,515</u>
Deferred Inflow of Resources:		
Pension Related	3,052,232	3,022,146
OPEB Related	5,893,340	4,667,515
<u>TOTAL DEFERRED INFLOW OF RESOURCES</u>	<u>8,945,572</u>	<u>7,689,661</u>
Net Position:		
Net Investment in Capital Assets	15,161,161	15,998,776
Restricted:		
Operations	2,313,798	2,303,778
Renewal and Replacement	1,807,250	1,869,122
Unrestricted	(16,510,166)	(17,002,290)
<u>Total Net Position</u>	<u>2,772,043</u>	<u>3,169,386</u>
<u>TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND NET POSITION</u>	<u>\$ 36,773,983</u>	<u>\$ 38,988,562</u>

The accompanying Notes are an integral part of these financial statements.

EXHIBIT BTHE LINDEN ROSELLE SEWERAGE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues:		
Service Charges	\$ 9,257,102	\$ 9,691,143
Wastewater Beneficial Reuse Fees	250,705	225,729
Interest on Delinquent Accounts	78,694	88,431
Industrial Direct Charges	239,231	234,081
Capacity Fee	519,203	353,358
Lease Income	45,280	44,590
Miscellaneous Income	81,101	15,228
	<hr/>	<hr/>
<u>Total Operating Revenues</u>	10,471,316	10,652,560
	<hr/>	<hr/>
Operating Expenses:		
Total Operating Costs	8,704,983	9,009,759
Depreciation	2,716,871	1,852,805
	<hr/>	<hr/>
<u>Total Operating Expenses</u>	11,421,854	10,862,564
	<hr/>	<hr/>
<u>Operating Income (Loss)</u>	(950,538)	(210,004)
	<hr/>	<hr/>
Nonoperating Revenues (Expenses):		
Interest Income	24,941	22,287
Interest Expense, Net	(168,551)	(180,503)
Grant Income/Loan Forgiveness	286,384	538,791
Pension Related	174,215	
OPEB Related	345,879	
Other Revenue (Expenses)	(109,673)	(3,983)
	<hr/>	<hr/>
<u>Change in Net Position</u>	(397,343)	166,588
	<hr/>	<hr/>
Net Position, Beginning of Year	3,169,386	3,002,798
	<hr/>	<hr/>
Net Position, End of Year	<u>\$ 2,772,043</u>	<u>\$ 3,169,386</u>

The accompanying Notes are an integral part of these financial statements.

EXHIBIT CTHE LINDEN ROSELLE SEWERAGE AUTHORITYSTATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<u>Cash Flows from Operating Activities:</u>		
Receipts from Service Charges	\$ 9,309,232	\$ 9,835,418
Receipts from Wastewater Beneficial Reuse Fees	250,705	225,729
Industry Assessment Service Charges	239,231	234,081
Receipts from Leases	45,280	44,590
Interest Received on Delinquent Accounts	78,694	88,431
Miscellaneous Receipts	600,304	368,586
Payments to Employees	(3,435,152)	(3,345,119)
Payments for Employee Benefits and Payroll Taxes	(1,824,992)	(1,920,439)
Payments for Operations and Maintenance	<u>(3,192,626)</u>	<u>(3,560,191)</u>
<u>Net Cash Provided by Operating Activities</u>	<u>2,070,676</u>	<u>1,971,086</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Principal Payments on Bonds and Loans	(1,175,812)	(1,159,813)
Acquisition of Property, Plant and Equipment	(417,060)	(706,466)
Interest Paid on Bonds	<u>(62,062)</u>	<u>(254,729)</u>
<u>Net Cash Used in Capital and Financing Activities</u>	<u>(1,654,934)</u>	<u>(2,121,008)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest Received	<u>24,941</u>	<u>22,287</u>
<u>Net Cash Provided by Investing Activities</u>	<u>24,941</u>	<u>22,287</u>
Net Increase (Decrease) in Cash and Cash Equivalents	440,683	(127,635)
Cash and Cash Equivalents, Beginning of Year	<u>9,762,225</u>	<u>9,889,860</u>
Cash and Cash Equivalents, End of Year	<u>\$ 10,202,908</u>	<u>\$ 9,762,225</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>		
Operating Income (Loss)	\$ (950,538)	\$ (210,004)
Depreciation	2,716,871	1,852,805
Changes in Operating Assets and Liabilities:		
Accounts Receivable	52,130	144,275
Accounts Payable and Accrued Liabilities	<u>252,213</u>	<u>184,010</u>
Net Cash Provided by Operating Activities	<u>\$ 2,070,676</u>	<u>\$ 1,971,086</u>

The accompanying Notes are an integral part of these financial statements.

# THE LINDEN ROSELLE SEWERAGE AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

### NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

#### (1) GENERAL

The Linden Roselle Sewerage Authority (the "Authority") is a public body politic and corporate, organized and existing under the Sewerage Authorities Law, constituting Chapter 138 of the P.L. of 1946 of the State of New Jersey and by parallel ordinances adopted in December 1947 by the City of Linden (the "City") and the Borough of Roselle (the "Borough").

The Authority owns and operates a sanitary sewer system providing treatment and disposal of sewerage from the City and the Borough.

Revenue is provided primarily from annual service charges collected from the City, the Borough and customers classified as major industrial users. The service charges are based generally on the Authority's operation and maintenance costs, debt service costs and required reserves appropriated in the annual budget.

#### (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.

##### Basis of Financial Statement Presentation

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.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity

The Authority's financial statements include the operations of the 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.

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.

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 non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting and Financial Reporting for Pensions (Continued)

Statement 68 requires a state or local government employer (or non-employer 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 non-employer 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 non-employer contributing entity that arise from other types of events.

At transition to Statement 68, if it is not practical for an employer or non-employer 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 non-employer contributing entity's beginning net position and expense in the initial period of implementation.

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.



THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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 LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

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

- 1) Net Investment in Capital Assets - consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt that are attributable to the acquisition, construction, or improvement of those assets.
- 2) Restricted - when constraints placed on net position are either a) externally imposed by creditors (such as 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."

Funds and Accounts Established by Bond Resolutions and Trust Agreement

In accordance with Bond Resolutions and Trust Agreement securing the 1992 Revenue Bonds and the 1996 Revenue Bonds, the Authority has established various cash and investment accounts with a trustee with restrictions on the use of funds, as follows:

**Construction Fund** – The construction fund has been established for the payment of the cost of each project for which bonds have been issued under the Trust Agreement. Upon completion of the construction project, any funds remaining and not reserved for unpaid costs shall be transferred to the renewal and replacement fund.

**Revenue Fund** – All pledged revenues as defined in the Trust Agreement are required to be paid over to the trustee upon receipt and deposited in the revenue fund. Transfers from the revenue fund shall be made on the first day of each month in amounts needed to establish the respective fund balances as follows:

*Operating Fund* – to the greater of the amount of (i) the Authority's net operating expenses for the current month and the next succeeding three months or (ii) \$1,600,000.

*Debit Service Fund* – to equal the interest and principal falling due on the Bonds during the fiscal year.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funds and Accounts Established by Bond Resolutions and Trust Agreement (Continued)

**Revenue Fund (Continued)**

*Renewal and Replacement Fund* – to equal the reasonably required reserve called for by the Trust Agreement.

*General Fund* – to deposit therein the balance of the pledged revenues to the extent any monies are available.

**Operating Fund** – The operating fund is used to pay all reasonable and necessary costs of operating, maintaining and repairing the sewer system (other than the types of repairs budgeted or authorized for payment from the renewal and replacement fund).

**Debt Service Fund** – The debt service fund shall be used to pay principal and interest on the bonds. .

**Renewal and Replacement Fund** – Monies in the fund may be applied to the reasonable and necessary expenses of the Authority with respect to the sewer system for extraordinary improvements, constructions, major repairs, renewals, replacements or maintenance items of a type not recurring annually or at shorter intervals and for costs or equipment.

**General Fund** – Under the conditions set forth in the Trust Agreement, the Trustee may transfer monies from the general fund to the revenue fund of the Authority to be spent for any lawful purpose.

and interest due on all outstanding bonds and any sinking fund installments, less determinable investment income projected to be received on investment securities

**THE LINDEN ROSELLE SEWERAGE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 AND 2018**

**(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue and Expense Classification**

The Authority distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues consists of service charges and wastewater beneficial reuse fees derived from the operation of the Authority's sanitary sewer system and the providing of treatment and disposal of sewerage from the City, the Borough and other customers. Operating expenses consists primarily of personnel costs, administrative expenses, power, sludge removal and other plant expenses related to the operation of the sanitary sewer system and the delivery of treatment and disposal services. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

**Cash Equivalents**

The Authority considers investments with original maturities of three months or less when acquired to be cash equivalents.

**Capital Assets**

Capital assets are stated at cost which includes direct construction costs and capitalized interest (net of related interest income and other expenses related to construction). The capitalization threshold for the particular classification of capital assets is as follows:

<u>Asset</u>	<u>Threshold</u>
Land	All
Buildings and Improvements	All
Machinery and Equipment	\$5,000
Furniture and Fixtures	\$5,000
Computer Equipment	\$5,000

Depreciation is determined on a straight-line basis for all capital assets, except land and construction in progress. Depreciation is provided over the estimated useful lives of the assets ranging from 3 to 48 years.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

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

	<u>2019</u>	<u>2018</u>
Land	\$ 236,512	\$ 236,512
Buildings and Improvements	69,774,519	69,732,561
Machinery and Equipment	5,032,523	5,032,523
Furniture and Fixtures	343,231	74,719
Construction in Progress	<u>548,644</u>	<u>155,670</u>
	75,935,429	75,231,985
Less: Accumulated Depreciation	<u>52,215,996</u>	<u>49,499,125</u>
Net Property, Plant and Equipment	<u>\$23,719,433</u>	<u>\$25,732,860</u>

Accounts Receivable

The Authority has no allowance for doubtful accounts for receivables that may be uncollectible. The Authority considers all accounts receivable to be fully collectible. If amounts become uncollectible, they will be charged to operations when that determination is made.

Inventory

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

Income Taxes

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

Net Position

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and unrestricted resources as needed.

Compensated Absences

The Authority permits employees to accrue unused sick pay, which may be taken at a later date as sick time off or paid at a later date at current rates of pay. Payments for accumulated sick time are limited to a maximum dollar amount at retirement.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

(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.

**THE LINDEN ROSELLE SEWERAGE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 AND 2018**

**(4) DEPOSITS AND INVESTMENTS**

Cash and cash equivalents consist primarily of cash deposits and treasury money market funds. Cash on deposit (unrestricted and restricted), which totaled \$10,202,908 and \$9,762,225 in 2019 and 2018, respectively, is partially insured by federal deposit insurance in the amount of \$250,000 in each depository. Balances above the federal deposit insurance amount are insured by a collateral pool maintained by the bank as required by New Jersey statutes under the New Jersey Governmental Unit Deposit Protection Act ("GUDPA").

GASB Statement No. 40 requires that the Authority disclose whether its deposits are exposed to custodial credit risk (risk that in the event of failure of the counterparty, the Authority would not be able to recover the value of its deposit or investment). Deposits are considered to be exposed to custodial credit risk if they are: uninsured and uncollateralized (securities are not pledged to the depositor), collateralized with the securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the name of the Authority.

The Authority does not have a policy for the management of custodial credit risk, other than depositing all of its funds in banks covered by GUDPA. At December 31, 2019, the Authority was not exposed to custodial credit risk.

**(5) CAPITAL ASSETS**

Capital Assets are summarized as follows:

	Balance December <u>31, 2018</u>	Increase (Decrease)	Balance December <u>31, 2019</u>
Land	\$ 236,512		\$ 236,512
Buildings and Improvements	69,732,561	\$ 41,958	69,774,519
Machinery and Equipment	5,032,523		5,032,523
Furniture and Fixtures	74,719	268,512	343,231
Construction in Progress	<u>155,670</u>	<u>392,974</u>	<u>548,644</u>
	75,231,985	703,444	75,231,985
Less: Accumulated Depreciation	<u>49,499,125</u>	<u>2,716,871</u>	<u>49,499,125</u>
Net Property, Plant & Equipment	<u>\$25,732,860</u>	<u>\$(2,013,427)</u>	<u>\$23,719,433</u>

**THE LINDEN ROSELLE SEWERAGE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 AND 2018**

**(6) COMPENSATED ABSENCES**

All 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, 2019 and 2018 amounted to \$121,000 and \$61,500, respectively.

**(7) LONG TERM DEBT**

Long-term debt activity for the years ended December 31, 2019 and 2018 was as follows:

	<u>2019</u>	<u>2018</u>
New Jersey Environmental Infrastructure Trust 2003 Loans	\$3,440,189	\$4,219,402
Unamortized Premium	<u>20,251</u>	<u>20,844</u>
Loan Carrying Value	3,419,938	4,198,558
New Jersey Environmental Infrastructure Trust 2012 Loans	<u>5,138,334</u>	<u>5,516,473</u>
Total Debt	\$8,558,272	\$9,734,084
Less Current Maturities	<u>1,206,067</u>	<u>1,177,603</u>
Total Long-Term Debt	<u>\$7,352,205</u>	<u>\$8,556,481</u>

Detail information regarding Long Term Debt at December 31, 2019 and 2018 is as follows:

**2003 NJEIT Loans**

New Jersey Environmental Infrastructure Trust ("NJEIT") financing consists of an interest-bearing loan in the amount of \$7,090,000 (the "Trust Loan") and a non-interest-bearing loan in the amount of \$6,807,579 (the "Fund Loan"). This financing completed the Authority's funding requirements of the Sludge Handling Facilities Project in 2003.

The Trust Loan consists of bonds maturing in annual installments ranging from \$385,000 to \$540,000 to 2023. The yield on these bonds ranges from 4.00% to 5.00%.

The Fund Loan consists of bonds maturing in semiannual installments through 2023.



**THE LINDEN ROSELLE SEWERAGE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 AND 2018**

**(7) LONG TERM DEBT (CONTINUED)**

**2012 NJEIT Loans**

The Authority completed financing of the Liquid End Project in 2012 with NJEIT. The financing consisted of an interest-bearing loan in the amount of \$3,715,000 (the "Trust Loan" and a non-interest-bearing loan in the amount of \$4,049,648 (the "Fund Loan").

The Trust Loan consists of bonds maturing in annual installments ranging from \$135,000 to \$275,000 from 2013 through 2031. The yields on these bonds range from 2.00% to 5.00%.

The Fund Loan consists of bonds maturing in semi-annual installments on March 1 and September 1 of each year through 2031.

**Annual Debt Service on Outstanding Bonds and Loans**

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

2020	\$1,206,067
2021	\$1,236,989
2022	\$1,273,663
2023	\$1,300,775
2024	\$ 423,139

**(8) RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destructions of assets; error and omission; injuries to employees; and natural disaster. The Authority contracts for commercial liability insurance for property, general liability, auto liability, public official liability, law enforcement liability, workers' compensation, employee health and life insurance. There were no significant reductions in insurance coverage for each of the past three years.

**THE LINDEN ROSELLE SEWERAGE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 AND 2018**

**(9) NET POSITION**

The components of net position are as follows:

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Net Position:		
Net Investment in Capital Assets	\$15,161,161	\$15,998,776
Restricted:		
Operations	2,313,798	2,303,778
Renewal and Replacement	<u>1,807,250</u>	<u>1,869,122</u>
<u>Total Restricted</u>	<u>\$ 4,121,048</u>	<u>\$ 4,172,900</u>
Unrestricted:		
Chapter 88 Reserve	\$ 401,252	\$ 400,000
Insurance Reserve	502,776	500,000
Rate Stabilization Fund	3,275,000	3,275,000
Operating	1,152,800	997,659
Net Pension Liability	(8,638,346)	(8,553,248)
Net OPEB Liability	<u>(13,203,648)</u>	<u>(13,621,701)</u>
<u>Total Unrestricted</u>	<u>(16,510,166)</u>	<u>(17,022,290)</u>
<u>Total Net Position</u>	<u>\$ 2,772,043</u>	<u>\$ 3,169,386</u>

The Authority appropriated \$486,300 and \$202,400 of Unrestricted Net Position to fund a portion of its Operating Budgets for the years 2020 and 2019, respectively.

**(10) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION PLAN**

Substantially all eligible employees participate in the Public Employees' Retirement System (PERS), or the Defined Contribution Retirement System (DCRP), which have been established by state statute and are administered by the New Jersey Division of Pensions and Benefits. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirement System. This report may be obtained by writing to the Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey, 08625 or are available online at [www.nj.gov/treasury/pensions/annrpts.shtml](http://www.nj.gov/treasury/pensions/annrpts.shtml).

Public Employees' Retirement System (PERS) - The Public Employees' Retirement System (PERS) was established as of January 1, 1955, under the provisions of N.J.S.A. 43:15A, to provide retirement, death, disability and medical benefits to certain qualified members. The PERS 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 pension fund or local jurisdiction's pension fund.

## THE LINDEN ROSELLE SEWERAGE AUTHORITY

### NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

(10) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION PLAN (CONTINUED)

Defined Contribution Retirement Program (DCRP) - The Defined Contribution Retirement Program (DCRP) was established July 1, 2007, under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, and was expanded under the provisions of Chapter 89, P.L. 2009. The DCRP provides eligible employees and their beneficiaries with a tax-sheltered, defined contribution retirement benefit, along with life insurance coverage and disability coverage.

Vesting and Benefit Provisions

The vesting and benefit provisions for PERS are set by N.J.S.A. 43:15A and 43:36. All benefits vest after ten years of service, except for medical benefits, which vest after 25 years of service. Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving ten years of service credit. In which case, benefits would begin the first day of the month after the member attains normal retirement age.

Newly elected or appointed officials that have an existing DCRP account, or are a member of another State-administered retirement system are immediately invested in the DCRP. For newly elected or appointed officials that do not qualify for immediate vesting in the DCRP. Employee and employer contributions are held during the initial year of membership. Upon commencing the second year of DCRP membership, the member is fully invested. However, if a member is not eligible to continue in the DCRP for a second year of membership, the member may apply for a refund of the employee contributions from the DCRP, while the employer contributions will revert back to the employer. Employees are required to contribute 7.5% of their base salary and employers contribute 3.0%.

Funding Policy

The contribution policy is set by New Jersey State Statutes and contributions are required by active members and contributing employers. Plan members and employer contributions may be amended by State of New Jersey legislation. During 2019, PERS provides for employee contributions of 7.5% of employees' annual compensation. Employers are required to contribute at an actuarially determined rate. The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums.

Certain portions of the cost are contributed by the employees. The Authority's share of pension costs, which is based upon the annual billings received from the State, amounted to \$403,357 to the plan for the year ended December 31, 2019 and \$360,072 for the year ended December 31, 2018.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

(10) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION PLAN (CONTINUED)

Funding Policy (Continued)

Information as to the comparison of the actuarially computed value of vested benefit with the system's assets is not available from the State Retirement System and, therefore, is not presented.

Accounting and Financial Reporting for Pensions – GASB #68

The Governmental Accounting Standards Board (GASB) has issued Statement No. 68 "Accounting and Financial Reporting for Public Employees Pensions" which requires the State of New Jersey to calculate and allocate, for note disclosure purposes only, the unfunded net pension liability of Public Employees Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS) of the participating local government unit as of December 31, 2019. The statement does not alter the amounts of funds that must be budgeted for pension payments under existing state law.

Under accounting principles and practices prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, any unfunded net pension liability of the local government unit, allocated by the State of New Jersey, is not required to be reported in the financial statements as presented and any pension contributions required to be paid are raised in that year's budget and no liability is accrued at December 31, 2019.

Public Employees Retirement System (PERS)

At June 30, 2019, the State reported a net pension liability of \$7,673,660 for the Authority's proportionate share of the total net pension liability. The total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of July 1, 2018, which was rolled forward to June 30, 2019. The Authority's proportion of the net pension liability was based on a projection of the local government unit's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2019, the local government unit's proportion was 0.0425877131 percent, which was an increase of 0.0020361531 percent from its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the State recognized an actuarially determined pension expense of \$520,900 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, 2019 billing was \$403,357.

**THE LINDEN ROSELLE SEWERAGE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 AND 2018**

**(10) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION PLAN (CONTINUED)**

**Accounting and Financial Reporting for Pensions – GASB #68 (Continued)**

**Public Employees Retirement System (PERS) (Continued)**

At June 30, 2019, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience	\$ 137,732	\$ 33,899
Changes of assumptions	766,243	2,663,503
Net difference between projected and actual earnings on pension plan investments		121,132
Changes in proportion and differences between Authority contributions and proportionate share of contributions	769,318	
Authority contributions subsequent to the measurement date	<u>207,127</u>	<u>233,698</u>
	<u>\$1,880,420</u>	<u>\$3,052,232</u>

The \$1,880,420 reported as deferred outflows of resources related to pension resulting from Authority's contributions subsequent to the measurement date (i.e. for the year ending June 30, 2019, the plan measurement date is June 30, 2018) will be recognized as a reduction of the pension liability in the year ended June 30, 2020.

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

Year Ended	
<u>June 30</u>	<u>Amount</u>
2019	\$(114,456)
2020	(611,678)
2021	(534,725)
2022	(194,257)
2023	<u>76,177</u>
	<u>(\$1,378,939)</u>

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

(10) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION PLAN (CONTINUED)

Accounting and Financial Reporting for Pensions – GASB #68 (Continued)

Public Employees Retirement System (PERS) (Continued)

Actuarial Assumptions

The total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of July 1, 2018, which rolled forward to June 30, 2019. These actuarial valuations used the following assumptions:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Inflation	2.25 Percent	2.25 Percent
Salary Increases (based on age)		
Though 2026	2.00-6.00 Percent	1.65-4.15 Percent
Thereafter	3.00-7.00 Percent	2.65-5.15 Percent
	Based on	Based on Age
	Years of Service	
Investment Rate of Return	7.00 Percent	7.00 percent

Pre-retirement mortality rates were based on the Pub-2010 General Below-Median Income Employee mortality table with an 82.2% adjustment for males and 101.4% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Post-retirement mortality rates were based on the Pub-2010 General Below-Median Income Healthy Retiree mortality table with a 91.4% adjustment for males and 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2010 Non-Safety Disabled Retiree mortality table with a 127.7% adjustment for males and 117.2% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.

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

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

(10) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION PLAN (CONTINUED)

Accounting and Financial Reporting for Pensions – GASB #68 (Continued)

Public Employees Retirement System (PERS) (Continued)

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at both June 30, 2019 and June 30, 2018) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2019 are summarized in the following table:

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

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

(10) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION PLAN (CONTINUED)

Accounting and Financial Reporting for Pensions – GASB #68 (Continued)

Public Employees Retirement System (PERS) (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 6.28% and 5.66% as of June 30, 2019 and June 30, 2018, respectively. These single blended discount rates were based on the long-term expected rate of return on pension plan investments of 7.00% for both June 30, 2019 and June 30, 2018 and a municipal bond rate of 3.50% and 3.87% for June 30, 2019 and June 30, 2018 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 based on 70% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for the local employers. Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of current plan members through 2057. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2057 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 Authority's proportionate share of the net pension liability of the participating employers as of June 30, 2019 respectively, calculated using the discount rate as disclosed above as well as what the Authority's proportionate share of the net pension liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>June 30, 2019</u>		
	<u>1% Decrease 5.28%</u>	<u>At Current Discount Rate 6.28%</u>	<u>1% Increase 7.28%</u>
Authority's proportionate share of the pension liability	\$10,543,559	\$7,673,660	\$6,574,674



**THE LINDEN ROSELLE SEWERAGE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 AND 2018**

**(10) ACCOUNTING AND FINANCIAL REPORTING FOR PENSION PLAN (CONTINUED)**

**Accounting and Financial Reporting for Pensions – GASB #68 (Continued)**

**Public Employees Retirement System (PERS) (Continued)**

**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>.

**(11) ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) – GASB 75**

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This statement establishes standards for measuring and recognizing liabilities, deferred outflows and inflows of resources, and expenses for postemployment benefits other than pensions. Net OPEB liability obligations are non-pension benefits that the Authority has contractually or otherwise agreed to provide employees once they have retired and, in most instances, will be for retirement health, prescription and dental insurance coverage.

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

**Plan Description and Benefits Provided**

The State Health Benefit Local Government Retired Employees Plan (the Plan) is a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan with a special funding situation. It covers employees of local government employers that have adopted a resolution to participate in the Plan. The Plan meets the definition of an equivalent arrangement as defined in paragraph 4 of GASB Statement No. 75, *Accounting and Financial Reporting for the Postemployment Benefits Other Than Pensions*; therefore, assets are accumulated to pay associated benefits.

**THE LINDEN ROSELLE SEWERAGE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 AND 2018**

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

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

The Plan provides medical and prescription drug coverage to retirees and their covered dependents of the employers. Under the provisions of Chapter 88, P.L. 1974 and Chapter 48, P.L. 1999, local government employers electing to provide postretirement medical coverage to their employees must file a resolution with the Division. Under Chapter 88, local employers elect to provide benefit coverage based on the eligibility rules and regulations promulgated by the State Health Benefits Commission. Chapter 48 allows local employers to establish their own age and service eligibility for employer paid health benefits coverage for retired employees.

Under Chapter 48, the employer may assume the cost of postretirement medical coverage for employees and their dependents who: 1) retired on a disability pension; or 2) retired with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 3) retired and reached the age of 65 with 25 or more years of service credit in a State or locally administered retirement system and a period of service of up to 25 years with the employer at the time of retirement as established by the employer; or 4) retired and reached age 62 with at least 15 years of service with the employer. Further, the law provides that the employer paid obligations for retiree coverage may be determined by means of a collective negotiations' agreement.

In accordance with Chapter 330, P.L. 1997, which is codified in N.J.S.A 52: 14-17.32i, the State provides medical and prescription coverage to local police officers and firefighters, who retire with 25 years of service or on a disability from an employer who does not provide postretirement medical coverage. Local employers were required to file a resolution with the Division in order for their employees to qualify for State-paid retiree health benefits coverage under Chapter 330.

The State also provides funding for retiree health benefits to survivors of local police officers and firefighters who die in the line of duty under Chapter 271, P.L.1989.

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

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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

Total OPEB Liability (Continued)

Contributions

The Authority's contributions to SHBP for the years ended December 31, 2019, 2018 and 2017 were \$190,075, \$233,419 and \$216,790, respectively, which equaled the required contributions for each year.

Total Net OPEB Liability

At June 30, 2019, the Plan reported a liability of \$7,388,840 for the Authority's proportionate share of the collective net OPEB liability. The total net OPEB liability measured as of June 30, 2019 was determined by an actuarial valuation as of June 30, 2018, which was rolled forward to June 30, 2019.

The Authority's proportion of the net OPEB liability was based on the ratio of the plan members of an individual employer to the total members of the Plan's nonspecial funding situation during the measurement period July 1, 2018 through June 30, 2019.

At June 30, 2019, the Authority's proportion was 0.0545460 percent, which was an decrease of 0.0033900 percent from its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the State reported net OPEB benefit of \$250,362. This net OPEB benefit was based on the OPEB plans June 30, 2019 measurement date.

**THE LINDEN ROSELLE SEWERAGE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 AND 2018**

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

**Total Net OPEB Liability (Continued)**

At June 30, 2019, the State reported deferred outflows of resources and deferred inflows of resources related to net OPEB from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflow of Resources</u>
Differences between expected and actual experience		\$2,160,785
Change of Assumptions		2,618,441
Net difference between projected and actual earnings on OPEB plan investments	\$ 4,797	
Changes in proportion		1,114,114
Authority contributions subsequent to the measurement date	<u>72,446</u>	<u>          </u>
	<u>\$78,532</u>	<u>\$5,893,340</u>

The \$78,532 reported as deferred outflows of resources related to OPEB resulting from Authority contributions subsequent to the measurement date (i.e. for the year ending June 30, 2019, the plan measurement date is June 30, 2018) will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020.

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

Year Ended	
<u>June 30</u>	<u>Amount</u>
2019	\$(1,000,213)
2020	(1,000,213)
2021	(1,000,691)
2022	(1,001,462)
2023	(1,002,166)
Total Thereafter	<u>(882,510)</u>
	<u>\$ (5,887,254)</u>

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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

Actuarial Assumptions and Other Inputs

The actuarial assumptions vary for each plan member depending on the pension plan the member is enrolled in. This actuarial valuation used the following actuarial assumptions, applied to all periods in the measurement:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Inflation rate	2.50 Percent	2.50 Percent
Salary Increases:		
Public Employees Retirement System (PERS):		
Initial fiscal Year Applied		
Rate through 2026	2.00-6.00 Percent	
Rate thereafter	3.00-7.00 Percent	
Police and Firemen's Retirement System (PFRS):		
Rate for all future years	3.25-15.25 Percent	
All Pensions:		
Rate through 2026		1.65-8.98 Percent
Rate thereafter		2.65-9.98 Percent
Mortality:		
PERS	Pub-2010 General classification headcount weighted mortality with fully generational mortality improvement projections from the central year using scale MP-2019	
PFRS	Pub-2010 Safety classification headcount weighted mortality with fully generational mortality improvement projections from the central year using scale MP-2019	

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

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

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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

Health Care Trend Assumptions

For pre-Medicare medical benefits, the trend is initially 5.7% and decreases to a 4.5% long-term trend rate after eight years. For post-65 medical benefits, the actual fully insured Medicare Advantage trend rates for fiscal year 2020 are reflected. The assumed post-65 medical trend is 4.5% for all future years. For prescription drug benefits, the initial trend rate is 7.5% and decreases to a 4.5% long-term trend rate after eight years.

Discount Rate

The discount rate for June 30, 2019 and 2018 was 3.50% and 3.87%, respectively. This represents the municipal bond return rate as chosen by the State. The source is the Bond Buyer Go 20-Bond Municipal Bond Index, which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

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

The following presents the net OPEB liability associated with the Authority as of June 30, 2019, calculated using the discount rate as disclosed above as well as what the net OPEB liability would be if it was calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	June 30, 2019		
	1.00% <u>Decrease</u> <u>2.50%</u>	At Discount Rate <u>3.50%</u>	1.00% Increase <u>4.50%</u>
Authority's proportionate share of the Net OPEB Liability	<u>\$8,771,086</u>	<u>\$7,388,840</u>	<u>\$6,292,429</u>

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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

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

The following presents the total net OPEB liability associated with the Authority as of June 30, 2019, calculated using the healthcare trend rate as disclosed above as well as what the net OPEB liability would be if it was calculated using a healthcare trend rate that is 1- percentage point lower or 1-percentage point higher than the current rate:

	June 30, 2019		
	1.00% <u>Decrease</u>	Healthcare Cost <u>Trend Rate</u>	1.00% <u>Increase</u>
Authority's proportionate share of the Net OPEB Liability	<u>\$6,076,607</u>	<u>\$7,388,840</u>	<u>\$9,131,470</u>

OPEB Plan Fiduciary Net Position

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

(12) SUBSEQUENT EVENTS

The Authority has evaluated subsequent events occurring after the financial statement date through July 17, 2020, which is the date the financial statements were available to be issued.

Subsequent to the date of these Financial Statements the COVID-19 Corona Virus spread across the State of New Jersey and the Nation as a whole. The impact of this virus on the Authority's operations in 2020 cannot be reasonably estimated at this time but could negatively affect revenues.

**THE LINDEN ROSELLE SEWERAGE AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**DECEMBER 31, 2019 AND 2018**

**(13) COMMITMENTS AND CONTINGENCIES**

The Authority has been named in an ongoing lawsuit regarding liability for the remediation of Passaic River pollution. As a result of the litigation, the Authority has approved a settlement and has deposited funds with the court and is awaiting disposition of an appeal.

The Authority is subject to extensive federal and state environmental regulations. The Authority's management is not aware of any violations that may have a material effect on the financial statements.

In the ordinary conduct of its business, the Authority may be a party to litigation. At December 31, 2019, in the opinion of management based upon consultation with legal counsel, there were no matters pending or threatened which would have a material adverse effect on the financial position of the Authority.



## **SUPPLEMENTARY INFORMATION**

THE LINDEN ROSELLE SEWERAGE AUTHORITY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES  
IN NET POSITION RESERVED AND UNRESERVED  
YEARS ENDED DECEMBER 31, 2019 AND 2018

	OPERATING AND REVENUE FUNDS AND INVESTMENT IN CAPITAL ASSETS, NET	RESTRICTED OPERATIONS	RENEWAL AND REPLACEMENT	TOTAL 2019	TOTAL 2018
Operating Revenues:					
Service Charges	\$ 9,257,102			\$ 9,257,102	\$ 9,691,143
Wastewater Beneficial Reuse Fees	250,705			250,705	225,729
Interest on Delinquent Accounts	78,694			78,694	88,431
Industry Assessment Service Charges	239,231			239,231	234,081
Capacity Fee	519,203			519,203	353,358
Lease Income	45,280			45,280	44,590
Miscellaneous Income	81,101			81,101	15,228
<u>Total Operating Revenues</u>	<u>10,471,316</u>			<u>10,471,316</u>	<u>10,652,560</u>
Operating Expenses:					
Total Operating Costs	8,704,983			8,704,983	9,009,759
Depreciation	2,716,871			2,716,871	1,852,805
<u>Total Operating Expenses</u>	<u>11,421,854</u>			<u>11,421,854</u>	<u>10,862,564</u>
Operating Income	(950,538)			(950,538)	(210,004)
Nonoperating Revenues (Expenses):					
Interest Income	13,046	\$ 7,514	\$ 4,381	24,941	22,287
Interest Expense, Net	(168,551)			(168,551)	(180,503)
Grant Income/Loan Forgiveness	286,384			286,384	538,791
Pension Related	174,215			174,215	
OPEB Related	345,879			345,879	
Other Income (Expense)	(109,673)			(109,673)	(3,983)
Income Before Transfers	(409,238)	7,514	4,381	(397,343)	166,588
Interfund Transactions	63,747	2,506	(66,253)	-	
Net Position, Beginning of Year	(1,003,514)	2,303,778	1,869,122	3,169,386	3,002,798
Net Position, End of Year	\$ (1,349,005)	\$ 2,313,798	\$ 1,807,250	\$ 2,772,043	\$ 3,169,386

SCHEDULE 2THE LINDEN ROSELLE SEWERAGE AUTHORITY

**SCHEDULE OF OPERATING REVENUES AND COSTS  
FUNDED BY OPERATING REVENUES COMPARED TO BUDGET  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019 BUDGET</u>	<u>2019 ACTUAL</u>	<u>2018 ACTUAL</u>
Revenues:			
Service Charges:			
Major Users	\$ 2,258,031	\$ 1,475,846	\$ 1,870,121
Other Users	4,869,909	4,867,264	4,907,173
Borough of Roselle	2,913,901	2,913,992	2,913,849
Industry Assessment:			
Service Charges		239,231	234,081
Wastewater Beneficial Reuse Fees	303,000	250,705	225,729
Capacity Fee	204,000	519,203	353,358
Lease Income		45,280	44,590
Interest on Delinquent Accounts	90,000	78,694	88,431
Miscellaneous	3,000	81,101	15,228
Interest Income	3,000	24,941	22,287
<b><u>TOTAL REVENUES</u></b>	<b><u>10,644,841</u></b>	<b><u>10,496,257</u></b>	<b><u>10,674,847</u></b>
Operating Expenses:			
Salaries and Wages	3,377,856	3,435,152	3,345,119
Employee Benefits	1,743,800	1,824,992	1,920,439
Office Expense	93,300	107,828	85,144
Trustee and Paying Agent Fee	3,800	4,335	3,771
Professional, Consulting and Training	282,200	203,136	211,002
Insurance	272,300	223,601	233,290
Power	855,726	692,811	782,268
Gas, Fuel, Oil and Water	141,000	102,526	106,413
Chemicals	248,866	123,013	151,320
Plant Maintenance, Supplies and Equipment	157,670	392,129	253,342
Contract Services	144,000	163,425	160,042
Lab Monitoring Contract Services	15,200	14,443	13,997
Lab Monitoring Supplies	69,650	34,533	47,568
Disposal Costs	1,710,517	1,253,738	1,805,603
User Charge Expense	60,000	47,680	61,997
Other Environmental Enforcement Requirements	173,820	50,652	39,618
Contingency and Miscellaneous	50,000	30,307	29,909
<b>Total Operating Expenses</b>	<b><u>9,399,705</u></b>	<b><u>8,704,301</u></b>	<b><u>9,250,842</u></b>
Other Costs Funded by Revenues:			
Interest Expense	256,663	237,518	254,729
Principal Maturity on Notes and Bonds	1,190,873	1,175,812	1,159,813
<b>Total Other Costs</b>	<b><u>1,447,536</u></b>	<b><u>1,413,330</u></b>	<b><u>1,414,542</u></b>
<b>TOTAL COSTS</b>	<b><u>10,847,241</u></b>	<b><u>10,117,631</u></b>	<b><u>10,665,384</u></b>
Unrestricted Net Position Utilized	<u>(202,400)</u>		
<b>Net Total Appropriations</b>	<b><u>10,644,841</u></b>	<b><u>10,117,631</u></b>	<b><u>10,665,384</u></b>
<b>EXCESS OF REVENUES OVER COSTS</b>	<b><u>\$ -</u></b>	<b><u>\$ 378,626</u></b>	<b><u>\$ 9,463</u></b>

THE LINDEN ROSELLE SEWERAGE AUTHORITYBONDS PAYABLE2003 NJEIT LOANS PAYABLEDECEMBER 31, 2019

<u>YEAR OF MATURITY</u>	<u>INTEREST RATE</u>	<u>TRUST LOAN</u>		<u>FUND LOAN PRINCIPAL</u>	<u>TOTAL</u>
		<u>PRINCIPAL</u>	<u>INTEREST</u>		
2020	5.000%	\$ 470,000	\$ 96,125	\$ 347,928	\$ 914,053
2021	4.500%	495,000	72,625	349,849	917,474
2022	4.750%	520,000	50,350	350,524	920,874
2023	4.750%	540,000	25,650	346,636	912,286
		<u>\$ 2,025,000</u>	<u>\$ 244,750</u>	<u>\$ 1,394,937</u>	<u>\$ 3,664,687</u>

The bonds pay interest semi-annually.

SCHEDULE 4

THE LINDEN ROSELLE SEWERAGE AUTHORITY

BONDS PAYABLE

2012 NJEIT LOANS PAYABLE

DECEMBER 31, 2019

<u>YEAR OF MATURITY</u>	<u>TRUST LOAN</u>			<u>FUND LOAN</u>		<u>TOTAL</u>
	<u>INTEREST RATE</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>PRINCIPAL</u>		
2020	5.000%	\$ 175,000	\$ 110,643	\$ 213,139	\$	498,782
2021	5.000%	180,000	101,893	213,139		495,032
2022	5.000%	190,000	92,893	213,139		496,032
2023	5.000%	200,000	83,393	213,139		496,532
2024	5.000%	210,000	73,393	213,139		496,532
2025	5.000%	220,000	62,893	213,139		496,032
2026	5.000%	230,000	51,893	213,139		495,032
2027	3.000%	245,000	40,393	213,139		498,532
2028	3.000%	250,000	33,043	213,139		496,182
2029	3.125%	260,000	25,543	213,139		498,682
2030	3.200%	265,000	17,418	213,139		495,557
2031	3.250%	275,000	8,938	93,802		377,740
		<u>\$ 2,700,000</u>	<u>\$ 702,336</u>	<u>\$ 2,438,331</u>	<u>\$</u>	<u>5,840,667</u>

The bonds pay interest semi-annually.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2019

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Award Amount</u>	<u>Grant Period</u>		<u>Fiscal Year</u>	
			<u>From</u>	<u>To</u>	<u>Receipts</u>	<u>Total Expenditures</u> <u>Subrecipient Expenditures</u>
U.S. Department of Homeland Security Federal Emergency Management Agency Passed-Through: New Jersey Office of Emergency Management FEMA - Project Number FEMA-DR-4086-NJ-466-R	97.039	\$ 867,600	9/17/15	9/17/18	\$ 286,384	\$ 286,384 \$ - 0 -

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

<u>Fiscal Year</u> <u>Ending</u> <u>June 30,</u>	<u>Authority's</u> <u>Proportion Share</u> <u>of the Net Pension</u> <u>Liability (Asset)</u>	<u>Authority's</u> <u>Proportionate</u> <u>Share of</u> <u>the Net Pension</u> <u>Liability (Asset)</u>	<u>Authority's</u> <u>Covered-Employee</u> <u>Payroll</u>	<u>Authority's</u> <u>Proportion Share</u> <u>of the Net Pension</u> <u>Liability (Asset)</u> as a percentage of it's Covered- <u>Employee Payroll</u>	<u>Plan Fiduciary</u> <u>Net Position</u> as a percentage of the total <u>Pension Liability</u>
2014	0.0377280982%	\$ 7,063,732	\$ 2,649,033	266.65%	52.08%
2015	0.0388925940%	\$ 8,730,608	\$ 2,748,334	317.67%	47.93%
2016	0.0411002781%	\$ 12,172,724	\$ 2,730,138	445.86%	40.14%
2017	0.0388681609%	\$ 9,047,887	\$ 2,776,305	325.90%	48.10%
2018	0.0405515600%	\$ 7,984,400	\$ 2,969,784	268.85%	53.60%
2019	0.0425877131%	\$ 7,673,660	\$ 3,163,974	242.53%	56.27%

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

THE LINDEN ROSELLE SEWERAGE AUTHORITY  
SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS  
PUBLIC EMPLOYEES RETIREMENT SYSTEM  
LAST TEN YEARS

<u>Fiscal Year</u> <u>Ending</u> <u>June 30,</u>	<u>Contractually</u> <u>Required</u> <u>Contribution</u>	<u>Contributions in</u> <u>Relation to the</u> <u>Contractually</u> <u>Required</u> <u>Contributions</u>	<u>Contribution</u> <u>Deficiency</u> <u>(Excess)</u>	<u>Authority's</u> <u>Covered-</u> <u>Employee</u> <u>Payroll</u>	<u>Contributions as</u> <u>a Percentage of</u> <u>Covered-</u> <u>Employee</u> <u>Payroll</u>
2014	\$ 311,025	\$ 311,025	\$ -0-	2,649,033	11.74%
2015	\$ 334,372	\$ 334,372	\$ -0-	2,748,334	12.17%
2016	\$ 365,129	\$ 365,129	\$ -0-	2,730,138	13.37%
2017	\$ 360,072	\$ 360,072	\$ -0-	2,776,305	12.97%
2018	\$ 403,357	\$ 403,357	\$ -0-	2,969,784	13.58%
2019	\$ 414,253	\$ 414,253	\$ -0-	3,163,974	13.09%

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



THE LINDEN ROSELLE SEWERAGE AUTHORITY  
SCHEDULES RELATED TO ACCOUNTING AND REPORTING FOR PENSION (GASB 68)  
NOTE TO RSI III  
FOR THE YEAR ENDED DECEMBER 31, 2019

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

Change in benefit terms

None

Change in assumptions

The calculation of the discount rate used to measure the total pension liability is dependent upon the long-term expected rate of return, and the municipal bond index rate. There was a change in the municipal bond index rate from the prior measurement date (3.87%) to the current measurement date (3.50%), resulting in a change in the discount rate from 5.66% to 6.28%. This change in the discount rate is considered to be a change in actuarial assumptions under GASB No. 68.

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

<u>Fiscal Year</u> <u>Ending</u> <u>June 30,</u>	<u>Authority's</u> <u>Proportion Share</u> <u>of the Net OPEB</u> <u>Liability</u>	<u>Authority's</u> <u>Proportionate</u> <u>Share of</u> <u>the Net OPEB</u> <u>Liability (Asset)</u>	<u>Authority's</u> <u>Covered-Employee</u> <u>Payroll</u>	<u>Authority's</u> <u>Proportion Share</u> <u>of the Net OPEB</u> <u>Liability (Asset)</u> <u>as a percentage</u> <u>of it's Covered-</u> <u>Employee Payroll</u>	<u>Plan Fiduciary</u> <u>Net Position</u> <u>as a percentage</u> <u>of the total</u> <u>OPEB Liability</u>
2017	0.0581410%	\$ 11,869,944	\$ 2,776,305	427.54%	1.03%
2018	0.0579360%	\$ 9,076,612	\$ 2,969,784	305.63%	1.97%
2019	0.0545460%	\$ 7,388,840	\$ 3,163,974	233.53%	1.98%

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

THE LINDEN ROSELLE SEWERAGE AUTHORITY  
SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS  
STATE HEALTH BENEFITS LOCAL GOVERNMENT RETIRED EMPLOYEE PLAN  
LAST TEN YEARS

<u>Fiscal Year</u> <u>Ending</u> <u>June 30,</u>	<u>Contractually</u> <u>Required</u> <u>Contribution</u>	<u>Contributions in</u> <u>Relation to the</u> <u>Contractually</u> <u>Required</u> <u>Contributions</u>	<u>Contribution</u> <u>Deficiency</u> <u>(Excess)</u>	<u>Authority's</u> <u>Covered-</u> <u>Employee</u> <u>Payroll</u>	<u>Contributions as</u> <u>a Percentage of</u> <u>Covered-</u> <u>Employee</u> <u>Payroll</u>
2017	\$ 216,790	\$ 216,790	\$ -0-	2,776,305	7.81%
2018	\$ 233,419	\$ 233,419	\$ -0-	2,969,784	7.86%
2019	\$ 190,075	\$ 190,075	\$ -0-	3,163,974	6.01%

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

THE LINDEN ROSELLE SEWERAGE AUTHORITY  
SCHEDULES RELATED TO ACCOUNTING AND REPORTING FOR OPEB (GASB 75)  
NOTE TO RSI III  
FOR THE YEAR ENDED DECEMBER 31, 2019

STATE HEALTH INSURANCE PROGRAM (SHIP)

Change in benefit terms

None

Change in assumptions

The discount rate changed from 3.87% to 3.50% as of  
June 30, 2019.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

DECEMBER 31, 2019

GENERAL COMMENTS AND RECOMMENDATIONS

None