# PASSAIC VALLEY SEWERAGE COMMISSION

FINANCIAL STATEMENTS

December 31, 2020

**PASSAIC VALLEY SEWERAGE COMMISSION**

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# INDEPENDENT AUDITORS' REPORT

# INDEPENDENT AUDITORS' REPORT

To the Commissioners of
Passaic Valley Sewerage Commission

## Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Passaic Valley Sewerage Commission (the "Commission"), as of and for the year ended December 31, 2020, and the related notes to financial statements, which comprise the Commission'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 the modified cash basis of accounting as described in Note A; 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.

## Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note A to the financial statements, these financial statements are prepared on the modified cash basis, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

## INDEPENDENT AUDITORS' REPORT (CONTINUED)

### Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles (Continued)

The effects on the financial statements of the variances between the modified cash basis of accounting described in Note A to the financial statements and accounting principles generally accepted in the United States of America ("U.S. GAAP"), although not reasonably determinable, are presumed to be material.

### Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S. GAAP" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Commission as of December 31, 2020, and the changes in financial position for the year then ended.

### Basis for Qualified Opinion

Under GASB Statement No. 75, for financial reporting purposes, an actuarial valuation is required at least biennially for OPEB plans with a total membership of 200 or more. The Commission participates in the cost sharing multiple-employer defined benefit post-retirement plan, administered by the State of New Jersey. The GASB Statement No. 74 and 75 reports of the state plan for the period ended June 30, 2020 were not completed timely and made available to the Commission, resulting in inadequate financial statement disclosure. This does not have any financial impact on the Commission's reserve balances. See Note I to the financial statements for the most recent OPEB plan information available.

### Opinion on Modified Cash Basis of Accounting

In our opinion, except for the matter discussed in the basis for qualified opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of December 31, 2020, and the changes in financial position for the year then ended in accordance with the modified cash basis of accounting, as described in Note A to the financial statements.

Warren A. Broudy, CPA, CGFM, PSA, CGMA
Registered Municipal Accountant License No. 554

**MERCADIEN, P.C.**
**CERTIFIED PUBLIC ACCOUNTANTS**

September 8, 2021

# FINANCIAL STATEMENTS

## PASSAIC VALLEY SEWERAGE COMMISSION

STATEMENT OF ASSETS, LIABILITIES AND RESERVES
December 31, 2020

| | General Fund | Bond Reserve Fund | Insurance Trust Fund | Repair, Replacement & Improvement Fund | Capital Fund | Bond Financed Projects Fund | Wastewater Treatment Trust Fund | Doremus Site Remediation Escrow Fund | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | |
| Cash and cash equivalents | $ 79,917,381 | $ 4,569,559 | $ 4,994,277 | $ 12,351,582 | $ 7,493,803 | $ 26,733,051 | $ - | $ 267,745 | $ 136,327,398 |
| Investments | 20,000,000 | 16,308,326 | - | - | - | 28,555,081 | - | - | 64,863,407 |
| Receivables | | | | | | | | | |
| Interfund receivables | 268,732 | - | - | 4,161,301 | 4,711,493 | 141,553 | 6,815,200 | - | 16,098,279 |
| Accounts receivable, net of allowance $748,261 | 5,977,737 | 137,684 | - | 30,917 | - | - | - | - | 6,146,338 |
| Federal/state grants and loans | - | - | - | 300,213,537 | - | - | 148,408,699 | - | 448,622,236 |
| Prepaid expenditures | 21,792 | - | - | - | - | - | - | - | 21,792 |
| Inventory | 9,834,204 | - | - | - | - | - | - | - | 9,834,204 |
| Property, plant and equipment | | | | | | | | | |
| Construction and acquisition cost | - | - | - | 152,790,985 | - | - | - | - | 152,790,985 |
| Buildings | 252,159,560 | - | - | - | - | - | - | - | 252,159,560 |
| Machinery and equipment | 97,786,994 | - | - | - | - | - | - | - | 97,786,994 |
| Improvements other than building | 47,029,058 | - | - | - | 16,980,966 | 182,423,527 | 196,154,634 | - | 442,588,185 |
| Projects authorized and in process | - | - | - | 50,725,323 | 3,758,169 | 7,671,583 | 13,513,448 | - | 75,668,523 |
| Other assets | | | | | | | | | |
| Amounts to be provided for bond, loan and note retirement | - | - | - | - | - | 146,765,000 | 247,901,204 | - | 394,666,204 |
| **Total Assets** | $ 512,995,458 | $ 21,015,569 | $ 4,994,277 | $ 520,273,645 | $ 32,944,431 | $ 392,289,795 | $ 612,793,185 | $ 267,745 | $ 2,097,574,105 |

## PASSAIC VALLEY SEWERAGE COMMISSION

STATEMENT OF ASSETS, LIABILITIES AND RESERVES (CONTINUED)
December 31, 2020

| | General Fund | Bond Reserve Fund | Insurance Trust Fund | Repair, Replacement & Improvement Fund | Capital Fund | Bond Financed Projects Fund | Wastewater Treatment Trust Fund | Doremus Site Remediation Escrow Fund | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | | | |
| Current liabilities | | | | | | | | | |
| Loans payable | $ - | $ - | $ - | $ - | $ - | $ - | $ 8,017,847 | $ - | $ 8,017,847 |
| Bonds payable | - | - | - | - | - | 15,430,000 | - | - | 15,430,000 |
| Notes payable | - | - | - | - | - | - | 178,846,094 | - | 178,846,094 |
| Accounts payable | 6,729,315 | - | - | 4,292,059 | 305,065 | 644,403 | 2,249,238 | - | 14,220,080 |
| Accrued expenses | 9,717,743 | - | - | 501,053 | - | - | 26,039 | - | 10,244,835 |
| Payroll deductions | 360,142 | - | - | - | - | - | - | - | 360,142 |
| Escrow deposits | 334,191 | - | - | - | - | - | - | 265,620 | 599,811 |
| Interfund payable | 5,862,089 | - | - | 6,815,200 | - | 299,211 | 3,121,779 | - | 16,098,279 |
| Total current liabilities | 23,003,480 | - | - | 11,608,312 | 305,065 | 16,373,614 | 192,260,997 | 265,620 | 243,817,088 |
| Noncurrent liabilities | | | | | | | | | |
| Loans payable | - | - | - | - | - | - | 61,037,263 | - | 61,037,263 |
| Bonds payable | - | - | - | - | - | 131,335,000 | - | - | 131,335,000 |
| Total noncurrent liabilities | - | - | - | - | - | 131,335,000 | 61,037,263 | - | 192,372,263 |
| **Total Liabilities** | 23,003,480 | - | - | 11,608,312 | 305,065 | 147,708,614 | 253,298,260 | 265,620 | 436,189,351 |
| **Reserves** | | | | | | | | | |
| Insurance trust | - | - | 4,994,277 | - | - | - | - | - | 4,994,277 |
| Investment in inventory | 9,834,204 | - | - | - | - | - | - | - | 9,834,204 |
| Investment in fixed assets | 396,975,612 | - | - | - | - | - | - | - | 396,975,612 |
| Construction and acquisition | - | - | - | 152,790,985 | 16,980,966 | 182,423,527 | 196,154,634 | - | 548,350,112 |
| Projects authorized | - | - | - | 50,725,323 | 3,758,169 | 7,671,583 | 13,513,448 | - | 75,668,523 |
| Debt service | - | 21,015,569 | - | - | - | - | - | - | 21,015,569 |
| Appropriated projects | - | - | - | 305,149,025 | 11,900,231 | 54,486,071 | 149,826,843 | 2,125 | 521,364,295 |
| Rate stabilization | 83,182,162 | - | - | - | - | - | - | - | 83,182,162 |
| **Total Reserves** | 489,991,978 | 21,015,569 | 4,994,277 | 508,665,333 | 32,639,366 | 244,581,181 | 359,494,925 | 2,125 | 1,661,384,754 |
| **Total Liabilities and Reserves** | $ 512,995,458 | $ 21,015,569 | $ 4,994,277 | $ 520,273,645 | $ 32,944,431 | $ 392,289,795 | $ 612,793,185 | $ 267,745 | $ 2,097,574,105 |

See notes to financial statements.

**PASSAIC VALLEY SEWERAGE COMMISSION**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN RESERVES
Year Ended December 31, 2020

| | General Fund | Bond Reserve Fund | Insurance Trust Fund | Repair, Replacement & Improvement Fund | Capital Fund | Bond Financed Projects Fund | Wastewater Treatment Trust Fund | Doremus Site Remediation Escrow Fund | Total |
|---|---|---|---|---|---|---|---|---|---|
| Revenues | | | | | | | | | |
| User charges billed | $ 142,727,192 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 142,727,192 |
| Sludge fees | 32,937,793 | - | - | - | - | - | - | - | 32,937,793 |
| Investment gain, net | 830,720 | 25,007 | - | - | - | 12,987 | - | - | 868,714 |
| Miscellaneous | 7,957,175 | - | - | 208,217 | - | - | - | - | 8,165,392 |
| Federal/state grants and loans | - | - | - | 6,577,088 | - | - | 116,793,368 | - | 123,370,456 |
| Total | 184,452,880 | 25,007 | - | 6,785,305 | - | 12,987 | 116,793,368 | - | 308,069,547 |
| Expenditures | | | | | | | | | |
| Salaries | 55,497,126 | - | - | - | - | - | - | - | 55,497,126 |
| Payroll taxes | 4,011,681 | - | - | - | - | - | - | - | 4,011,681 |
| Employee benefits | 13,217,763 | - | - | - | - | - | - | - | 13,217,763 |
| Pension contribution | 6,385,213 | - | - | - | - | - | - | - | 6,385,213 |
| Supplies and postage | 1,607,611 | - | - | - | - | - | - | - | 1,607,611 |
| Replacement parts | 6,463,432 | - | - | - | - | - | - | - | 6,463,432 |
| Materials | 6,211,621 | - | - | - | - | - | - | - | 6,211,621 |
| Utilities | 20,195,175 | - | - | - | - | - | - | - | 20,195,175 |
| Rentals | 464,586 | - | - | - | - | - | - | - | 464,586 |
| Insurance | 2,275,293 | - | - | - | - | - | - | - | 2,275,293 |
| Equipment | 4,476,441 | - | - | - | - | - | - | - | 4,476,441 |
| Outside services | 10,003,781 | - | - | 498,235 | - | - | - | - | 10,502,016 |
| Professional fees | 759,496 | - | - | - | - | - | - | - | 759,496 |
| Permitting | 886,195 | - | - | - | - | - | - | - | 886,195 |
| Sludge disposal | 6,081,456 | - | - | - | - | - | - | - | 6,081,456 |
| Sundry | 891,993 | - | - | - | - | - | - | - | 891,993 |
| Advertising | 29,293 | - | - | - | - | - | - | - | 29,293 |
| Real estate taxes (in lieu) | 1,220,283 | - | - | - | - | - | - | - | 1,220,283 |
| Project expenditures | - | - | - | 50,725,323 | 3,758,169 | 7,671,584 | 13,513,448 | - | 75,668,524 |
| Bond issuance costs | - | - | - | - | - | 896,991 | 1,397,958 | - | 2,294,949 |
| Contingency | 223,894 | - | - | - | - | - | - | - | 223,894 |
| Subtotal | 140,902,333 | - | - | 51,223,558 | 3,758,169 | 8,568,575 | 14,911,406 | - | 219,364,041 |

**PASSAIC VALLEY SEWERAGE COMMISSION**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN RESERVES (CONTINUED)
Year Ended December 31, 2020

| | General Fund | Bond Reserve Fund | Insurance Trust Fund | Repair, Replacement & Improvement Fund | Capital Fund | Bond Financed Projects Fund | Wastewater Treatment Trust Fund | Doremus Site Remediation Escrow Fund | Total |
|---|---|---|---|---|---|---|---|---|---|
| Bond debt service | | | | | | | | | |
| Principal | 22,419,976 | - | - | - | - | - | - | - | 22,419,976 |
| Interest | 6,227,749 | - | - | - | - | - | - | - | 6,227,749 |
| Total expenditures | 169,550,058 | - | - | 51,223,558 | 3,758,169 | 8,568,575 | 14,911,406 | - | 248,011,766 |
| Excess of revenues over (under) expenditures | 14,902,822 | 25,007 | - | (44,438,253) | (3,758,169) | (8,555,588) | 101,881,962 | - | 60,057,781 |
| Other financing sources/(uses) | | | | | | | | | |
| Bond proceeds | - | - | - | - | - | 43,965,000 | - | - | 43,965,000 |
| Refunding bond proceeds | - | - | - | - | - | 33,830,000 | - | - | 33,830,000 |
| Premium on bonds | - | - | - | - | - | 7,604,958 | 207,167 | - | 7,812,125 |
| Payment to refunding escrow agent | - | - | - | - | - | (37,274,825) | (438,508) | - | (37,713,333) |
| Interfund transfers | (17,000,000) | 892,000 | - | 15,000,000 | 2,000,000 | (892,000) | - | - | - |
| Excess of revenues over (under) expenditures and other financing sources/(uses) | (2,097,178) | 917,007 | - | (29,438,253) | (1,758,169) | 38,677,545 | 101,650,621 | - | 107,951,573 |
| Reserves, beginning of year | 85,279,340 | 20,098,562 | 4,994,277 | 334,587,278 | 13,658,400 | 15,808,526 | 48,176,222 | 2,125 | 522,604,730 |
| Reserves, end of year | 83,182,162 | 21,015,569 | 4,994,277 | 305,149,025 | 11,900,231 | 54,486,071 | 149,826,843 | 2,125 | 630,556,303 |
| Investment in inventory | 9,834,204 | - | - | - | - | - | - | - | 9,834,204 |
| Investment in construction and acquisition | - | - | - | 152,790,985 | 16,980,966 | 182,423,527 | 196,154,634 | - | 548,350,112 |
| Investment in projects authorized | - | - | - | 50,725,323 | 3,758,169 | 7,671,583 | 13,513,448 | - | 75,668,523 |
| Investment in fixed assets | 396,975,612 | - | - | - | - | - | - | - | 396,975,612 |
| Total reserves | $ 489,991,978 | $ 21,015,569 | $ 4,994,277 | $ 508,665,333 | $ 32,639,366 | $ 244,581,181 | $ 359,494,925 | $ 2,125 | $ 1,661,384,754 |

# NOTES TO FINANCIAL STATEMENTS

## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Nature of Organization

In 1902, by a special Act of the New Jersey State Legislature, the Passaic Valley Sewerage Commission (the "Commission") was formed as an agency of the State of New Jersey to reduce pollution of the Passaic River and its tributaries. The Commission is one of the oldest and largest, in terms of operational capability, regional sewerage commissions in the United States and is directed by a Board of Commissioners ("Commissioners") appointed by the Governor and confirmed by the State of New Jersey Senate.

In order to protect and preserve local streams and rivers from water pollution, the Commission operates one of the United States largest treatment plants for the wastewaters of northern New Jersey. With many expansions and upgrading to secondary treatment, the facility has been striving since the beginning of its operations in 1924 to improve local water quality in accordance with federal and state water quality legislation. The Commission's customers include various municipalities, tax-exempt, industrial and non-industrial entities in the northern New Jersey region.

### Reporting Entity

The Commission establishes funds to account for significant activities within its jurisdiction. Specific funds are maintained at the direction of the Commission and are included in the financial statements.

### Fund Accounting

The funds of the Commission are maintained in accordance with the principles of fund accounting to ensure observance of limitations and restrictions on the resources available. The principles of fund accounting require that resources be classified for accounting and reporting purposes into funds or account groups in accordance with activities or objectives specified for the resources. Each fund is a separate accounting entity with a self-balancing set of accounts.

The following are the various funds of the Commission:

<u>General Fund</u>
The General Fund accounts for the cost of providing sewerage collection and treatment services to its member municipalities. Services provided are financed primarily through user charges.

<u>Bond Reserve Fund</u>
In addition to the annual debt service payments made by the General Fund, the Commission has further secured the payment of its serial and term bonds by covenanting and establishing a Bond Reserve Fund. The amount maintained in this fund is equal to the maximum annual interest and principal payments required in any future year through the year 2045, the maturity date of the Series J Bonds.

<u>Insurance Trust Fund</u>
The Insurance Trust Fund represents amounts set aside for possible damages resulting from liability claims.

## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Fund Accounting (Continued)

Repair, Replacement and Improvement Fund

The Repair, Replacement and Improvement Fund represents amounts set aside for non-operating expenditures for equipment, accessories and appurtenances of the sewerage treatment plant, as well as expenditures related to Federal Emergency Management Agency ("FEMA") funding.

Capital Fund

The Capital Fund represents expenditures for permanent improvements to the sewerage treatment plant.

Bond Financed Projects Fund

The Bond Financed Projects Fund was established to account for the construction and/or acquisition of certain capital assets, principally financed by the proceeds of Revenue Bonds issued by the Commission. As of December 31, 2020, the series F, G, H, I and J bonds remain outstanding in the aggregate principal amount of $146,765,000, the liability of which is presented in the Bond Financed Projects Fund.

Wastewater Treatment Trust Fund

The Wastewater Treatment Trust Fund was established for the purpose of funding the rehabilitation, renovation and improvement of the existing treatment facilities of the Commission. Funding was provided by the State of New Jersey, the New Jersey Wastewater Treatment Trust Fund, and the New Jersey Infrastructure Bank ("NJIB").

Doremus Site Remediation Escrow Fund

The Doremus Site Remediation Escrow Fund was established to set aside funds for future environmental remediation of property adjacent to a site acquired by the Commission.

### Basis of Accounting

The accounting policies of the Commission conform to a modified cash basis, which constitute a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("U.S. GAAP"). These principles and practices are designed primarily for determining compliance with legal and budgetary restrictions as a means of reporting on the stewardship of public officials with respect to public funds.

Had the Commission's financial statements been prepared under U.S. GAAP,

- federal and state grant revenues would have been recognized when expended,
- fixed asset expenditures made during each year would be capitalized and depreciation expense would be recorded,
- pension and OPEB expense and resultant net pension and OPEB liabilities would be recognized on the accrual basis,
- principal payments on debt would not be recorded as an expenditure,
- the recording of certain reserves and related assets would not be recorded,
- investments would be stated at fair value,
- there would be no investment in inventory reserve account balance, and
- forward delivery agreement value and change would be recorded on the financial statements.

## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Cash and Cash Equivalents

The Commission considers all highly liquid investments, with maturities of ninety days or less from the date of purchase, to be cash equivalents.

### Investments

Investments, including certificate of deposits not issued and held by a bank, are stated at cost in the statement of assets, liabilities and reserves. All interest is reported in the statement of revenues, expenditures and changes in reserves as an increase in reserves.

### Revenue Recognition

User charges are recognized when billed based on an annual rate, which is in accordance with the Act that created the Commission. This Act provides that each of the contracting municipalities or other users of the system reimburse the Commission annually for its proportionate share of the cost and expense of maintenance, repair and operation, including debt service, of the system.

Grant revenues are recognized when awarded and FEMA revenue is recognized when the project funding is obligated by the federal government and spent by the Commission.

Sludge fee revenue is recognized when waste is discharged at the facility and billed based on a contracted rate.

### Use of Estimates

The financial statements are prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than U.S. GAAP which requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### Accounts Receivable

Accounts receivable consists primarily of user charges and sludge fees. The Commission charges an allowance for estimated uncollectible amounts based on past experience and an analysis of accounts receivable collectability. Accounts deemed uncollectible are charged to the allowance in the years they are deemed uncollectible.

### Inventory

Inventory is made up of parts and supplies for the repair and maintenance of the facility. The Commission values its inventories at cost, using the first-in, first-out method.

### Fixed Assets

The Commission records capital additions in the year of acquisition. The building, machinery and equipment balances of fixed assets recorded in the general fund reflects the original construction costs of the system and any improvements; no depreciation expense is recorded.

### Compensated Absences

Employees of the Commission are entitled to paid vacation, sick days and personal days off, depending on length of service and other factors. The Commission has recorded the liability for accumulated vacation pay, sick leave and compensatory absences for all employees in accrued expenses.

## A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Serial Bonds Payable

Debt service payments are made by the General Fund. Serial Bonds payable are carried in the Bond Financed Projects Funds. Therefore, as payments are made to reduce debt, an adjustment is made in the corresponding fund.

### Reserves

Reserves generally represent fund equity restricted for the stated purposes. Authorized project reserves represent fund equity that has been pledged to future project costs. Reserve for the Insurance Trust Fund represents amounts set aside for possible damages resulting from liability claims.

The Reserve for Rate Stabilization, which is included in the General Fund, was established in 1996 by the Commissioners to enable the Commission to stabilize user charges to its member municipalities in future years. Funds from the Reserve for Rate Stabilization are expended as needed and represent a revenue source to offset monies needed to meet the current year's budget. Increases and decreases to this Reserve for Rate Stabilization are affected by companies leaving and entering the sewerage treatment system during a measurement year in addition to any unexpended funds and revenues from the General Fund remaining at year end.

### Rounding

Some amounts in the financial statements may have dollar differences due to rounding.

## B. CASH AND CASH EQUIVALENTS

The carrying amount of the Commission's cash and cash equivalents consisted mainly of demand and money market accounts. The difference between the bank balance and the book balance is due primarily to the timing of deposits and outstanding checks.

Cash and cash equivalents are substantially restricted under the terms of the Commission’s bond resolutions for the payment of bond principal and interest expense and the extension of project loans.

### Deposits

**Custodial Credit Risk** – This is the risk that in the event of a bank failure, the Commission will not be able to recover the value of its deposits that are in the possession of an outside party. The deposits in the JP Morgan bank accounts were covered by the FDIC, as well as a collateral pledge from JP Morgan, which was greater than the deposit balance at December 31, 2020. The Bank of New York money market funds are invested in the Goldman Sachs Financial Square Treasury Obligation Fund, which is comprised of treasury securities backed by the U.S. Government and a Federal Home Loan Bank Discount Note.

Additional coverage is provided by The New Jersey Governmental Unit Deposit Protection Act (“NJGUDPA”) which permits the deposit of public funds in the State of New Jersey Cash Management Fund or in institutions located in New Jersey that are insured by the FDIC or by any other agencies of the United States that insure deposits. NJGUDPA requires public depositories to maintain collateral for deposit of public funds that exceed insurance limits as follows:

## B. CASH AND CASH EQUIVALENTS (CONTINUED)

### Deposits (Continued)

Each deposit participating in the NJGUDPA system must pledge collateral equal to at least 5% of the average amount of its public deposits and 100% of the average amount of its public funds in excess of the lesser of 75% of its capital funds or $200 million. The minimum 5% pledge applies to institutions that are categorized as “well capitalized” by federal banking standards. The percentage of the required pledge will increase for institutions that are less than “well capitalized.”

No collateral is required for amounts covered by FDIC or National Credit Union Share Insurance Fund (“NCUSIF”) insurance. The collateral which may be pledged to support these deposits includes obligations of the State and federal governments, insured securities and other collateral approved by the Department of Banking and Insurance (“DOBI”). When the capital position of the depository deteriorates or the depository takes an unusually large amount of public deposits, the DOBI requires additional collateral to be pledged.

If a governmental depository fails and the FDIC or NCUSIF insurance does not insure or pay out the full amount of public deposits, the collateral pledged to protect these funds would first be liquidated and paid out. If this amount is insufficient, other institutions holding public funds would be assessed pro rata up to 4% of their uninsured public funds. Although these protections do not constitute a 100% guarantee of the safety of all funds, no governmental unit under NJGUDPA has ever lost protected deposits.

As of December 31, 2020, the Commission’s bank balances were exposed to custodial credit risk as follows:

| | | |
|---|---|---|
| Insured (FDIC) | $ | 1,000,000 |
| Collateralized (JP Morgan & Bank of NY) | | 72,951,363 |
| Uninsured and Collateralized (GUDPA) | | 64,738,878 |
| | $ | 138,690,241 |

**Concentration of Credit Risk** – This is the risk associated with the amount of investments the Commission has with any one issuer that exceeds five percent or more of its total investments. Investments issued or explicitly guaranteed by the U.S. government are excluded from this requirement.

**Credit Risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. In general, the Commission does not have an investment policy regarding credit risk, however, the Commission had no investments that were subject to credit risk as of December 31, 2020.

**Interest Rate Risk** – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from interest rate fluctuations. However, its practice is to hold investments to maturity.

## B. CASH AND CASH EQUIVALENTS (CONTINUED)

The amounts deposited in these accounts at December 31, 2020, are as follows:

| | Book Balance | Bank Balance |
|---|---|---|
| JP Morgan Bank | $ 39,285,910 | $ 41,648,753 |
| ConnectOne Bank | 15,442,581 | 15,442,581 |
| Lakeland Bank | 5,026,588 | 5,026,588 |
| Santander Bank | 10,116,953 | 10,116,953 |
| Spencer Savings Bank | 35,152,756 | 35,152,756 |
| Bank of New York | 31,302,610 | 31,302,610 |
| | $ 136,327,398 | $ 138,690,241 |

## C. INVESTMENTS

The bond resolutions limit investments of the bond reserve fund to direct obligations of the United States of America or other obligations in which payments and interest are unconditionally guaranteed by the United States of America.

Investments at December 31, 2020, are as follows:

| | Cost |
|---|---|
| Certificates of deposit | $ 20,000,000 |
| U.S. Treasury Bills | 2,678,705 |
| U.S. Treasury Notes | 42,184,702 |
| | $ 64,863,407 |

## D. FORWARD DELIVERY AGREEMENT

On September 11, 1996, the Commission entered into a Forward Delivery Agreement (the "Agreement") with First Union Bank, now Wells Fargo Bank (the "Bank") related to the Series D Bonds, subsequently refunded by Series F Bonds. The Agreement stipulated that certain proceeds from the bond issuance would be deposited with the Bank in a debt service reserve fund (the "Fund"). The Commission was paid an upfront fee in exchange for interest earnings on the Fund until the year 2022. Under the terms of the Agreement, the Commission is precluded from prematurely redeeming, defeasing or refunding the Series G or F Bonds unless it has sufficient funds to repurchase the Bank's interest in the Agreement at the fair value at the date of termination. As of December 31, 2020, the present value and termination value of the Agreement was $61,806.

## E. AMOUNTS TO BE PROVIDED FOR LOAN AND BOND RETIREMENT

The Commission has established a mechanism to record future amounts to be provided by member municipalities to fund retirement of loan and serial bond principal. These amounts are presented in the statement of assets, liabilities and reserves and correspond to the outstanding balances payable for serial bonds and loans.

## F. BONDS PAYABLE, LOANS PAYABLE AND NOTES PAYABLE

Pursuant to an amendment to Title 58, Chapter 14 of the New Jersey Revised Statutes, the Commission was granted the authority to issue bonds. The Commission also has various loans through the New Jersey Infrastructure Bank ("NJIB") financing program. Both the bonds and loans are issued to fund various capital improvements.

| Year, Series/Title | Original Issue Amount | Interest Rate Range | Maturity Dates | Outstanding December 31, 2019 | Additions | Reductions | Outstanding December 31, 2020 | Due Within One Year |
|---|---|---|---|---|---|---|---|---|
| Bonds | | | | | | | | |
| 2003, Series F | $ 205,205,000 | 2.50%-5.00% | 2032 | $ 37,060,000 | $ - | $ 37,060,000 | $ - | $ - |
| 2010, Series G | 29,950,000 | 5.62%-5.75% | 2022 | 23,060,000 | - | 5,700,000 | 17,360,000 | 8,435,000 |
| 2016, Series H | 74,795,000 | 3.00%-5.00% | 2025 | 33,095,000 | - | 7,820,000 | 25,275,000 | 5,810,000 |
| 2016, Series I | 30,540,000 | 2.25%-5.00% | 2036 | 27,465,000 | - | 1,130,000 | 26,335,000 | 1,185,000 |
| 2020, Series J | 77,795,000 | | | - | 77,795,000 | - | 77,795,000 | - |
| Total bonds payable | | | | 120,680,000 | 77,795,000 | 51,710,000 | 146,765,000 | 15,430,000 |
| Loans | | | | | | | | |
| 2006 Trust and Fund Loan | 38,894,500 | 4.00%-5.00% | 2026 | 13,811,288 | - | 4,512,711 | 9,298,577 | 2,321,979 |
| 2007 Trust and Fund Loan | 24,926,867 | 3.40%-5.00% | 2022 | 871,000 | - | 358,000 | 513,000 | 379,000 |
| 2010A ARRA Trust and Fund Loan | 12,542,621 | 3.00%-5.00% | 2029 | 7,236,346 | - | 678,535 | 6,557,811 | 685,535 |
| 2010 A Trust and Fund Loan | 31,981,707 | 3.00%-5.00% | 2029 | 17,198,517 | - | 1,718,928 | 15,479,589 | 1,736,928 |
| 2010 B Trust and Fund Loan | 19,662,500 | 5.00% | 2030 | 9,464,389 | - | 1,009,973 | 8,454,416 | 1,027,972 |
| 2014 Trust and Fund Loan | 26,791,177 | 3.00%-5.00% | 2032 | 20,291,969 | - | 1,360,478 | 18,931,491 | 1,375,478 |
| 2016 Trust and Fund Loan | 2,975,000 | 3.00%-5.00% | 2036 | 2,619,915 | - | 139,407 | 2,480,508 | 144,407 |
| 2018 Trust and Fund Loan | 907,481 | 4.00%-5.00% | 2038 | 884,346 | - | 44,702 | 839,644 | 44,702 |
| 2020 Trust and Fund Loan | 8,341,087 | 2.625%-5.00% | 2039 | - | 8,341,087 | 1,841,013 | 6,500,074 | 301,846 |
| Total loans payable | | | | 72,377,770 | 8,341,087 | 11,663,747 | 69,055,110 | 8,017,847 |
| Total bonds and loans payable | | | | $ 193,057,770 | $ 86,136,087 | $ 63,373,747 | $ 215,820,110 | $ 23,447,847 |

### Summary of Future Maturities

Future maturities of bonds and loans payable are as follows:

| | Principal | Interest | Total |
|---|---|---|---|
| 2021 | $ 23,447,847 | $ 6,454,321 | $ 29,902,168 |
| 2022 | 24,145,295 | 5,507,202 | 29,652,497 |
| 2023 | 15,163,273 | 4,529,324 | 19,692,597 |
| 2024 | 13,778,959 | 4,089,448 | 17,868,407 |
| 2025 | 14,341,038 | 3,716,857 | 18,057,895 |
| 2026-2030 | 64,146,313 | 12,823,405 | 76,969,718 |
| 2031-2035 | 36,016,486 | 5,828,444 | 41,844,930 |
| 2036-2040 | 13,750,899 | 2,659,300 | 16,410,199 |
| 2041-2045 | 11,030,000 | 1,007,400 | 12,037,400 |
| | $ 215,820,110 | $ 46,615,701 | $ 262,435,811 |

In 2020, the Commission issued NJIB loans to permanently fund projects 25, 31, and 39 for the aggregate par amount of $8,341,087 in May 2020. These projects included the administration building, sodium hypochlorite facility, and HTPSR gravity line coating projects.

## F. BONDS PAYABLE, LOANS PAYABLE AND NOTES PAYABLE (CONTINUED)

The Commission adopted Resolution 29-20 authorizing the issuance of sewer system bonds not to exceed the principal amount of $87,000,000. The final bond issuance was for $77,795,000. The bond issue resulted in $46,000,000 in new money proceeds deposited into the project fund account and a current refunding of the remaining 2003 Sewer System Bonds, Series F principal totaling $37,060,000. Payments totaling $37,274,825 were deposited into the escrow fund to defease the Series F bonds which were redeemed on August 26, 2020. The current refunding resulted in a difference between the par amount of the refunding bonds and the par amount of the refunded bonds of $823,712. Although the refunding resulted in an accounting gain, it was performed to reduce debt service by approximately $5,265,000. The accounting gain, or deferred gain on the refunding, is not reported as a deferred inflow of resources on the Commission financials in line with the basis of accounting utilized.

The Commission also has temporary notes payable through the NJIB Infrastructure Financing Program for various ongoing construction projects. The notes will be repaid upon the issuance of future permanent bonds. Under the NJIB program the borrowers benefit from a loan formula under which participants borrow a percentage of cost from the State Revolving Fund maintained by the New Jersey Department of Environmental Protection at zero interest and the remaining percentage from the Trust at the same interest rate the Trust pays on its bonds. Under the State's Smart Growth Initiative, the interest rate is equivalent to 25 percent of the lowest available rate. Each NJIB loan carries a 20, 25, or 30-year life. All current Commission loans are 20-year maturities. In 2020, the Commission adopted Resolution 30-20 that authorized the issuance of subordinate sewer system bonds in connection with the NJIB's Environmental Infrastructure Financing Program not to exceed the principal amount of $140,000,000. $120,269,892 of temporary notes were issued out of the authorized principal amount for the headworks reconstruction project. Additionally, of the temporary loans that were outstanding on December 31, 2019, three notes totaling outstanding principal of $10,107,200 were permanently financed through the $8,341,087 loans issued as noted above. These transactions resulted in total temporary notes payable in the amount of $178,846,094 on December 31, 2020.

## G. SELF-INSURANCE

The Commission has established a reserve for self-insurance for general liability coverage to pay for claims up to their retention amount of $500,000. At December 31, 2020, the reserve balance was $4,994,277. There were no deposits or claims paid in the current year resulting in no change of the reserve for self-insurance for the year ended December 31, 2020.

## H. PENSION PLAN

### Description and Benefits

The Commission contributes to the Public Employees' Retirement System ("PERS"), a cost-sharing multiple-employer defined benefit pension plan administered by the State of New Jersey, Division of Pensions and Benefits (the "Division"). The state-administered funds were established by an Act of the State Legislature that assigns the authority to establish and amend benefit provisions to the plan's board of trustees. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERS and is also available on the State of New Jersey website.

## H. PENSION PLAN (CONTINUED)

### Description and Benefits (Continued)

The vesting and benefit provisions for PERS are set by N.J.S.A. 43:15A. PERS provides retirement, death and disability benefits. All benefits vest after ten years of service.

The following represents the membership tiers for PERS:

| Tier | Definition |
|---|---|
| 1 | Members who were enrolled prior to July 1, 2007 |
| 2 | Members who were eligible to enroll on or after July 1, 2007, and prior to November 2, 2008 |
| 3 | Members who were eligible to enroll on or after November 2, 2008, and prior to May 22, 2010 |
| 4 | Members who were eligible to enroll on or after May 22, 2010, and prior to June 28, 2011 |
| 5 | Members who were eligible to enroll on or after June 28, 2011 |

Service retirement benefits of 1/55$^{th}$ of final average salary for each year of service credit are available to Tiers 1 and 2 members upon reaching age 60, and to Tier 3 members upon reaching age 62. Service retirement benefits of 1/60$^{th}$ of final average salary for each year of service credit is available to Tier 4 members upon reaching age 62 and Tier 5 members upon reaching age 65. Early retirement benefits are available to Tiers 1 and 2 members before reaching age 60, Tiers 3 and 4 members with 25 or more years of service credit before age 62, and Tier 5 members with 30 or more years of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for their respective tier.

The Commission also participates in the Defined Contribution Retirement Program ("DCRP"). The DCRP is a multiple-employer defined contribution pension fund established on July 1, 2007, under the provisions of Chapter 92, P.L. 2007, and Chapter 103, P.L. 2007 (N.J.S.A. 43:15C-1 et. seq.). The DCRP is a tax-qualified defined contribution money purchase pension plan under Internal Revenue Code ("IRC") 401(a) et seq., and is a governmental plan within the meaning of IRC 414(d). The DCRP provides retirement benefits for eligible employees and their beneficiaries. Individuals covered under DCRP are employees enrolled in PERS on or after July 1, 2007, who earn a salary in excess of established "maximum compensation" limits; employees enrolled in PFRS after May 21, 2010, who earn a salary in excess of established "maximum compensation" limits; employees otherwise eligible to enroll in PERS on or after November 2, 2008, who do not earn the minimum annual salary for tier 3 enrollment but who earn a salary of at least $5,000.00 annually; and employees otherwise eligible to enroll in PERS after May 21, 2010, who do not work the minimum number of hours per week required for tiers 4 or 5 enrollment, but who earn a salary of at least $5,000.00 annually.

## H. PENSION PLAN (CONTINUED)

### Contributions

The local employers' contribution amounts are based on an actuarially determined rate, which includes the normal cost and unfunded accrued liability. Chapter 19, P.L. 2009 provided an option for local employers of PERS to contribute 50% of the normal and accrued liability contribution amounts certified for payments due in State fiscal year 2009. Such employers will be credited with the full payment and any such amounts will not be included in their unfunded liability. The actuaries will determine the unfunded liability of those retirement systems, by employer, for the reduced normal and accrued liability contributions provided under this law. This unfunded liability will be paid by the employer in level annual payments over a period of 15 years beginning with the payments due in the fiscal year ended June 30, 2012, and will be adjusted by the rate of return on the actuarial value of assets. The Commission did not elect to defer any payments pursuant to Chapter 19, P.L. 2009.

Covered employees are required by PERS to contribute 7.5% of their annual compensation. The Commission is required by State statute to contribute the remaining amounts necessary to pay benefits when due. Although the Division administers one cost-sharing multiple-employer defined benefit pension plan, separate (sub) actuarial valuations are prepared to determine the actuarially determined contribution rate by group. Following this method, the measurement of the collective net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense are determined separately for each individual employer of the State and local groups of the plan.

To facilitate the separate (sub) actuarial valuations, the Division maintains separate accounts to identify additions, deductions and fiduciary net position applicable to each group. The allocation percentages presented for each group in the schedule of employer and non-employer allocations are applied to amounts presented in the schedule of pension amounts by employer and non-employer. The allocation percentages for each group as of June 30, 2020, are based on the ratio of each employer's contributions to total employer contributions of the group for the fiscal year ended June 30, 2020.

The Commission's contributions to PERS for the year ended December 31, 2020, was $7,407,932, equal to the required contributions for each year. The Commission's covered payroll was $51,256,045 for PERS.

For DCRP the contribution policy is set by N.J.S.A. 43:15C-3 and requires contributions by active members and contributing employers. In accordance with Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, plan members are required to contribute 5.5% of their annual covered salary. In addition to the employee contributions, the Commission contributes 3% of the employees' base salary, for each pay period, to Prudential Financial not later than the fifth business day after the date on which the employee is paid for that pay period. For the current year ended, employee contributions totaled $19,080 and the Commission's contributions were $14,051. There were no forfeitures during the year.

## H. PENSION PLAN (CONTINUED)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended December 31, 2020, the Commission had a liability of $110,429,221 for its proportionate share of the net pension liability in PERS. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. This liability is not required to be recorded based on the Commission's basis of accounting. The Commission's proportion of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plan relative to the projected contributions of all participating members of the plan, actuarial determined. At the June 30, 2020, measurement date, the Commission's proportion was 0.6771730846%, which was a 0.0311391744% increase from its proportion measured as of June 30, 2019. For the year ended December 31, 2020, the Commission recognized modified cash pension expense of $6,385,213 in the financial statements related to the required annual contribution to the plan.

At December 31, 2020, the Commission had the following deferred outflows of resources and deferred inflows of resources, which are also not required to be recorded based on the Commission's basis of accounting, related to PERS from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 2,010,735 | $ 390,525 |
| Changes of assumptions | 3,582,449 | 46,237,760 |
| Net difference between projected and actual investment earnings on pension plan investments | 3,774,559 | - |
| Changes in proportion | 14,757,885 | - |
| Commission contributions subsequent to the measurement date | 3,703,966 | - |
| | $ 27,829,594 | $ 46,628,285 |

## H. PENSION PLAN (CONTINUED)

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)**

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

| Years Ending December 31, | PERS Amount |
|---|---|
| 2021 | $ (13,856,848) |
| 2022 | (12,633,232) |
| 2023 | (7,219,570) |
| 2024 | (2,919,472) |
| 2025 | (631,420) |
| | $ (37,260,543) |

The previous amounts do not include employer-specific deferred outflows of resources and deferred inflows of resources related to changes in proportion and Commission contributions subsequent to the measurement date. These amounts should be amortized and recognized by the Commission over the average of the expected remaining service lives of all plan members, which is 5.16, 5.21, 5.63, 5.48, 5.57, 5.72, and 6.44 years for the 2020, 2019, 2018, 2017, 2016, 2015, and 2014 amounts, respectively.

**Actuarial Assumptions**

The total pension liability in the June 30, 2020, measurement was determined by an actuarial valuation as of July 1, 2019, which was rolled forward to June 30, 2020, using the following actuarial assumptions:

| | |
|---|---|
| Inflation: Price | 2.75% |
| Inflation: Wage | 3.25% |
| Salary Increases through 2026 (based on years of service) | 2.00-6.00% |
| Salary Increases: Thereafter (based on years of service) | 3.00-7.00% |
| Investment rate of return | 7.00% |

The actuarial assumptions used in the July 1, 2019, valuation were based on the results of an actuarial experience study for the period July 1, 2014 to June 30, 2018. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

## H. PENSION PLAN (CONTINUED)

### Mortality Rates

Pre-retirement mortality rates were based on the Pub-2010 General Below-Median Income Employee mortality table with an 82.2% adjustment for males and 101.4% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Post-retirement mortality rates were based on the Pub-2010 General Below-Median Income Healthy Retiree mortality table with a 91.4% adjustment for males and 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2010 Non-Safety Disabled Retiree mortality table with a 127.7% adjustment for males and 117.2% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2020.

### Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7% at June 30, 2020), is determined by the State Treasurer, after consultation with the directors of the Division of Investment and Division of Pension and Benefits, the board of trustees, and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2020, are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|---|---|---|
| U.S. Equity | 27.00% | 7.71% |
| Non-U.S. Developed Markets Equity | 13.50% | 8.57% |
| Emerging Markets Equity | 5.50% | 10.23% |
| Private Equity | 13.00% | 11.42% |
| Real Assets | 3.00% | 9.73% |
| Real Estate | 8.00% | 9.56% |
| High Yield | 2.00% | 5.95% |
| Private Credit | 8.00% | 7.59% |
| Investment Grade Credit | 8.00% | 2.67% |
| Cash Equivalents | 4.00% | 0.50% |
| U.S. Treasuries | 5.00% | 1.94% |
| Risk Mitigation Strategies | 3.00% | 3.40% |
| | 100.00% | |

## H. PENSION PLAN (CONTINUED)

### Discount Rate

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

### Sensitivity of the Commission's Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The following presents the Commission's proportionate share of the net pension liability as of June 30, 2020, calculated using the discount rate as disclosed above as well as what the Commission'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:

| | At 1% Decrease (6.00%) | At Current Discount Rate (7.00%) | At 1% Increase (8.00%) |
|---|---|---|---|
| Commission proportionate share of net pension liability | $ 140,105,075 | $ 110,429,221 | $ 86,853,617 |

### 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.

## I. OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The GASB Statement No. 75 report of the state plan for the period ended June 30, 2020, was not available as of the date of this report. Therefore, the most recent information as of June 30, 2019, is disclosed.

### General Information about the OPEB Plan

The Commission participates in a cost sharing multiple-employer defined benefit post-retirement plan (the "Plan") with a special funding situation, which is administered by the State of New Jersey. Benefits, contributions, funding and the manner of administration are determined by the State of New Jersey Legislature. The plan covers employees of local government employers that have adopted a resolution to participate in the Plan. The Commission adopted a resolution to approve participation in the Plan in fiscal year 2012. 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 (GASB Statement No. 75); therefore, assets are accumulated to pay associated benefits. The Plan provides medical and prescription drug to retirees and their covered dependents of the employers.

## I. OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

### General Information about the OPEB Plan (Continued)

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 within 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 Commission is in a nonspecial funding situation, therefore, coverage under Chapter 330 does not apply.

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.

For additional information about the plan please refer to the State website, https://www.state.nj.us/treasury/pensions/financial-reports.shtml. The Plan's financial report may be obtained by writing to the State of New Jersey, Department of Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

### Contributions

The Division of Pensions and Benefits charges the Commission for its contributions. The Commission's contribution to the Plan for the year ended December 31, 2020 was $8,004,937.90 for active employees and $2,672,368 for retirees for a total of $10,677,306. The contributions for the year ended December 31, 2019 was $8,398,545 for active employees and $2,595,706 for retirees for a total of $10,994,251.The total number of plan members eligible for benefits was 817 at December 31, 2019. The number of Commission retirees enrolled was 122 for the same periods ended.

## I. OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

### Allocation Methodology

GASB Statement No. 75 requires participating employers in the Plan to recognize their proportionate share of the collective OPEB liability, collective deferred outflows of resources, collective deferred inflows of resources, and collective OPEB expense. The special funding situation's and nonspecial funding situation's OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense are based on separately calculated total OPEB liabilities. The nonspecial funding situation's OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense are further allocated to employers 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. The Commission's basis of accounting does not require recording a liability on the statement of assets, liabilities and reserves and has only a disclosure requirement in the notes to financial statements.

### Net OPEB Liability

*Components of Net OPEB Liability*

The components of the Commission's net OPEB liability as of December 31, 2019 based on the June 30, 2019 measurement date is as follows:

| | June 30, 2019 |
|---|---|
| Total OPEB liability | $ 100,958,564 |
| Plan Fiduciary Net Position | 1,995,710 |
| Net OPEB Liability | $ 98,962,854 |
| | |
| Plan Fiduciary Net Position as a % of total OPEB liability | 1.98% |

### Actuarial Assumptions

The net OPEB liability 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 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:

| | |
|---|---|
| Inflation | 2.50% |
| Salary increases* | |
| Through 2026 | 2.00 - 6.00% |
| Thereafter | 3.00 - 7.00% |

* Salary increase are based on years of service within the respective plan.

## I. OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

### Mortality Rates

Preretirement mortality rates were based on the Pub-2010 General classification headcount-weighted mortality with fully generational mortality improvement projections from the central year using Scale MP-2019. 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.

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

### Health Care Trend Assumptions

For pre-Medicare medical benefits, the trend is initially 5.7% 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 was 3.50%. 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 Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability as of June 30, 2019, calculated using the discount rate as disclosed above as well as what the collective 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:

| | At June 30, 2019 | |
|---|---|---|
| At 1% Decrease (2.50%) | At Current Discount Rate (3.50%) | At 1% Increase (4.50%) |
| $ 114,426,234 | $ 98,962,854 | $ 86,396,814 |

### Sensitivity of Net OPEB Liability to Changes in the Healthcare Trend Rate

The following presents the net OPEB liability as of June 30, 2019, calculated using the healthcare trend rate as disclosed above as well as what the 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:

| | At June 30, 2019 | |
|---|---|---|
| At 1% Decrease | Healthcare cost trend rate | At 1% Increase |
| $ 83,512,453 | $ 98,962,854 | $ 118,672,442 |

## I. OTHER POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

### Deferred Outflows of Resources and Deferred Inflows of Resources

*Changes in Proportion*

The following amounts do not include employer specific deferred outflows of resources and deferred outflows and inflows of resources related to the changes in proportion. These amounts will be recognized (amortized) by the Commission over the average remaining service lives of all plan members, which is 8.05, 8.14 years, and 8.04 years for the 2019, 2018, and 2017 amounts, respectively.

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ 28,940,596 |
| Changes of assumptions | - | 35,070,234 |
| Net difference between projected and actual investment earnings on OPEB plan investments | 81,518 | - |
| Changes in proportion | 5,295,913 | 16,814,769 |
| Commission contributions subsequent to the measurement date | - | - |
| | $ 5,377,431 | $ 80,825,599 |

| Years Ending December 31, | OPEB |
|---|---|
| 2021 | $ (12,524,407) |
| 2022 | (10,137,963) |
| 2023 | (10,144,466) |
| 2024 | (10,155,618) |
| 2025 | (10,162,756) |
| Thereafter | (10,804,102) |
| | $ (63,929,312) |

## J. CONCENTRATION OF RISK AND UNCERTAINTIES

For the year ended December 31, 2020, the Commission received approximately 46% of its total user charges from two customers, City of Newark 31% and City of Jersey City 15%. For the year ended December 31, 2020, the Commission received approximately 89% of its total grant revenue from two grantors, NJIB 69% and FEMA 20%.

## K. UTILITY PURCHASE COMMITMENT

The Commission has entered into two futures contracts for electricity and natural gas in order to hedge energy costs. The electricity contract is for a term of 24 months, beginning January 1, 2021 and expiring on December 31, 2022. The natural gas contract is for a term of 36 months, beginning January 1, 2021 and expiring on December 31, 2023.

## L. COLLECTIVE BARGAINING AGREEMENTS

During 2020, the Commission was a party in four separate collective bargaining agreements covering various employees at the Commission. They were as follows:

- Local 1158 I.B.E.W.- Blue Collar covering January 1, 2018 – December 31, 2021
- Local 1158 I.B.E.W.- White Collar covering January 1, 2018 – December 31, 2021
- Local 1158 I.B.E.W.- Supervisors Group covering January 1, 2018 – December 31, 2021
- Local 1158 I.B.E.W.- Professional Group covering January 1, 2018 – December 31, 2021

All contract renewals were concluded during 2018. There are no retroactive salary amounts due as of December 31, 2020.

## M. LITIGATION

The Commission is involved in various litigation and claims arising out of its operations. While the ultimate results of these matters cannot be predicted with certainty, management of the Commission expects that the ultimate resolution of these matters will not have a material adverse effect on their financial position or results of operations.

## N. FEMA FUNDING

The Commission is involved in discussions with FEMA to determine eligible recovery costs for substantial damage incurred by the Commission during the Superstorm Sandy event in October of 2012. During 2020, the Commission received $38,250,852 in reimbursements from the State of New Jersey for recovery costs under FEMA, which were included in federal/state grants and loans receivable in the repair, replacement and improvement fund. All costs not covered by insurance or FEMA will be self-funded. The remaining receivable is $300,213,537 at December 31, 2020.

## O. RECOGNITION OF LOANS RECEIVABLE FROM AND LOANS PAYABLE TO NJIB

Included in the $148,408,699 balance, the Commission recorded $12 million worth of loans receivable from NJIB as of December 31, 2020. As of that date, those funds were not certified by the State but are approved to be used for expenditures of the S340689-30 sump pump and generator and S340689-40 electrical switchgear projects only if FEMA funds cannot be used toward those expenditures. These receivables may not fully be realized in the future, depending on whether funds from FEMA can be used instead of the New Jersey Environmental Infrastructure Trust NJEIT loans. The corresponding short-term NJIB loans payable also include the $12 million that may not be realized in the future as amounts paid to NJIB.

## P. COVID-19 IMPACT

The Commission faces various risks related to the global outbreak of the coronavirus disease (“COVID-19”). The Commission provides wastewater services to various municipalities, tax-exempt, industrial and non-industrial entities in the northern New Jersey region and are dependent on the financial health of the entities they serve. With significant portions of the State closed due to the Governor’s stay at home order throughout 2020, increasing unemployment, and other negative economic factors resulting from COVID-19 impacted many of the Commission’s user entities.

## P. COVID-19 IMPACT (CONTINUED)

Some slight impact in sludge revenue, investments, and miscellaneous revenue was noted. The Commission also incurred additional operating expenses beyond those anticipated and budgeted for in 2020 as a result of COVID-19. The impact of additional costs was limited, however, as up to 75% of costs incurred during this emergency should be reimbursable by FEMA. The Commission also has sufficient reserves to meet its debt service obligations through 2021.

At this time, the Commission's management cannot predict the full impact of the COVID-19 pandemic, but management continues to monitor the situation, to assess further possible implications to operations and their customers, regulators and creditors, and will take all necessary actions in an effort to mitigate adverse consequences. Further, the pandemic may have a material adverse effect on the Commission's results of operations, financial position and liquidity during fiscal year ending 2021 and beyond.

## Q. SUBSEQUENT EVENT

The Commission issued New jersey Infrastructure Bank long-term loans in May 2021 for projects 02, 30, 32, 38, 40, and 48 for the aggregate par amount of $24,737,205. The proceeds were used to refund short-term notes in the amount of $32,516,800. As part of this financing, the Commission also refunded $12,000,000 for projects 30 and 40 which were not needed for their original purpose (See FEMA loan payable in note N).

On August 31, 2021, the Commission issued $64,825,879 and $6,163,013 in short-term notes through the NJIB Infrastructure Financing Program for project 46 and project 50, respectively.