

**RHODE ISLAND RESOURCE
RECOVERY CORPORATION**
(a Component Unit of the State of Rhode Island)

FINANCIAL STATEMENTS

JUNE 30, 2020 AND 2019

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(a Component Unit of the State of Rhode Island)

Financial Statements

June 30, 2020 and 2019

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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Rhode Island Resource Recovery Corporation
Johnston, Rhode Island

Report on the Financial Statements

We have audited the accompanying financial statements of the Rhode Island Resource Recovery Corporation (a component unit of the State of Rhode Island), as of and for the year ended June 30, 2020, and the related notes to the 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 the financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion 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 of material misstatement.

An audit involves procedures to obtain audit evidence about the amounts and disclosures in the financial statements. These procedures selected depend on the auditors' judgement, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 opinion.

Opinion

In our opinion, the 2020 financial statements referred to above present fairly, in all material respects, the financial position of the Rhode Island Resource Recovery Corporation as of June 30, 2020, and the respective changes in financial position and cash flows for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statements of the Rhode Island Resource Recovery Corporation as of June 30, 2019, were audited by other auditors whose report dated September 30, 2019, expressed an unmodified opinion on those statements.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3-14, schedule of changes in the Corporation's total OPEB liability and related ratios on page 53, and notes to the required supplementary information on page 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2020, on our consideration of Rhode Island Resource Recovery Corporation'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 Rhode Island Resource Recovery Corporation's internal control over financial reporting and compliance.



**Certified Public Accountants
Braintree, Massachusetts**

September 30, 2020

RHODE ISLAND RESOURCE RECOVERY CORPORATION

(a Component Unit of the State of Rhode Island)

Management's Discussion and Analysis

June 30, 2020 and 2019

As management of the Rhode Island Resource Recovery Corporation (the "Corporation" or "RIRRC"), a component unit of the State of Rhode Island (the State), we offer readers of the Corporation's Financial Statements this narrative overview and analysis of the financial activities of Rhode Island Resource Recovery Corporation for the years ended June 30, 2020 and 2019. Rhode Island Resource Recovery Corporation's Financial Statements, accompanying notes, and supplementary information should be read in conjunction with the following discussion.

Introduction

The Corporation is a quasi-public corporation, an instrumentality established in 1974 by an Act of the Rhode Island Legislature. The Corporation was created to provide and coordinate solid waste and recycling services to municipalities and businesses within Rhode Island. It is intended that the Corporation will receive sufficient revenue through solid waste tipping fees and the sale of recyclable products to be self-sufficient. The Corporation has the power to issue negotiable notes and bonds to achieve its corporate purpose, subject to the provisions of Rhode Island General Law 35-18.

The Corporation is a component unit of the State of Rhode Island (the "State") for financial reporting purposes and as such, the annual audited Financial Statements of the Corporation are included in the State's Annual Financial Report.

The powers of the Corporation are vested in a Board of Commissioners (the "Board"). As of September 2020, the Board consists of nine members, eight of which are public members appointed by the Governor with at least three being residents of the Town of Johnston (the "Town"), and the Director of Administration who serves as an ex-officio member. In making these appointments, the Governor gives due consideration to recommendations from the Mayor of the Town of Johnston, the League of Cities and Towns, representatives of commercial waste haulers and environmental advocacy organizations experienced in the field of recycling. Each commissioner serves until his or her successor is appointed by the Governor and confirmed by the Senate of the State.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Corporation's basic Financial Statements, which consist of the Financial Statements and Notes to Financial Statements. This report also contains other supplementary information in addition to the basic Financial Statements. The Financial Statements report information about the Corporation based upon an accrual accounting method similar to those used by private sector companies. The Financial Statements include a Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; Statement of Cash Flows; and Notes to Financial Statements. These statements are prepared in conformity with accounting principles accepted in the United States of America (GAAP) and also reported under the standards issued under Governmental Accounting Standards Board (GASB).

RHODE ISLAND RESOURCE RECOVERY CORPORATION

(a Component Unit of the State of Rhode Island)

Management's Discussion and Analysis - Continued

June 30, 2020 and 2019

The Statement of Net Position presents the financial position of the Corporation on the accrual basis of accounting. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating. All the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Position. This statement measures the success of the Corporation's operations over the past year and can be used to determine whether the Corporation has successfully recovered all its costs through its tipping fees and other charges.

The last required Financial Statement is the Statement of Cash Flows. The purpose of this statement is to provide information about the changes in cash and cash equivalents, resulting from operating, capital and related financing, non-capital financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of assets.

The Notes to Financial Statements provide additional information that is essential for a full understanding of the data provided in the statements. The Notes to Financial Statements can be found on pages 20-52 of this report.

Financial Highlights

The following are the key financial highlights for the year-ended June 30, 2020:

- The Corporation's FY2020 overall change in net position was an increase of \$19.4M. The Corporation ended the year with a net position of 142.9M of which \$61.2M is unrestricted.
- Operating Revenues decreased by \$4.8M to \$68.8M in FY2020 from \$73.6M in FY2019.
- Operating Expenses increased from \$48.7M in FY2019 to \$55.5M in FY2020 for an increase of \$6.8M.
- Non-operating revenues / (expenses) changed by \$0.3M to \$6.2M.

RHODE ISLAND RESOURCE RECOVERY CORPORATION

(a Component Unit of the State of Rhode Island)

Management's Discussion and Analysis - Continued

June 30, 2020 and 2019

Condensed Comparative Financial Information (in thousands)

The following table summarizes the changes in certain balances in the Statements of Net Position and the statements of revenues, expenses and changes in net position as of and for the years ended June 30, 2020, 2019 and 2018.

	2020	2019	2018	FY20 vs FY19 Increase (Decrease)	FY19 vs FY18 Increase (Decrease)
Net position:					
Current assets	\$ 71,923	\$ 59,461	\$ 52,866	\$ 12,462	\$ 6,595
Capital assets, net	81,655	86,528	81,520	(4,873)	5,008
Other noncurrent assets	127,219	115,903	106,045	11,316	9,858
Total assets	<u>280,797</u>	<u>261,892</u>	<u>240,431</u>	<u>18,905</u>	<u>21,461</u>
Deferred outflows of resources	<u>78</u>	<u>11</u>	<u>0</u>	<u>67</u>	<u>11</u>
Current liabilities	11,439	13,142	19,385	(1,703)	(6,243)
Long-term liabilities	126,342	125,242	128,947	1,100	(3,705)
Total liabilities	<u>137,781</u>	<u>138,384</u>	<u>148,332</u>	<u>(603)</u>	<u>(9,948)</u>
Deferred inflows of resources	<u>145</u>	<u>9</u>	<u>9</u>	<u>136</u>	<u>0</u>
Net position	<u>\$ 142,949</u>	<u>\$ 123,510</u>	<u>\$ 92,090</u>	<u>\$ 19,439</u>	<u>\$ 31,420</u>
Components of net position:					
Net investments in Capital Assets	\$ 73,719	\$ 75,446	\$ 67,364	\$ (1,727)	\$ 8,082
Restricted	8,051	2,565	2,512	5,486	53
Unrestricted	61,179	45,499	22,214	15,680	23,285
Total Components of Net position	<u>\$ 142,949</u>	<u>\$ 123,510</u>	<u>\$ 92,090</u>	<u>\$ 19,439</u>	<u>\$ 31,420</u>
Changes in net position:					
Operating revenues	\$ 68,777	\$ 73,627	\$ 63,519	\$ (4,850)	\$ 10,108
Operating expenses	55,549	48,722	60,305	6,827	(11,583)
Operating income	13,228	24,905	3,214	(11,677)	21,691
Non-operating (revenues) expenses, net	<u>(6,210)</u>	<u>(6,516)</u>	<u>592</u>	<u>(306)</u>	<u>(7,108)</u>
Change in net position	<u>\$ 19,438</u>	<u>\$ 31,421</u>	<u>\$ 2,622</u>	<u>\$ (11,983)</u>	<u>\$ 28,799</u>

RHODE ISLAND RESOURCE RECOVERY CORPORATION

(a Component Unit of the State of Rhode Island)

Management's Discussion and Analysis - Continued

June 30, 2020 and 2019

Financial Analysis

Assets, Liabilities and Net Position – FY2020

Assets increased \$18.9M to \$280.8M in FY2020

- *Assets held in trust* increased by \$11.3M to \$121.2M. The increase was due partly to quarterly closure funding into the trust based on tons received totaling \$5.3M, offset by fees of \$0.2M. The closure cost rate is calculated yearly based on assumptions in the closure/post closure liability calculation – the FY20 rate per ton was \$5.83. Investment earnings contributed \$2.8M and unrealized gains contributed another \$3.4M.
- *Construction in progress* decreased by \$2.0M to \$2.0M in FY20. The majority of the decrease was due to the completion of the Phase VI (Area 3-1B) cell construction. We estimate that total costs will be in excess of \$183M for the full construction of all cells in Phase VI, currently estimated to be completed sometime in the early 2030's.
- *Current Assets* increased by \$12.5M to \$71.9M. Cash increased by \$14.5M with \$4.0M used to fund an increase in the Capital Reserve Account for the construction of a new MRF Facility / Processing Facility which stands at \$12.1M. This increase was offset by a reduction in Accounts Receivable of \$2.0M.
- *Capital Assets net depreciation* decreased by \$2.8M to \$70.3M.

Liabilities remained flat with a slight decrease of \$0.6M to \$137.8M in FY2020.

- *Accounts Payable* decreased by \$1.8M as a result of decreased accruals in construction costs from prior year.
- *Bonds and Notes Payable* decreased \$4.5M to \$10.8M consistent with the installment schedule.
- *Long-term portion of closure, post-closure and remediation* increased by \$5.7M to \$114.9M. Refer to Note 10 – Commitments for additional detail.

The net position totaled \$142.9M compared to \$123.5M as of June 30, 2019, an increase of \$19.4M in FY2020.

RHODE ISLAND RESOURCE RECOVERY CORPORATION

(a Component Unit of the State of Rhode Island)

Management's Discussion and Analysis - Continued

June 30, 2020 and 2019

Assets, Liabilities and Net Position – FY2019

Assets increased \$21.5M to \$261.9M in FY2019

- *Assets held in trust* increased by \$10.9M to \$109.9M. The increase was due partly to quarterly closure funding into the trust based on tons received totaling \$5.1M, offset by fees of \$0.1M. The closure cost rate is calculated yearly based on assumptions in the closure/post closure liability calculation – the FY19 rate per ton was \$5.37. Investment earnings contributed \$2.3M and unrealized gains contributed another \$3.6M.
- *Construction in progress* decreased \$6.3M to \$4.0M in FY19. The majority of the decrease was due to the completion of the Phase VI (Area 3-1 and 3-1A) cell construction. We estimate that total costs will be in excess of \$150M for the full construction of all cells in Phase VI, currently estimated to be completed sometime in the early 2030's.
- *Current Assets* increased by \$6.6M to \$59.5M. The majority of the increase was in the Capital Reserve Account for the construction of a new MRF Facility / Processing Facility which increased by \$4.0M to \$8.1M.
- *Capital Assets net depreciation* increased by \$11.3M to \$73.1M. This was primarily attributable to two factors the continued construction of Phase VI cells offset by depletion and the major upgrade of our yellow iron (heavy equipment). Refer to Note 4 – Capital Assets for additional detail.

Liabilities decreased by \$10.0M to \$138.3M in FY2019.

- *Accounts Payable* decreased by \$6.3M as a result of decreased accruals in construction costs from prior year.
- *Bonds and Notes Payable* decreased \$4.4M to \$15.2M consistent with the installment schedule.
- *Long-term portion of closure, post-closure and remediation* increased by \$0.7M to \$109M remaining relatively flat to prior year. Refer to Note 10 – Commitments for additional detail.

The net position totaled \$123.5M compared to \$92.1M as of June 30, 2018, an increase of \$31.4M.

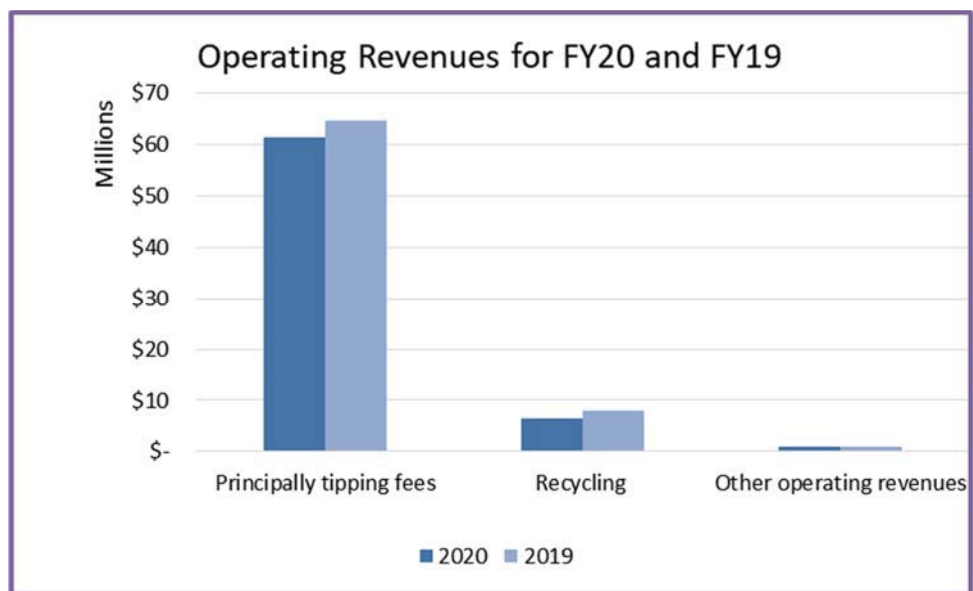
RHODE ISLAND RESOURCE RECOVERY CORPORATION

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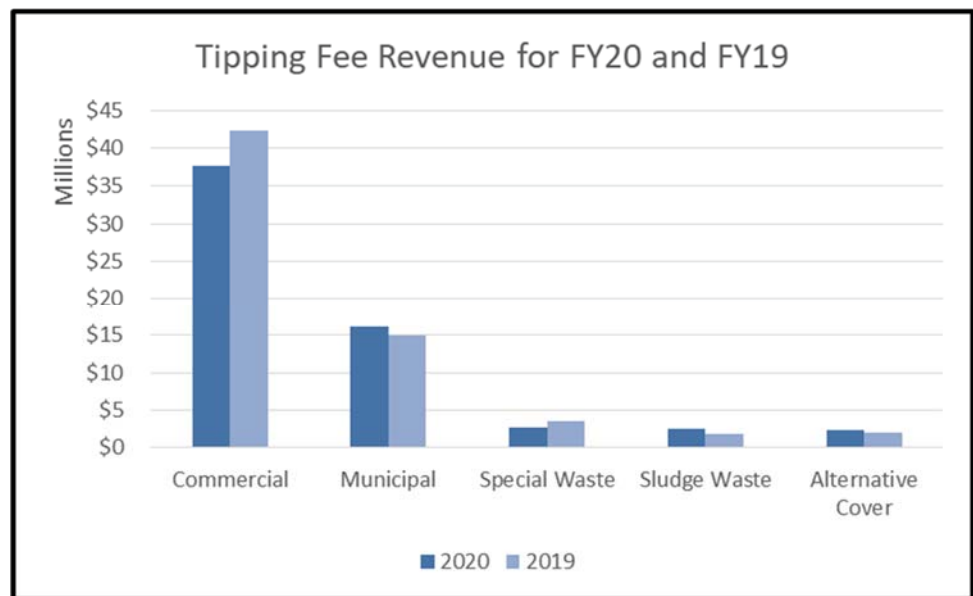
Management’s Discussion and Analysis - Continued

June 30, 2020 and 2019

Operating Revenues



The \$4.8M decrease in Operating Revenue in FY2020 resulted from a \$3.2M decrease in Tipping Fee Revenue (Solid Waste), a \$1.6M decrease in Recycling Revenues and flat Other Operating Revenue.



RHODE ISLAND RESOURCE RECOVERY CORPORATION

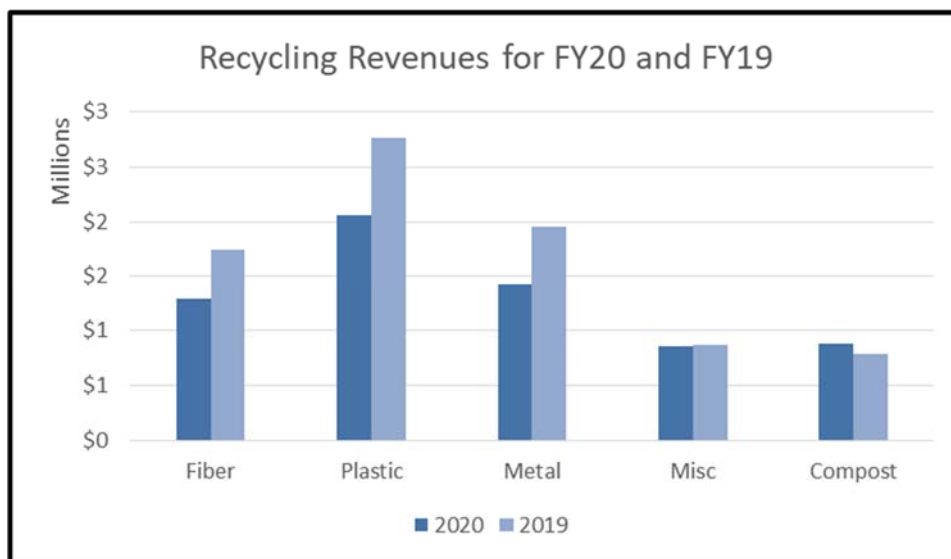
(a Component Unit of the State of Rhode Island)

Management’s Discussion and Analysis - Continued

June 30, 2020 and 2019

Tipping fee revenues decreased \$3.2M to \$61.4M in FY2020, the decrease was primarily the result of commercial tip fee decreases due to COVID. Overall the solid waste tons decreased by 101K to 842K.

- *Commercial* - tonnage decreased by 89K tons to 429K tons for FY20 while revenue decreased by \$4.6M to \$37.6M. This decrease is based on an ~ 5K tons per week reduction from Mid-March 2020 through June 2020 due to closing of non-essential businesses from COVID as well as a reduction in tons as larger customers find other options due to the price increase.
- *Municipal* - tonnage increased by 14K tons to 336K in FY20; revenue increased by \$1.2M to \$16.2M.
- *Special/Sludge/Alternate Cover* - revenue increased by \$0.2M to \$7.5M.



- *Recycling revenues* decreased by \$1.6M to \$6.5M. Fiber decreased by \$0.4M to \$1.3M, plastics decreased by \$0.7M to \$2.1M, and metals by \$0.5M to \$1.4M and miscellaneous remained flat at \$1.7M. Prices for commodities continued to decrease for FY20, with Fiber commodities such as mixed paper and #8 Newspaper remained in the negative, meaning we had to pay to have these items recycled.
 - The recycling facility was not able to generate a profit and as a result, the Corporation was not able to distribute profits back to cities and towns as part of our municipal recycling profit sharing program, for the fourth year in a row.
- *Other Income* remained flat at \$0.9M.

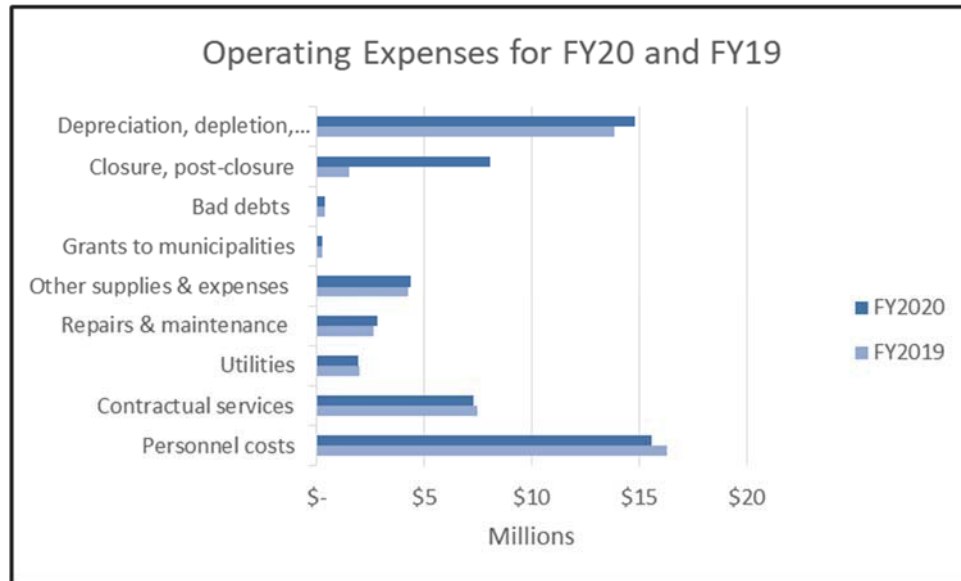
RHODE ISLAND RESOURCE RECOVERY CORPORATION

(a Component Unit of the State of Rhode Island)

Management's Discussion and Analysis - Continued

June 30, 2020 and 2019

Operating Expenses



Operating Expenses increased by \$6.8M to \$55.5M in FY2020.

- *Personnel costs* decreased by \$0.7M to \$15.6M. Salaries and overtime increased by \$0.6M, various insurances increased by \$0.5M, pension plan contribution increased by \$0.1M, these were more than offset by a decrease in Leased Labor expense of \$1.9M, which was the result of onboarding the MRF staff.
- *Contractual services* decreased by \$0.2M to \$7.3M in FY20. This includes items such as engineering contractors, removal fees, legal fees, insurance costs and our host community agreement fees, there were no significant variances to discuss.
- *Utilities* remained flat at \$2.0M.
- *Repairs and maintenance* increased by \$1.1M to \$2.8M, \$1.7M of the \$2.8M relates to Equipment repairs and maintenance which increased primarily due to routine maintenance of our heavy equipment.
- *Other supplies and expenses* increased by \$2.2M to \$4.4M, primarily attributable to the increase in purchase of aggregate materials (alternate cover) due to a decrease in soil jobs.
- *Grants* and profit share to the municipalities remained flat at \$0.2M.
- *Bad debt* remained flat at \$0.4M.

RHODE ISLAND RESOURCE RECOVERY CORPORATION

(a Component Unit of the State of Rhode Island)

Management's Discussion and Analysis - Continued

June 30, 2020 and 2019

- *Provision for landfill closure and post-closure* charged to expense increased by \$6.5M to \$8.0M. The increase is due to leachate treatment costs associated with increased gallons being pumped in the landfill. This liability gets reviewed and recalculated every year and adjusted as needed for any changes.
- *Depreciation, depletion and amortization* increased by \$.9M to \$14.8M, which is the result of the heavy equipment purchases in FY2019 (full year impact) and FY2020.

Capital Planning

The Corporation is now operating within its 20-year window. Therefore, cash management and cash flow along with capital planning is more critical than ever to ensure our goal of self-sustainability for the post-closure phase of the Central Landfill. Options are limited to raise capital outside of the operations as long term borrowing payment schedules will fall outside of our operating timeframe, we plan to refrain from the issuance of additional long-term debt until the future of the facility is more certain.

With this in mind, management is closely monitoring our cash position, fee structure and future cash flow needs, so that we are able to fund approximately \$182.9M in projected capital needs.

Funding will include:

- \$66.7M for buildings and improvements
- \$55.9M in landfill construction, specifically related to PH VI
- \$28.4M for machinery, equipment and vehicles
- \$22.5M for closure and capping
- \$9.1M sewer and other infrastructure
- \$0.3M Roads and fences

RHODE ISLAND RESOURCE RECOVERY CORPORATION
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Management's Discussion and Analysis - Continued

June 30, 2020 and 2019

Long-Term Planning

Resource Recovery continues to work toward extending the life of the Central Landfill and advancing the decision-making process as to what the State will do with its waste once the landfill has reached capacity.

Recognizing that collection costs are a significant portion of overall program delivery, Resource Recovery has focused its efforts on estimating what these costs currently are for each of Rhode Island's 37 individual collection districts; and what the likely cost would be in order to support each of the alternatives identified in the long term study. Specifically these FY20 efforts included: the detailing of 13 potentially viable collection scenarios; generating average annual volume estimates for each of the State's 39 cities and towns; producing counts of municipally served households by service types; identifying whether these materials are direct hauled or transferred to Resource Recovery; compiling the length of roadway miles for the same; issuing an RFP for procuring the remaining cost modeling services; and contracting for delivery of these needs.

RHODE ISLAND RESOURCE RECOVERY CORPORATION

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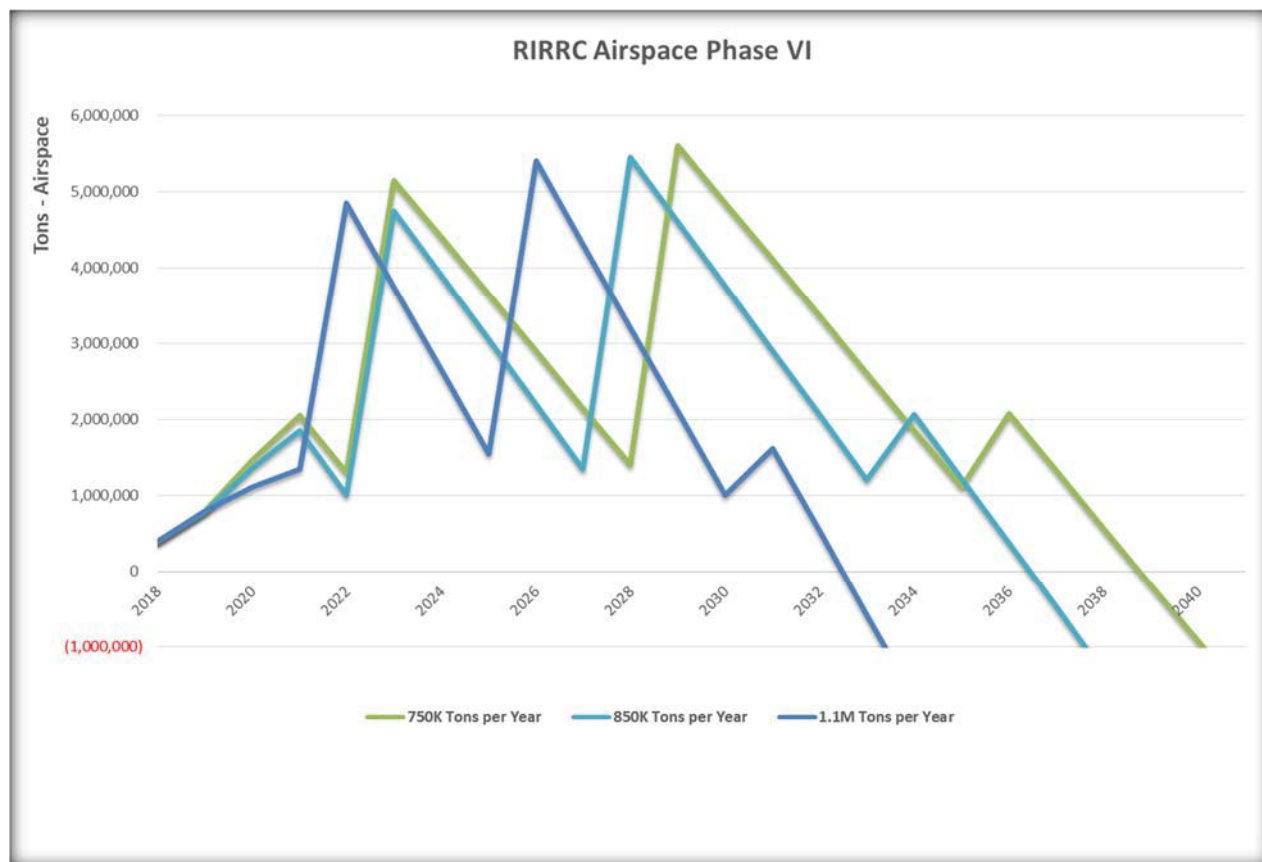
Management's Discussion and Analysis - Continued

June 30, 2020 and 2019

Landfill Life

Below is an estimated timeline of the Central Landfill life. The dark blue line shows airspace runout at 1.1M tons per year, the light blue line at ~ 850K tons (FY20 loading) and the green line shows runout at 750K tons per year (goal). Incorporated into the graph is air-space construction for the permitted Phase VI.

Inbound loads over the past year were ~ 50K tons greater than estimated. With our FY20 inbound rates, our estimated date to reach capacity is 2038/40 (See chart below). Therefore, long-term capital plans, cash flow projections and monitoring of commercial tip fees continues to be a critical factor in carrying RIRRC through these cash intense times and maintain its goal of self-sustainability.



RHODE ISLAND RESOURCE RECOVERY CORPORATION

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Management's Discussion and Analysis - Continued

June 30, 2020 and 2019

Economic Factors

The Corporation's goal is to remain economically self-sufficient while continuing to generate cash reserves to finance approximately \$54M of major capital investments in FY2021.

- In October 2018, the municipal tip fee was recalculated in accordance with the State's Administrative Procedures Act (APA) which established a Municipal Solid Waste Disposal Fee Pricing Structure and Procedure. This recalculation resulted in no price increase to the municipal rate for FY20 & FY21. This is reviewed every two years, with the next review in October 2020. The rate is currently at \$47.00 per ton.
- Commercial prices increased \$15 per ton effective on July 1, 2020. RIRRC plans to re-examine the commercial pricing structure and in-bound tonnage levels in December 2020. RIRRC continuously monitors commercial pricing and adjusts based on market conditions and cash flow needs.
- RIRRC is phasing out the current volume discount pricing for its commercial solid waste contract pricing over two years. Rates will increase from \$85 to \$100 in FY21 and increase to \$115 in FY22. The current gate rate is \$115.
- RIRRC continues to closely analyze our cost needs and reduce expenses at all levels, both vertically and horizontally, while at the same time look for new revenue sources and maximize tipping revenues all while providing the same high-level service.
- Market prices for outbound recycling products (fiber, metals and plastic) for FY2021 are estimated at current pricing. Certain fiber commodities, mixed paper and newspaper, are at all-time lows, due to China's 'National Sword' program. Plastics are also low due to the low oil prices. The industry is not projecting commodity prices to rebound substantially with the next 12 months.
- RIRRC is actively seeking short-term options and developing strategies for long-term options that extend landfill life and research alternatives for the States future disposal needs.

Request for Information

This financial report is designed to provide a general overview of the Corporation's finances for all those interested in that information. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Rhode Island Resource Recovery Corporation, 65 Shun Pike, Johnston, RI 02919-4512. Additional information is also available on our website at www.rirrc.org.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(a Component Unit of the State of Rhode Island)

Statements of Net Position

June 30, 2020 and 2019

Assets and Deferred Outflow of Resources

	<u>2020</u>	<u>2019</u>
Current Assets:		
Cash and equivalents	\$ 63,265,050	\$ 48,744,846
Accounts receivable, net	5,723,033	7,654,700
Inventories	2,297,831	2,438,522
Prepaid expenses	<u>637,060</u>	<u>622,560</u>
Total Current Assets	<u>71,922,974</u>	<u>59,460,628</u>
Noncurrent Assets:		
Restricted assets:		
Cash and equivalents	2,603,898	2,565,278
Assets held in trust	121,175,116	109,898,122
Land held for sale	2,830,649	2,830,649
Capital assets:		
Non-depreciable:		
Land used in operations	9,354,983	9,354,983
Construction in progress	1,955,233	4,026,010
Depreciable:		
Capital assets, net	70,344,497	73,147,192
Other assets	<u>609,400</u>	<u>609,400</u>
Total Noncurrent Assets	<u>208,873,776</u>	<u>202,431,634</u>
Total Assets	<u>280,796,750</u>	<u>261,892,262</u>
Deferred Outflow of Resources	<u>78,169</u>	<u>11,030</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 280,874,919</u>	<u>\$ 261,903,292</u>

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(a Component Unit of the State of Rhode Island)

Statements of Net Position - Continued

June 30, 2020 and 2019

Liabilities, Deferred Inflows of Resources and Net Position

	2020	2019
Current Liabilities:		
Accounts payable and accrued expenses	\$ 6,068,708	\$ 7,826,426
Current portion of closure, post-closure	31,848	34,769
Current portion of pollution remediation	815,211	873,495
Current portion of notes payable	250,000	250,000
Current portion of bonds payable	4,273,616	4,156,846
Total Current Liabilities	11,439,383	13,141,536
Noncurrent Liabilities:		
Closure, post-closure	102,502,900	94,071,936
Pollution remediation	12,378,166	15,142,471
Notes payable	1,892,877	2,142,877
Bonds payable	8,911,013	13,184,629
Total OPEB liability	656,540	700,463
Total Noncurrent Liabilities	126,341,496	125,242,376
Total Liabilities	137,780,879	138,383,912
Deferred Inflows of Resources	145,242	8,814
Total Liabilities and Deferred Inflows of Resources	137,926,121	138,392,726
Net Position:		
Net investment in capital assets	73,719,165	75,446,037
Restricted	8,050,889	2,565,278
Unrestricted	61,178,744	45,499,251
Total Net Position	142,948,798	123,510,566
Total Liabilities, Deferred Inflows of Resources and Net Position	\$ 280,874,919	\$ 261,903,292

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

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(a Component Unit of the State of Rhode Island)

Statements of Revenues, Expenses and Changes in Net Position

For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues:		
Charges for services, principally tipping fees	\$ 61,380,743	\$ 64,610,418
Recycling	6,522,332	8,106,316
Other operating revenues	<u>873,755</u>	<u>910,812</u>
Total Operating Revenues	<u>68,776,830</u>	<u>73,627,546</u>
Operating Expenses:		
Personnel costs	15,567,122	16,288,639
Contractual services	7,299,939	7,494,720
Utilities	1,950,552	2,003,858
Repairs and maintenance	2,812,112	2,677,844
Other supplies and expenses	4,389,183	4,242,413
Grants to municipalities for recycling	286,845	246,114
Bad debts	397,083	372,897
Provisions for landfill closure and post-closure care and pollution remediation obligations	8,043,404	1,534,625
Depreciation, depletion and amortization	<u>14,803,190</u>	<u>13,861,238</u>
Total Operating Expenses	<u>55,549,430</u>	<u>48,722,348</u>
Operating Income	<u>13,227,400</u>	<u>24,905,198</u>
Nonoperating Revenues (Expenses):		
Interest expense	(429,378)	(543,224)
Interest and investment income	6,697,817	6,387,209
Loss on settlements, net	(100,000)	(12,500)
Gain on disposal of assets, net	<u>42,393</u>	<u>683,943</u>
Total Nonoperating Revenues, Net	<u>6,210,832</u>	<u>6,515,428</u>
Increase in Net Position	<u>19,438,232</u>	<u>31,420,626</u>
Net Position, Beginning of Year	<u>123,510,566</u>	<u>92,089,940</u>
Net Position, End of Year	<u>\$ 142,948,798</u>	<u>\$ 123,510,566</u>

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

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(a Component Unit of the State of Rhode Island)

Statements of Cash Flows

For the Years Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities:		
Payments received from providing services	\$ 69,834,732	\$ 72,204,292
Receipts from other operating revenue	873,755	910,810
Payments to suppliers for goods and services	(16,744,192)	(19,876,185)
Payments to employees for services	(15,492,229)	(16,199,693)
Payments in connection with Host Community Agreement	(4,266,064)	(4,140,632)
Payments to municipalities for recycling grants	<u>(286,845)</u>	<u>(246,112)</u>
Net Cash Provided by Operating Activities	<u>33,919,157</u>	<u>32,652,480</u>
Cash Flows from Capital and Related Financing Activities:		
Payments for capital assets and deferred costs	(9,887,325)	(18,204,978)
Proceeds from sale of assets	42,393	258,579
Proceeds from sale of land	-	1,499,950
Interest paid on notes and bonds payable	(429,378)	(543,224)
Principal paid on notes and bonds payable	(4,406,846)	(4,293,265)
Payments of legal settlement, net	<u>(100,000)</u>	<u>(12,500)</u>
Net Cash Applied to Capital and Related Financing Activities	<u>(14,781,156)</u>	<u>(21,295,438)</u>
Cash Flows from Investing Activities:		
Purchase of investments	(13,726,035)	(12,325,789)
Maturity of investments	2,449,041	1,466,281
Interest and investment income	<u>6,697,817</u>	<u>6,387,209</u>
Net Cash Applied to Investing Activities	<u>(4,579,177)</u>	<u>(4,472,299)</u>
Net Increase in Cash and Equivalents	14,558,824	6,884,743
Cash and Equivalents, Beginning of Year	<u>51,310,124</u>	<u>44,425,381</u>
Cash and Equivalents, End of Year	<u>\$ 65,868,948</u>	<u>\$ 51,310,124</u>

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(a Component Unit of the State of Rhode Island)

Statements of Cash Flows - Continued

For the Years Ended June 30, 2020 and 2019

	2020	2019
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating income	\$ 13,227,400	\$ 24,905,198
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation, depletion and amortization	14,803,190	13,861,238
Bad debts (net of recovery)	397,083	372,897
Gain on disposal and sale of assets	(42,393)	(239,908)
Gain on disposal and sale of land	-	(444,032)
Changes in assets and liabilities:		
Accounts receivable	1,534,584	(885,329)
Inventories	140,691	211,794
Prepaid expenses	(14,500)	537,121
Accounts payable	(1,757,718)	(6,306,900)
Total OPEB activity	25,366	54,454
Landfill closure and post-closure care and pollution remediation obligation	5,605,454	585,947
Net Cash Provided by Operating Activities	\$ 33,919,157	\$ 32,652,480
Cash and Equivalents as Reported in the Financial Statements Consist of:		
Unrestricted:		
Cash and equivalents	\$ 63,265,050	\$ 48,744,846
Restricted:		
Cash and equivalents	2,603,898	2,565,278
Total Cash and Equivalents	\$ 65,868,948	\$ 51,310,124

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

RHODE ISLAND RESOURCE RECOVERY CORPORATION

(a Component Unit of the State of Rhode Island)

Notes to the Financial Statements

June 30, 2020 and 2019

Note 1 - **Summary of Significant Accounting Policies**

Organization

Rhode Island Resource Recovery Corporation (the "Corporation" or "RIRRC") is a quasi-public corporation and a public instrumentality established in 1974 by an Act of the Rhode Island Legislature. The Corporation was created to provide and coordinate solid waste management services to municipalities and persons within the State of Rhode Island (the "State"). The Corporation's enabling statute has subsequently been amended to allow for the acquisition and development of certain land located near the existing landfill in the Town of Johnston, Rhode Island. The Corporation's revenues are derived principally from tipping fees charged for the disposal of solid waste and from the sale of recyclable products. It is intended that the Corporation will receive sufficient revenue through sale of recyclable products and fees for its services to be financially self-sufficient. The Corporation grants credit to its customers, primarily commercial entities and municipalities within the State. The Corporation has the power to issue negotiable notes and bonds to achieve its corporate purpose, subject to the provisions of Rhode Island General Law 35-18.

The Corporation is a component unit of the State for financial reporting purposes and, as such, the financial statements of the Corporation are included in the State's Comprehensive Annual Financial Report.

Basis of Presentation

The accompanying financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") as prescribed by the Governmental Accounting Standards Board ("GASB"). Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The Corporation has determined that it functions as a Business-Type Activity, as defined by GASB. The effect of interfund activity has been eliminated from these financial statements.

The Corporation distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses generally result from providing services in connection with the Corporation's principal ongoing operations. Operating expenses primarily include the cost primarily of services provided, administrative expenses, and depreciation expense. All other revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

RHODE ISLAND RESOURCE RECOVERY CORPORATION

(a Component Unit of the State of Rhode Island)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of determining landfill closure and post-closure care costs, pollution remediation costs, landfill capacity and depletion rates, net realizable value and use of land (particularly eminent domain properties), an allowance for doubtful accounts, and the total OPEB liability.

Cash and Equivalents

The Corporation considers all highly liquid investments, such as repurchase agreements and money market accounts, with an original maturity date of three months or less to be cash equivalents.

Accounts Receivable, Net

Receivables are reported at their gross values when earned and are reduced by the estimated portion that is expected to be uncollectible. This estimate is based on history, industry trends and current information regarding the credit worthiness of the debtors. The Corporation has contracts with most of its customers related to pricing, payment terms and general requirements. The Corporation does not require collateral from any of its customers. The Corporation has established an allowance for doubtful accounts receivable of approximately \$1,720,000 and \$1,334,000 as of June 30, 2020 and 2019, respectively.

Investments

Investments, including restricted investments, are stated at fair value or at amortized cost which approximates fair value. Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction involving market participants at the measurement date.

Inventories

Inventories primarily consist of spare parts and materials which are valued at the lower of cost or market value using the first-in, first-out (FIFO) method.

RHODE ISLAND RESOURCE RECOVERY CORPORATION

(a Component Unit of the State of Rhode Island)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Assets Held in Trust

Restricted investments held in trust are held by independent trustees for purposes of meeting the financial requirements of landfill closure and post-closure care costs and pollution remediation costs. Investments are classified collectively as long term despite the individual maturities, duration, or classification of the investments, since all are intended to fund the payment of long-term liabilities.

Restricted Assets (Restricted Net Position)

Restricted assets include cash and equivalents and assets held in trust. Cash and equivalents of \$2,603,898 and \$2,565,278 as of June 30, 2020 and 2019, respectively, represents unexpended proceeds from the sale of revenue bonds whose use is specified or limited by bond resolution. Assets held in trust classified as restricted net position of \$5,446,991 at June 30, 2020 represents the value of restricted investments in excess of closure, post-closure, and pollution remediation obligations. The value of restricted investments fluctuates with market conditions on a monthly basis, specifically unrealized gain/loss balances.

Capital Assets and Depreciation

Capital assets used in primary operations are stated at cost. The Corporation defines capital assets as assets with an initial, individual cost of more than \$10,000 or repairs of 10% of the asset's original cost and having initial life of one year or greater. Ordinary maintenance and repair expenses are charged directly to operations as incurred. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the respective assets as follows:

Land improvements	6 years
Buildings and improvements	15-30 years
Machinery and equipment	5-10 years
Sewer and leachate collection systems	30 years
Furniture and equipment	5-10 years
Signs, fences and roads	3-5 years

The cost of the landfill and land improvements is depleted over the estimate useful capacity of the respective sites (Note 10).

Land acquired through eminent domain intended for resale is stated at the lower of cost or net realizable value. The cost of property acquired through eminent domain not intended for resale is amortized over the estimated life of the currently licensed landfill (Note 5). The Corporation annually evaluates all long-lived assets for impairment. Management notes no impairments as of June 30, 2020 and 2019.

RHODE ISLAND RESOURCE RECOVERY CORPORATION

(a Component Unit of the State of Rhode Island)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Deferred Charges

Deferred charges, which are included in construction in progress on the statements of net position, include legal fees, permitting and engineering costs associated with the licensing, development (siting) or expansion of additional landfill phases and certain costs incurred to ready additional landfill phases for use. These costs are deferred and will be recoverable through future revenue or will benefit future operations.

Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on the Corporation's policies. Unused vacation and sick leave are accumulated and accrued as earned and the liability is included in accounts payable and accrued expenses in the statements of net position.

Landfill Closure and Post-Closure Care Costs

The Corporation provides for future closure and post-closure care costs of the various phases of the landfill as those phases are utilized. As additional phases are licensed and utilized (Note 10), additional closure and post-closure care costs are provided for based upon management's and outside engineers' estimates of such costs and the percentage of capacity used to date.

Pollution Remediation Obligations

The Corporation provides for pollution remediation obligations when it becomes obligated for remediation and the costs are estimable. The Corporation undertakes periodic inspections of its properties (Note 5) to determine whether any potential liability relating to environmental matters exists. Pollution remediation obligations are measured based on the expected future cash flows required to remediate the property and recorded at current value of costs.

Net Position

The Corporation's net position consists of the following three components:

Net investment in capital assets – represents the capital assets, reduced by accumulated depreciation and by the outstanding balances of bonds and other debt used to acquire, construct or improve these assets.

Restricted – those assets that have been limited to uses specified either externally by creditors, contributors, laws or regulations of other governments or internally by enabling legislation or law.

Unrestricted – a residual category for the balance of net position.

RHODE ISLAND RESOURCE RECOVERY CORPORATION

(a Component Unit of the State of Rhode Island)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

When both restricted and unrestricted resources are available for use, it is the Corporation's practice to use restricted resources first, then unrestricted.

Tax Status

The Corporation is a component unit of the State of Rhode Island and is, therefore, generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code.

New Governmental Accounting Pronouncements

Management of the Corporation is aware of current GASB pronouncements and has reviewed recently issued standards through GASB Statement No. 97 for potential application and impact to the Corporation's financial statements. Based on such evaluation, management does not foresee any recently issued standards having a material affect on the Corporation's financial statements.

COVID-19

The COVID-19 crisis has created volatility in the financial markets and a significant decrease in the overall economy. The full adverse impact and duration of COVID-19 on the Corporation's finances and operations cannot be determined. In March 2020, the Governor of Rhode Island issued Executive Orders generally requiring State residents to stay home and non-essential businesses to temporarily close or make reasonable arrangements to work remotely. This resulted in an approximate 20% decrease in solid waste tonnage, primarily from commercial customers, for the period March 2020 through June 2020.

Note 2 - **Deposits**

The carrying amount of the Corporation's cash deposits, consisting of checking accounts and money market accounts totaled \$30,573,127 and \$10,553,153 as of June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, the bank balance for these accounts totaled \$31,191,620 and \$11,283,579, respectively.

Custodial credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned to it. In accordance with Chapter 35-10.1 of the Rhode Island General Laws, depository institutions holding deposits of the State, its agencies or governmental subdivisions of the State shall, at a minimum, insure or pledge eligible collateral equal to one hundred percent (100%) of the deposits, which are time deposits with maturities greater than sixty (60) days. Any of these institutions which do not meet minimum capital standards prescribed by federal regulators shall insure or pledge eligible collateral equal to one hundred percent (100%) of the deposits, regardless of maturity.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(a Component Unit of the State of Rhode Island)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uninsured, collateralized with securities held by pledging financial institutions, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositors government's name.

The Corporation's policy for custodial credit risk is consistent with Chapter 35-10.1 of the Rhode Island General Laws. The Corporation's deposits are held in depository institutions, which maintain, segregated from its other assets, eligible collateral in an amount equal to a certain percentage of its deposits. The collateral is kept in the custody of the trust department of the pledging institution. As of June 30, 2020, \$440,819 of the Corporation's cash deposits were uninsured and uncollateralized. As of June 30, 2019, all deposits were insured or collateralized.

Investments under a repurchase agreement and in commercial paper totaling \$35,295,821 and \$40,756,971 as of June 30, 2020 and 2019, respectively, are included in cash and equivalents in the statements of net position. For purposes of disclosure, such amounts are considered investments and are included in the disclosure in Note 3.

A reconciliation of the Corporation's cash deposits as of June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Cash and equivalents	\$ 27,969,229	\$ 7,987,875
Restricted cash and equivalents	<u>2,603,898</u>	<u>2,565,278</u>
Deposits	<u>\$ 30,573,127</u>	<u>\$ 10,553,153</u>

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(a Component Unit of the State of Rhode Island)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 3 - **Investments**

The Corporation's general investment policy limits the investment of corporate funds to the following financial instruments: (1) U.S. Treasury notes/bills; (2) U.S. Government-backed obligations; (3) obligations of the State, and agencies or political subdivisions thereof; (4) obligations of any other state, its agencies or political subdivisions thereof, that have been assigned an investment grade rating by at least one nationally recognized rating agency; (5) repurchase agreements backed by collateral consisting of instruments identified in (1) or (2) above; and (6) deposits, to the extent that they are insured in financial institutions which are incorporated in, or chartered by, the State. For an investment, custodial credit risk is the risk that, in the event of the failure of a counterparty, the Corporation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Corporation does not have a policy for custodial credit risk beyond that which is required under Rhode Island General Laws. Rhode Island General Laws permit the Corporation to invest any funds not required for immediate use, at the discretion of the Corporation. The Corporation's investments, excluding amounts invested under the repurchase agreements, were not subject to custodial credit risk as they are held by a trustee in the Corporation's name. The Corporation's investments under the repurchase agreements were exposed to custodial credit risk, as the underlying securities are held by the investment's counterparty, not in the name of the Corporation. The investments under the repurchase agreements were collateralized by U.S. Government securities held by the investment's counterparty, not in the name of the Corporation.

The Corporation's investments as of June 30, 2020 and 2019 consist of the following:

	<u>Fair Value</u>		<u>Weighted Average Maturity (Years)</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Repurchase Agreement	\$ 35,295,821	\$ 40,756,971	Daily	Daily
Short-Term Bond Portfolio	36,376,018	54,415,726	2.90 yrs	2.90 yrs
TIPS Portfolio	29,731,158	27,004,557	2.70 yrs	2.70 yrs
Inter.-Term Bond Portfolio	44,379,603	28,477,839	7.40 yrs	7.30 yrs
High Yield Bond Portfolio	<u>10,688,337</u>	<u>-</u>	5.94 yrs	-
Total Fair Value	<u>\$ 156,470,937</u>	<u>\$ 150,655,093</u>		

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(a Component Unit of the State of Rhode Island)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

A reconciliation of the Corporation's investments as of June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Cash and equivalents	\$ 35,295,821	\$ 40,756,971
Investments - held in trust	<u>121,175,116</u>	<u>109,898,122</u>
 Total	 <u>\$ 156,470,937</u>	 <u>\$ 150,655,093</u>

Average ratings of the investments comprising the debt related securities above, as determined by Moody's, are as follows at June 30, 2020:

	<u>Repurchase Agreement</u>	<u>Fixed Income Securities</u>		<u>Total</u>
Treasury/Agency	\$ 35,295,821	\$ -	\$	35,295,821
AAA	-	80,533,516		80,533,516
AA		2,808,254		2,808,254
A		11,351,276		11,351,276
BBB		17,044,269		17,044,269
BB		4,641,945		4,641,945
B		3,070,759		3,070,759
Below B	-	827,277		827,277
Not rated	-	897,820		897,820
 Total	 <u>\$ 35,295,821</u>	 <u>\$ 121,175,116</u>	 <u>\$</u>	 <u>156,470,937</u>

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(a Component Unit of the State of Rhode Island)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Average ratings of the investments comprising the debt related securities above, as determined by Moody's, are as follows at June 30, 2019:

	<u>Repurchase Agreement</u>	<u>Fixed Income Securities</u>	<u>Total</u>
Treasury/Agency	\$ 40,756,971	\$ -	\$ 40,756,971
AAA	-	81,118,975	81,118,975
AAA	-	3,315,758	3,315,758
AAA	-	10,913,427	10,913,427
BBB	-	14,549,962	14,549,962
	-	14,549,962	14,549,962
Total	\$ 40,756,971	\$ 109,898,122	\$ 150,655,093

Risks

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment in a debt instrument. The Corporation relies on the expertise of the independent trustees to manage the Corporation's interest rate risk. The trustees' policy concerning interest rate risk is based upon the concept that a properly diversified bond portfolio is the key to limiting overall risk exposure, generating a predictable stream of income and preserving capital. The trustees seek to limit interest rate risk in any kind of interest rate environment through managing the portfolio's maturity and duration.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Corporation has no investment policy that would further limit its investment choices beyond those limited by Rhode Island General Laws and the Master Indenture of Trust related to revenue bonds issued by the Corporation. The Corporation is permitted to invest in obligations of the United States, including its instrumentalities and agencies; in obligations of any state or of any political subdivision, authority or agency thereof, provided such obligations are rated within one of the top two rating categories of any recognized rating service; or in obligations of the State of Rhode Island or of any political subdivision thereof, provided such obligations are rated within one of the top three rating categories of any recognized rating service, and corporate bonds, notes and/or paper with an investment grade rating A3 or higher. The Corporation's investments under the repurchase agreements were unrated as of June 30, 2020, however, collateralized at 102% while in overnight status. FDIC insurance is provided up to \$250,000 per tax identification number.

RHODE ISLAND RESOURCE RECOVERY CORPORATION

(a Component Unit of the State of Rhode Island)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Concentration of credit risk is the risk of loss attributed to the magnitude of the investment in a single issuer regardless of its credit history. The Corporation relies on the expertise of the independent trustees to manage the trust funds' concentration of credit risk. The trustees' policy concerning concentration of credit risk recognizes the importance of portfolio diversification.

Restricted Assets Held in Trust

The Corporation's restricted assets held in trust are held and managed by independent trustees for purposes of funding future landfill closure and post-closure care costs and pollution remediation costs (Note 10).

The Corporation has established an investment policy over these funds whereby the primary objective is the attainment of a high degree of income while considering safety of principal. The Corporation's policy states that safety, liquidity and interest rate risk standards should not be compromised in favor of increased rate of return. Currently, the assets are invested in approximately 90% U.S. Government-backed securities and approximately 10% corporate bonds. Through June 30, 2020 the government-backed securities are allocated on a 25% short-term TIPS, 35% intermediate-term investments grade and 30% short-term investment grade as directed by the Board-approved investment policy. Investments in bonds are not insured.

Investments Measured at Fair Value

The Corporation categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Corporation has the following fair value measurements:

Mutual funds of approximately \$121,175,000 and \$109,898,000 at June 30, 2020 and 2019, respectively, are valued using quoted market prices (Level 1 inputs).

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(a Component Unit of the State of Rhode Island)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Restricted Assets

Restricted assets as of June 30, 2020 and 2019, consisting of cash and equivalents, are restricted as follows:

	<u>2020</u>	<u>2019</u>
Mandated by Bond Indentures:		
Project Account - Series 2013	<u>\$ 2,603,898</u>	<u>\$ 2,565,278</u>

The Project Account contains the proceeds of the Corporation's 2013 bond issuance and is used for the payment of eligible project disbursements.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(a Component Unit of the State of Rhode Island)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 4 - **Capital Assets**

The following is a summary of changes in capital assets for the year ended June 30, 2020:

	<u>Balance</u> <u>July 1, 2019</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2020</u>
Capital assets being depreciated:				
Land, residential buffer	\$ 4,210,896	\$ -	\$ -	\$ 4,210,896
Capital improvements	137,609,680	4,925,947	-	142,535,627
Automobiles and trucks	1,547,288	99,631	(74,250)	1,572,669
Buildings and improvements	69,138,082	-	-	69,138,082
Computers and equipment	52,243,994	5,185,634	(280,732)	57,148,896
Other depreciable property	<u>6,393,298</u>	<u>1,789,283</u>	<u>-</u>	<u>8,182,581</u>
Total capital assets being depreciated	<u>271,143,238</u>	<u>12,000,495</u>	<u>(354,982)</u>	<u>282,788,751</u>
Less accumulated depreciation and depletion:				
Land, residential buffer	(4,210,896)	-	-	(4,210,896)
Capital improvements	(105,454,655)	(8,225,195)	-	(113,679,850)
Automobiles and trucks	(1,278,271)	(92,665)	74,250	(1,296,686)
Buildings and improvements	(43,647,280)	(1,851,089)	-	(45,498,369)
Computers and equipment	(38,658,407)	(4,241,465)	280,732	(42,619,140)
Other depreciable property	<u>(4,746,537)</u>	<u>(392,776)</u>	<u>-</u>	<u>(5,139,313)</u>
Total accumulated depreciation and depletion	<u>(197,996,046)</u>	<u>(14,803,190)</u>	<u>354,982</u>	<u>(212,444,254)</u>
Total capital assets being depreciated, net	73,147,192	(2,802,695)	-	70,344,497
Non-depreciable capital assets:				
Land used in operations	9,354,983	-	-	9,354,983
Construction in progress	<u>4,026,010</u>	<u>5,746,582</u>	<u>(7,817,359)</u>	<u>1,955,233</u>
Capital assets, net	<u>\$ 86,528,185</u>	<u>\$ 2,943,887</u>	<u>\$ (7,817,359)</u>	<u>\$ 81,654,713</u>

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(a Component Unit of the State of Rhode Island)

Notes to the Financial Statements - Continued

June 30, 2020 and 2019

The following is a summary of changes in capital assets for the year ended June 30, 2019:

	<u>Balance</u> <u>July 1, 2018</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2019</u>
Capital assets being depreciated:				
Land, residential buffer	\$ 4,210,896	\$ -	\$ -	\$ 4,210,896
Capital improvements	122,246,205	15,363,475	-	137,609,680
Automobiles and trucks	1,500,048	205,905	(158,665)	1,547,288
Buildings and improvements	68,086,976	1,051,106	-	69,138,082
Computers and equipment	49,125,740	8,179,135	(5,060,881)	52,243,994
Other depreciable property	<u>6,011,732</u>	<u>381,566</u>	<u>-</u>	<u>6,393,298</u>
Total capital assets being depreciated	<u>251,181,597</u>	<u>25,181,187</u>	<u>(5,219,546)</u>	<u>271,143,238</u>
Less accumulated depreciation and depletion:				
Land, residential buffer	(4,210,896)	-	-	(4,210,896)
Capital improvements	(97,088,624)	(8,366,031)	-	(105,454,655)
Automobiles and trucks	(1,355,505)	(81,431)	158,665	(1,278,271)
Buildings and improvements	(41,914,228)	(1,733,052)	-	(43,647,280)
Computers and equipment	(40,395,840)	(3,272,940)	5,010,373	(38,658,407)
Other depreciable property	<u>(4,338,753)</u>	<u>(407,784)</u>	<u>-</u>	<u>(4,746,537)</u>
Total accumulated depreciation and depletion	<u>(189,303,846)</u>	<u>(13,861,238)</u>	<u>5,169,038</u>	<u>(197,996,046)</u>
Total capital assets being depreciated, net	61,877,751	11,319,949	(50,508)	73,147,192
Non-depreciable capital assets:				
Land used in operations	9,354,983	-	-	9,354,983
Construction in progress	<u>10,286,442</u>	<u>10,451,127</u>	<u>(16,711,559)</u>	<u>4,026,010</u>
Capital assets, net	<u>\$ 81,519,176</u>	<u>\$ 21,771,076</u>	<u>\$ (16,762,067)</u>	<u>\$ 86,528,185</u>

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Note 5 - **Land Used in Operations**

Land used in operations consist of all operational lands that are not licensed landfill phases. These lands are located to the west and east of the main landfill site. To the west, these lands are largely comprised of forested areas; while to the east, they are comprised of the land that the Corporation's administrative building, tipping facility, scale houses and materials manufacturing facility currently occupy.

The Corporation is continually evaluating the intended use and corresponding valuation of these lands to ensure proper presentation in these financial statements. Based on its characteristics, land classifications in the financial records and the corresponding valuations may change over time based on changes in the Corporation's operations.

Note 6 - **Land Held for Sale**

During 1998, the Corporation received authorization from the Rhode Island General Assembly to develop certain property it had acquired through eminent domain. Initially, 162 acres of property situated south and east of the landfill were identified as potentially developable into an industrial park. Subsequently, additional developable acreage was reclassified to land held for development and additional parcels were acquired through 2006.

Land held for sale consists of three lots. These lots are located in the industrial park. Lot 7 is 7.03 acres located on Green Earth Avenue. Lots 1 and 3 are 8.68 and 3.10 acres, respectively, located on Recycle Road. The land held for sale is carried at the lower of historical cost or fair value.

Note 7 - **Long-Term Liabilities**

Bonds Payable

In May 2013, the Corporation issued Resource Recovery System Revenue Bonds, Leachate Pretreatment Facility Project, Series 2013 ("Leachate Bonds"), in the aggregate principal amount of \$40,000,000. These bonds bear an interest rate of 2.78% with a maturity date of May 31, 2023; annual principal and interest installments are required in accordance with the schedule provided below. The Leachate Bonds may be prepaid, as a whole or in part, at any time at the option of the Corporation at a prepayment price equal to the principal amount, plus accrued interest plus a yield maintenance fee. The yield maintenance fee is calculated as the difference between the rate on United States Treasury securities with a maturity date of May 31, 2023 and the "cost of funds" component of the interest rate on the bonds.

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Outstanding indebtedness is collateralized by all net revenues of the Corporation, certain restricted funds created pursuant to the bonds' issuance, and any revenues and property specifically conveyed, pledged, assigned or transferred by the Corporation as additional security for the bonds.

The Bond Indenture contains certain restrictive covenants. As of June 30, 2020 and 2019, the Corporation was in compliance with all bond indenture covenants.

Bonds payable as of June 30, 2020 and 2019 are summarized as follows:

	<u>2020</u>	<u>2019</u>
Resource Recovery System Revenue		
Bonds, Series 2013	\$ 13,184,629	\$ 17,341,475
Less: current portion	<u>(4,273,616)</u>	<u>(4,156,846)</u>
	<u>\$ 8,911,013</u>	<u>\$ 13,184,629</u>

Aggregate scheduled principal and interest payments due on the bonds through maturity are as follows:

Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30,</u>			
2021	\$ 4,273,616	\$ 322,237	\$ 4,595,853
2022	4,393,667	202,187	4,595,854
2023	<u>4,517,346</u>	<u>78,507</u>	<u>4,595,853</u>
	<u>\$ 13,184,629</u>	<u>\$ 602,931</u>	<u>\$ 13,787,560</u>

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Notes Payable

As part of a legal settlement with the Town of Johnston (the “Host Community”) concerning odor conditions, the Corporation amended its Host Community agreement for the payment of a \$1,500,000 installment note over 14 years, equal to \$107,143 per year. As of June 30, 2020 and 2019, amounts owed were \$857,143 and \$964,286, respectively.

As part of a second settlement, executed in 2016, the Town of Johnston assigned certain rights it obtained under a settlement agreement with Broadrock Gas Services LLC (“Broadrock”) to the Corporation. The rights assigned concerned the obligation of Broadrock to transfer the operations of the gas collection system to an independent third-party operator and its enforcement rights associated with the obligation. For the assignment of these rights, the Corporation agreed to pay the Host Community a \$2,000,000 installment note over 14 years, equal to \$142,857 per year. As of June 30, 2020 and June 30, 2019 the amount owed were \$1,285,734 and \$1,428,591, respectively.

No interest is incurred on either note payable due to a lack of materiality.

Aggregate scheduled principal payments due on the notes through maturity are as follows:

Year Ending	
<u>June 30,</u>	<u>Principal</u>
2021	\$ 250,000
2022	250,000
2023	250,000
2024	250,000
2025	250,000
2026-2030	<u>892,877</u>
	<u>\$ 2,142,877</u>

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The following is a summary of changes in bonds and notes payable for the year ended June 30, 2020 and 2019:

	<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Bonds payable	\$ 17,341,475	\$ -	\$ 4,156,846	\$ 13,184,629	\$ 4,273,616
Notes payable	<u>2,392,877</u>	<u>-</u>	<u>250,000</u>	<u>2,142,877</u>	<u>250,000</u>
	<u>\$ 19,734,352</u>	<u>\$ -</u>	<u>\$ 4,406,846</u>	<u>\$ 15,327,506</u>	<u>\$ 4,523,616</u>

	<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Bonds payable	\$ 21,384,740	\$ -	\$ 4,043,265	\$ 17,341,475	\$ 4,156,846
Notes payable	<u>2,642,877</u>	<u>-</u>	<u>250,000</u>	<u>2,392,877</u>	<u>250,000</u>
	<u>\$ 24,027,617</u>	<u>\$ -</u>	<u>\$ 4,293,265</u>	<u>\$ 19,734,352</u>	<u>\$ 4,406,846</u>

Note 8 - **Host Community Agreement**

In accordance with State law, the Corporation is required to make payments to the Town of Johnston, Rhode Island (the "Town"), the community where its landfill is sited (the "Host Community"). On April 2, 1996, the Corporation's Board ratified a comprehensive agreement with the Host Community, which supersedes substantially all prior agreements between them and provides for the unimpeded continuation of the Corporation's operations in the Town. The comprehensive agreement, which remains in effect as long as the landfill is owned and operated, provided for the immediate payment of \$3,150,000 to the Host Community in full settlement of all outstanding amounts. The comprehensive agreement also provides for annual payments to the Host Community in the base amount of \$1,500,000 plus 3.5% of the Corporation's annual gross revenue, as defined in the comprehensive agreement, commencing April 1, 1996. The base amount is subject to a 10% escalator every five-years beginning April 1, 2001. The comprehensive agreement also calls for the waiver of substantially all tipping fees and municipal solid waste disposal fees from the Host Community for the agreement's term. Tipping fees waived for the years ended June 30, 2020 and 2019 totaled approximately \$1,124,000 and \$1,055,000, respectively.

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Amounts incurred under the agreement for the years ended June 30, 2020 and 2019 were approximately \$4,361,000 and \$4,172,000, respectively, of which approximately \$1,162,000 and \$1,067,000 remained unpaid and is included in accounts payable as of June 30, 2020 and 2019, respectively.

Additionally, beginning in fiscal year 2006, the Corporation was required to collect and remit to the Town a \$3 per vehicle surcharge, as approved by Rhode Island General Assembly, for all non-municipal landfill customers. Surcharge amounts collected and remitted to the Town totaled approximately \$390,000 and \$403,000 for the years ended June 30, 2020 and 2019, respectively. Due to the fact the current agreement is over 20 years old, the Town of Johnston and RIRRC are reviewing the Host Community Agreement with the intention of updating the current agreement in both parties' best interest.

Note 9 - **Site Lease and Landfill Gas Delivery and Related Agreements**

On May 1, 1987, the Corporation entered into a 30-year lease agreement with a lessee for royalty payments to the Corporation based on sales of methane gas recovered by the lessee from the Corporation's landfill site. In general, royalty payments to the Corporation were 15% of net revenues, as defined, for the first 15 years of operation and vary from 15% to 18% thereafter depending on production.

On August 1, 2003, the Corporation entered into a revised methane gas royalty agreement whereby the Corporation agreed to subcontract the management and operation of its gas collection system. The Corporation agreed to pay the operator a \$100,000 per year management fee and provide funding for all costs in excess of revenues, if any, incurred by the operator. In exchange, the Corporation receives 15% of net revenues from the sale of landfill gases, as defined by the revised agreement, and 15 cents per million BTU, escalated annually, for each kilowatt per hour generated. In addition, the Corporation entered into an Attribute Agreement with the operator whereby the Corporation receives 15% of the sale of environmental attributes, such as renewable energy credits. The revised methane gas royalty agreement expires when the operation of the gas collection facility to generate power is no longer economically feasible to continue.

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On November 17, 2008, the Corporation entered into an amended and restated site lease and landfill gas delivery agreement. Effectively, the site lease and the amended gas services agreement supersede the terms and rights of the prior agreements described above. However, the amended site lease agreement stipulates that payments to the Corporation will continue to be made in accordance with the terms of the 1987 and 2003 agreements, thus remaining unchanged until the point in time when the lessee acquires the Corporation's gas collection system and assumes full responsibility for all costs to operate and maintain the system. At such time, the methodology for calculating royalty payments will change, resulting in a significant reduction in royalty revenues. In June 2013, the lessee acquired the gas collection system. Since this date, no royalties have been received by the Corporation under the revised methodology. Monthly royalty payments to the Corporation will be calculated as a) the number of hours in a month, multiplied by b) 12 megawatts per hour, multiplied by c) net revenues for the month, divided by d) the total number of megawatt-hours of electricity produced. The monthly royalty payment due to the Corporation is reduced on a decreasing percentage basis each year from 100% in years 1 through 5 to 0.0% in year 10 and thereafter and is further offset by a monthly credit to the operator on a dollar-for-dollar basis up to a maximum of \$416,667 a month.

In conjunction with the amended and restated site lease and landfill gas delivery agreement, the Corporation and the lessee also entered into a purchase and sale agreement for the Corporation's gas collection system. The sales agreement stipulated that the lessee could purchase the Corporation's rights, title and interest in the gas collection system for the price of \$1.00. The sale was consummated in fiscal year 2011 and ownership of the Corporation's gas collection system was transferred to the lessee/owner.

The loss on the sale of the gas collection system is offset by future decreases in the Corporation's operating costs in addition to a reduction in the Corporation's liability for landfill closure and post-closure care. During fiscal 2013, the owner of the gas collection system completed the construction of a landfill gas to energy facility. On the first date on which the plant makes commercial deliveries of electric power, the responsibility for all costs to operate and maintain the gas collection system, including replacement items for the gas system, and expansion of or capital improvements to the gas system transfers to the owner. The Corporation estimated this date to be March 1, 2013, and accordingly only recorded expenditures relating to the gas collection system through that date. These agreements remain in full force and effect so long as the owner or any affiliate is capable of generating electric energy from the landfill gas on an economic basis.

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Accordingly, and as more fully disclosed in Note 10, the Corporation adjusted its estimated landfill closure and post-closure liability at June 30, 2012 and subsequent periods to reflect the transfer of responsibilities for these costs. Additionally, as discussed in Note 10, the Corporation is still responsible for a portion of the sulfur-related operating, major maintenance and capital costs.

Note 10 - **Commitments**

Contract for Sewer and Water Facilities

On September 27, 1988, the Corporation entered into an agreement with the City of Cranston, Rhode Island (the "City"), whereby the City agreed to furnish sewer and water services to the Corporation's facilities in Johnston, Rhode Island. In August 1998, the Corporation and the City entered into a revised agreement. Under the terms of the revised agreement, the Corporation was required to pay an initial impact fee and was required to pay sewer assessments, sewer surcharges and industrial pre-treatment fees incurred at the same rates paid by comparable industrial sewer users located in the City. The Corporation does not owe any impact fees for water supply capacity and will not owe any impact fees for utilization of 400,000 gallons per day (average daily flow "ADF") of sewer capacity to be reserved by the City (at a maximum rate not to exceed 600 gallons per minute) in its sewage treatment facilities and its sewage collection and pumping station facilities. However, the Corporation agreed to pay the cost of any applicable impact fees, which might be incurred as a result of the Corporation's need to transmit in excess of 400,000 gallons per day ADF of sewer capacity, or if the Corporation has a need to exceed the maximum rate of discharge beyond 600 gallons per minute, or any increase in biological or chemical loading above stated pretreatment standards. Currently, the Corporation is not using any sewer or water services from the City.

Licensed Landfill Area

The current licensed landfill consists of areas known as Phases I, II, III, IV, V and VI. The capacity of Phase I was reached in May 1993. The capacities of Phases II and III were reached in December 2002. The capacity of Phase IV was reached during fiscal year 2012. Phases V and VI are active.

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A final construction certification report for Phase V Area IA was approved by the Rhode Island Department of Environmental Management (“RIDEM”) on September 24, 2004, which allowed the Corporation to commence disposal activities in that area. Subsequently, approvals of construction certifications for Phase V Area IB, IC and ID have been received. Based on estimates by the Corporation’s engineers, approximately 92.48% of the capacity for Phase V has been used as of June 30, 2020 and this phase has temporarily stopped accepting waste. On February 8, 2011, a permit was approved by the RIDEM to operate Phase VI of the Central Landfill. Phase VI started accepting waste in December 2015 and is at approximately 23.56% of capacity as of June 30, 2020.

Landfill Closure and Post-Closure

The Environmental Protection Agency established closure and post-closure care requirements for municipal solid waste landfills as a condition for the right to currently operate them. The landfill operated by the Corporation has been segregated into six distinct phases. Phases I, II, III and IV were closed by the Corporation in prior years. In 2005, the Corporation began landfilling in Phase V, which is near capacity and has temporarily stopped accepting waste. In December 2015, the Corporation began accepting waste in Phase VI.

Changes in closure and post-closure care obligations for the years ended June 30, 2020 and 2019 are as follows:

<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Current</u> <u>Portion</u>
<u>\$ 94,106,705</u>	<u>\$ 8,428,043</u>	<u>\$ -</u>	<u>\$ 102,534,748</u>	<u>\$ 31,848</u>
<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Current</u> <u>Portion</u>
<u>\$ 91,133,555</u>	<u>\$ 2,973,150</u>	<u>\$ -</u>	<u>\$ 94,106,705</u>	<u>\$ 34,769</u>

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A summary of closure, post-closure liabilities by Phase for the years ended June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Phase I	\$ 657,410	\$ 450,904
Phases II and III	16,734,356	15,268,863
Phase IV	18,454,341	16,898,499
Phase V	43,664,008	42,910,328
Phase VI	22,405,373	18,007,688
Other	<u>619,260</u>	<u>570,423</u>
Total	102,534,748	94,106,705
Less: current portion	<u>(31,848)</u>	<u>(34,769)</u>
Closure, post-closure - noncurrent portion	<u>\$ 102,502,900</u>	<u>\$ 94,071,936</u>

As of June 30, 2020, the remaining total estimated current cost to be recognized in the future as landfill closure and post-closure care expense, the estimated percent of landfill capacity used, and the estimated remaining years for accepting waste remaining is as follows:

	<u>Estimated remaining costs to be recognized</u>	<u>Estimated capacity used</u>	<u>Estimated remaining years for accepting waste</u>
Phase V	\$ 3,550,634	92.48%	11 months
Phase VI	\$ 72,690,768	23.56%	17 years, 10 months

As of June 30, 2020, the Corporation revised its estimate for future pollution remediation and landfill closure and post-closure care costs. The revised estimate resulted in a \$5,605,454 increase of the corresponding liability from \$110,122,671 at June 30, 2019, to \$115,728,125 at June 30, 2020 and was primarily attributable to leachate flows from the West Side pump. This pump was solely charged to the superfund site, which is in its fourteenth year of the closure phase, and therefore set to end in 2036, according to GAAP and as reflected so in the Corporation's previous calculations. However, due to the pump's proximity to the active landfill and new information that states the permit is controlled by the State of Rhode Island and not the EPA, management has determined it is more likely than not this pump will operate for the duration of the active landfill and closure period and is now reflected as so in the liability calculation.

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As more fully described in Note 9, the Corporation entered into a series of agreements in November 2008 granting a third-party certain right in order to construct, develop and operate a landfill gas-fired electric generation facility at the Central Landfill. Construction of the new gas to energy facility began in November 2010 and was completed during fiscal year 2013. Once the facility became operational, the responsibility for all costs to operate and maintain the gas collection system, including replacement items and expansion of or capital improvements to the gas system, transferred to the third party owner. Costs for operation and maintenance of the gas collection system remain the responsibility of the third-party owner until it is incapable of generating electric energy from the landfill gas on an economic basis. The Corporation utilized gas flow projections generated by an outside engineering firm to estimate the approximate number of years the new facility could continue to generate electricity on an economic basis. This projection is reviewed on an annual basis and updated based upon current information.

Amounts provided for closure and post-closure care are based on current costs. These costs may be adjusted each year due to changes in the closure and post-closure care plan, inflation or deflation, technology, or applicable laws or regulations. It is reasonably possible that these estimates and assumptions could change in the near-term and that the change could be material.

Included in restricted assets in the accompanying statements of net position as of June 30, 2020 and 2019 is \$72,731,478 and \$63,864,435, respectively, placed in trust to meet the financial requirements of closure and post-closure care related to Phases II, III, IV, V and VI. The Corporation plans to make additional trust fund contributions each year to enable it to satisfy these future costs.

Amounts provided for pollution remediation obligations are based on current costs. These costs may be adjusted each year due to changes in the remediation plan, inflation or deflation, technology, or applicable laws or regulations. It is at least reasonably possible that these estimates and assumptions could change in the near term and that the change could be material.

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Pollution Remediation Obligations

Changes in the pollution remediation obligations for the years ended June 30, 2020 and 2019 are as follows:

<u>Balance</u> <u>July 1, 2019</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2020</u>	<u>Current</u> <u>Portion</u>
<u>\$ 16,015,966</u>	<u>\$ -</u>	<u>\$ 2,822,589</u>	<u>\$ 13,193,377</u>	<u>\$ 815,211</u>
<u>Balance</u> <u>July 1, 2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2019</u>	<u>Current</u> <u>Portion</u>
<u>\$ 18,403,169</u>	<u>\$ -</u>	<u>\$ 2,387,203</u>	<u>\$ 16,015,966</u>	<u>\$ 873,495</u>

In prior years, the EPA issued administrative orders requiring the Corporation to conduct environmental studies of the Central Landfill and undertake various plans of action. Additionally, in 1986, the Central Landfill was named to the EPA's Superfund National Priorities List.

During 1996, the Corporation entered into a Consent Decree with the EPA concerning remedial actions taken by the Corporation for groundwater contamination. The Consent Decree, which was approved by the U.S. District Court on October 2, 1996, required the establishment of a trust fund in the amount of \$27,000,000 for remedial purposes. The balance of the trust fund totaled \$48,443,638 and \$46,033,687 as of June 30, 2020 and 2019, respectively.

In 2004, the Corporation began the capping project for the Superfund site and continued to revise its estimates for leachate pretreatment costs and flows. The Corporation has recorded a liability for future remediation costs of approximately \$13,193,000 and \$16,016,000 as of June 30, 2020 and 2019, respectively.

Other Pollution Remediation Obligations

The Corporation is the owner of several properties adjacent to its landfill operations classified as land held for operations. The Corporation is obligated to remediate one of these parcels. The Corporation has recorded a liability for future remediation costs of approximately \$619,260 and \$570,423 as of June 30, 2020 and 2019, respectively, which is included in pollution and remediation obligations on the statements of net position.

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Gas System Commitments

In August 2010, the Corporation entered into an agreement for the construction and operation of a sulfur treatment system for the purpose of reducing the levels of sulfur in the gas collection system. The Corporation is committed to reimburse the operator for 50% of the operator's direct, unallocated costs not to exceed \$300,000 in any one calendar year (the year over year increase shall be the lesser of the actual cost increase for said calendar year or the prior year's actual costs increased by the annual CPI adjustment factor). In addition, the Corporation shares in 50% of the cost of major maintenance or future capital expenditures relating to the system.

Note 11 - **Postemployment Benefits Other than Pensions (OPEB)**

Plan Description

The Corporation administers an employee Retiree Healthcare Plan (the "Plan"), which is a single-employer defined benefit healthcare plan. Benefit provisions are established by the governing body of the Corporation and may be amended at any time. The Plan does not issue a publicly available financial report and is not included in the financial statements of another entity. No assets are accumulated in a trust that meets the criteria of GASB Statement 75, paragraph 4.

Benefits Provided

Postretirement benefits include medical and dental coverage for the employee, their spouse, and dependents. No life insurance is provided. Coverage under this plan is continued for those employees who retire under the pension plan from active employment at their normal or early retirement age. Coverage is one covered month of full premium for each year of service the participant accumulates up to a maximum of 12 months coverage. As an elective, the participant may choose half premium coverage wherein the Corporation and the participant each pay half the premium due each month in return for receiving two months coverage for each year of service to a maximum of 24 months.

Employees Covered by Benefit Terms

As of June 30, 2020 and 2019, the following were participant counts:

	<u>2020</u>	<u>2019</u>
Active participants	47	54
Retirement participants	<u>1</u>	<u>1</u>
Total	<u>48</u>	<u>55</u>

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Employees hired after December 31, 2008 are ineligible for benefits under the plan.

Total OPEB Liability

The Corporation's total OPEB liability of \$656,540 at June 30, 2020 was measured as of June 30, 2020, and was determined by an actuarial valuation as of July 1, 2019. The Corporation's total OPEB liability of \$700,463 at June 30, 2019 was measured as of June 30, 2019, and was determined by an actuarial valuation as of July 1, 2018.

Actuarial Assumptions and Other Inputs

Economic Assumptions

Discount rate	2.21% as of June 30, 2020
	3.51% as of June 30, 2019

Since the plan is unfunded (i.e., the plan is a pay-as-you-go plan), prescribed by GASB Statement 75, the discount rate is based on the index rate for 20-year tax-exempt general obligation municipal bond index rate with an average rating of AA/Aa or higher as of the measurement date. The Corporation elected to determine the discount rate using the Bond Buyer 20-Bond General Obligation Index.

Demographic Assumptions

Mortality For the year ended June 30, 2020, mortality rates based on Pri-2012 Mortality Tables with generational mortality improvements using Scape MP-2019.

For the year ended June 30, 2019, mortality rates based on RP-2006 Mortality Table with generational mortality improvements using Scale MP-2018.

Turnover Rates varying by age and service.

Disability None assumed.

Retirement Earlier of (i) age 62 and 5 years of service or (ii) age 65.

Coverage level Based on coverage level during active employment.

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Participation rate 80% of employees covered during active employment who retire prior to age 65 are assumed to elect coverage. No employees retiring after age 65 will elect coverage.

Annual claim costs Medical: \$12,010 for single and \$25,220 for married.
Dental: \$539 for single and \$1,078 for married.

Salary increases 3%, average, including inflation

Healthcare cost trend rates	<u>Year</u>	<u>Medical</u>	<u>Dental</u>
	1	8%	4%
	2	7%	4%
	3	6%	4%
	4+	5%	4%

Changes in the Total OPEB Liability

The following provides a reconciliation of the total OPEB liability from June 30, 2019 to June 30, 2020:

Balance, June 30, 2019	\$ 700,463
Service cost	22,295
Interest	25,095
Change of benefit terms	-
Difference between expected and actual experience	(150,271)
Changes in assumptions or other inputs	74,572
Benefit payments	<u>(15,614)</u>
Net change	<u>(43,923)</u>
 Balance, June 30, 2020	 <u>\$ 656,540</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.51% in 2019 to 2.21% in 2020 as well as a change in assumed mortality from the RP-2006 Mortality Table with Scale MP-2018 to the Pri-2012 Mortality Table with Scale MP-2019.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

The following provides a reconciliation of the total OPEB liability from June 30, 2018 to June 30, 2019:

Balance, June 30, 2018	\$ 646,009
Service cost	25,862
Interest	25,822
Change of benefit terms	-
Difference between expected and actual experience	-
Changes in assumptions or other inputs	12,029
Benefit payments	<u>(9,259)</u>
Net change	<u>54,454</u>
 Balance, June 30, 2019	 <u>\$ 700,463</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.87% in 2018 to 3.51% in 2019.

Sensitivity Analysis

This section provides information about the sensitivity of the total OPEB liability to certain assumptions made in the actuarial valuation. The discount rate and benefit cost trend rate are the most significant assumptions used in the actuarial valuation. The below shows the effect of increasing and decreasing the assumptions by 1.0% above and below the projected levels in all future years.

Discount Rate – Total OPEB Liability

June 30, 2020		
1.0% Decrease	Current	1.0% Increase
(2.51% Discount Rate)	Discount Rate	(4.51% Discount Rate)
(3.51%)	(3.51%)	(4.51% Discount Rate)
\$ 691,281	\$ 656,540	\$ 621,379

RHODE ISLAND RESOURCE RECOVERY CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

June 30, 2019			
Current			
1.0% Decrease		Discount Rate	1.0% Increase
(2.87% Discount Rate)		(3.87%)	(4.87% Discount Rate)
\$	735,629	\$	700,463
		\$	665,640

Healthcare Rate – Total OPEB Liability

June 30, 2020			
Current			
1.0% Decrease		Healthcare Rate	1.0% Increase
\$	588,809	\$	656,540
		\$	734,668

June 30, 2019			
Current			
1.0% Decrease		Healthcare Rate	1.0% Increase
\$	630,966	\$	700,463
		\$	780,545

RHODE ISLAND RESOURCE RECOVERY CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

OPEB Expense and Deferred Outflow of Resources and Deferred Inflows of Resources Related to OPEB

For the years ended June 30, 2020 and 2019, the Corporation recognized OPEB expense of \$40,980 and \$51,806, respectively. At June 30, 2020 and 2019, the Corporation reported a deferred outflow of resources and deferred inflows of resources related to OPEB as follows:

	<u>2020</u>	<u>2019</u>
<u>Deferred Outflow of Resources</u>		
Changes in assumptions	\$ <u>78,169</u>	\$ <u>11,030</u>
 <u>Deferred Inflows of Resources</u>		
Changes in assumptions	\$ 7,937	\$ 8,814
Differences between expected and actual plan experience	<u>137,305</u>	<u>-</u>
	<u>\$ 145,242</u>	<u>\$ 8,814</u>

Amounts reported as deferred outflow of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending <u>June 30,</u>	
2021	\$ (6,410)
2022	(6,410)
2023	(6,410)
2024	(6,410)
2025	(6,410)
Thereafter	<u>(35,023)</u>
	<u>\$ (67,073)</u>

RHODE ISLAND RESOURCE RECOVERY CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Note 12 - **Settlements**

In December 2011, the Town of Johnston initiated a civil action against the Corporation and the third-party owner/operator of the gas collection system for odor conditions existing at the Central Landfill. In April 2013, the Town and Corporation entered into a settlement agreement and release whereby the Town agreed to voluntarily dismiss the Corporation from the lawsuit in exchange for the Corporation agreeing to execute an amendment to the Host Community Agreement between the parties. The amendment requires the Corporation to 1) make a one-time lump-sum payment of \$1,500,000 to the Town which was paid December 2013 and 2) make annual payments of \$107,143 to the Town for the next fourteen years. The balance outstanding at June 30, 2020 and 2019 is \$857,143 and \$964,286, respectively, and is included in notes payable on the statements of net position. See Note 7 for additional disclosure.

On January 27, 2016, the Town of Johnston and the Corporation reached a settlement in which the Town of Johnston would assign certain rights it obtained with a settlement agreement with Broadrock Gas Services, LLC to the Corporation. The rights the Town assigned concern the obligation of Broadrock to transfer the operations of the gas collection system to an independent third-party operator and its associated enforcement rights. For the assignment of these rights, the Corporation agreed to pay the Town a \$2,000,000 installment note over 14 years, equal to \$142,857 per year. As of June 30, 2020 and 2019, the amount owed is \$1,285,734 and \$1,428,591, respectively, which is included in notes payable on the statements of net position. See Note 7 for additional disclosure.

Note 13 - **Contingencies, Risks and Uncertainties**

The Corporation is involved in various routine litigation and is subject to claims incident to its business. While the ultimate outcome of these legal proceedings cannot be predicted with certainty, management believes that their resolution will not have a material adverse effect on the Corporation's financial statements.

Various aspects of the contractual amounts due to and from the third-party operator/owner of the gas collection system are being contested and litigated. Management has made the appropriate estimates of probable settlements wherever possible and has recorded these in the financial statements.

RHODE ISLAND RESOURCE RECOVERY CORPORATION

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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

Concentrations

Approximately 16.1% and 25.9%, respectively, of the Corporation's fiscal year 2020 and 2019 revenues were provided from a single privately-owned customer. In late fiscal year 2018, this single privately-owned customer sold its operation to a national waste management company who has disposal capacity in other states. As expected, a portion of the solid waste that previously was brought to the Corporation was hauled out of state.

Note 14 - Risk Management

The Corporation is exposed to various risks of loss related to torts, errors and omissions, workers' compensation and environmental pollution claims for which the Corporation carries commercial insurance. No claims have exceeded coverage during the past three years.

Note 15 - Defined Contribution Plan

The Corporation sponsors a single-employer defined contribution money purchase pension plan covering all employees of the Corporation. Employees are eligible to participate on the date of their employment. Participants are automatically enrolled in the Plan with a mandatory 5% salary deferral amount.

Effective April 1, 2009, the Plan was amended and restated with the adoption of a prototype plan document, and the name was changed to the Rhode Island Resource Recovery Corporation 401(K) Profit Sharing Plan. The amended and restated Plan is a single-employer defined contribution plan covering all employees of the Corporation, and did not require mandatory participant contributions.

On August 2, 2015, the Plan was further restated from a 401(K) profit sharing plan to a 401(a) retirement plan. A Voluntary Correction Plan (VCP) and individual determination letter was submitted to the IRS on August 31, 2015 to address certain deficiencies in the original 401(K) plan.

The Corporation pays this contribution into the 401(a) plan for the participants. Because the law treats this contribution for income tax purposes as an employer contribution, it will be contributed to the 401(a) Plan on the participants' behalf on a pre-tax basis ("picked up"). The participants will not be able to make pre-tax elective deferral contributions to the Plan on or after August 2, 2015. Participants are immediately 100% vested in their contributions to the Plan and earnings thereon. The Plan provides that the Corporation contribute the sum of (1) 8.56% of the participant's total annual compensation, plus (2) the FICA tax rate percentage (7.65%) up to the Social Security Taxable Wage Base of \$137,700 for calendar year 2020 and \$132,900 for 2019. The employer FICA portion of contributions is made in lieu of participant social security administration withholdings.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
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Notes to the Financial Statements - Continued

June 30, 2020 and 2019

On January 15, 2016, the Internal Revenue Service accepted the Voluntary Correction Plan as submitted. A favorable determination letter was received on September 27, 2016.

The Corporation contributed approximately \$1,732,000 and \$1,633,000 to the Plan during the fiscal years ended June 30, 2020 and 2019, respectively.

As of June 30, 2020 and 2019, there were no securities of the Corporation or loans to the Corporation included in the Plan's assets.

Note 16 - **Subsequent Events**

Management has evaluated the activity of the Corporation through September 30, 2020, the date these financial statements were available for issuance, and has concluded that no events have occurred that would require recognition in the financial statements or disclosures in the notes to the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

RHODE ISLAND RESOURCE RECOVERY CORPORATION
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**Schedule of Changes in the Corporation's
Total OPEB Liability and Related Ratios (Unaudited)**

Year ended	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Total OPEB liability:			
Service cost	\$ 22,295	\$ 25,862	\$ 26,039
Interest	25,095	25,822	22,910
Differences between expected and actual experience	(150,271)	-	-
Changes on assumptions or other inputs	74,572	12,029	(10,568)
Benefit payments	<u>(15,614)</u>	<u>(9,259)</u>	<u>(12,538)</u>
 Net change in total OPEB liability	 (43,923)	 54,454	 25,843
 Total OPEB liability, beginning of year	 <u>700,463</u>	 <u>646,009</u>	 <u>620,166</u>
 Total OPEB liability, end of year	 <u>\$ 656,540</u>	 <u>\$ 700,463</u>	 <u>\$ 646,009</u>
 Covered payroll	 \$ 4,467,524	 \$ 4,429,640	 \$ 4,429,640
 Total OPEB liability as a percentage of covered payroll	 14.70%	 15.81%	 14.58%

Notes:

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

This schedule is presented using the optional format of combining the required schedules in paragraphs 170a and 170b of GASB Statement 75.

See accompanying notes to the required supplementary information.

RHODE ISLAND RESOURCE RECOVERY CORPORATION
(a Component Unit of the State of Rhode Island)

Notes to the Required Supplementary Information (Unaudited)

June 30, 2020 and 2019

Note 1 - **Changes in Assumptions**

Fiscal Year Ended June 30, 2020

Changes in assumptions and other inputs reflect a change in the discount rate from 3.51% in 2019 to 2.21% in 2020 as well as a change in assumed mortality from the RP-2006 Mortality Table with Scale MP-2018 to the Pri-2012 Mortality Table with Scale MP-2019.

Fiscal Year Ended June 30, 2019

Changes in assumptions and other inputs reflect a change in the discount rate from 3.87% in 2018 to 3.51% in 2019.

Fiscal Year Ended June 30, 2018

None.

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



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

The Board of Commissioners
Rhode Island Resource Recovery Corporation
Johnston, Rhode Island

We have audited, 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, the financial statements of the Rhode Island Resource Recovery Corporation (a component unit of the State of Rhode Island), as of and for the year ended June 30, 2020 and the related notes to the financial statements, and have issued our report thereon dated September 30, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Rhode Island Resource Recovery Corporation'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rhode Island Resource Recovery Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rhode Island Resource Recovery Corporation's internal control.

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

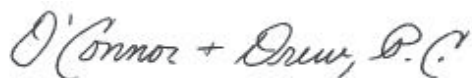
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rhode Island Resource Recovery Corporation'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.



Certified Public Accountants
Braintree, Massachusetts

September 30, 2020