

TWO RIVERS WATER RECLAMATION AUTHORITY

COUNTY OF MONMOUTH, NEW JERSEY

REPORT OF AUDIT

FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Prepared by:
David A. Kaplan, CPA, RMA
For the Firm:
DAK CPA
Certified Public Accountants
512 Marvin Drive
Long Branch, New Jersey 07740

TWO RIVERS WATER RECLAMATION AUTHORITY

TABLE OF CONTENTS

YEARS ENDED OCTOBER 31, 2013 AND 2012

	<u>Page</u>
Independent Auditor's Report	1-3
 <u>Required Supplementary Information</u>	
Management's Discussion and Analysis	4-10
 <u>Financial Statements</u>	
 <u>Exhibit</u>	
A Comparative Statement of Net Position.....	11-12
B Comparative Statement of Revenues, Expenses and Changes in Fund Net Position.....	13
C Comparative Statement of Cash Flows.....	14
 <u>Notes to Financial Statements</u>	 15-34
 <u>Supplementary Information</u>	
 <u>Schedule</u>	
1 Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Cash Equivalents and Investments - Unrestricted Accounts	36
2 Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Cash Equivalents and Investments - Restricted Accounts	37
3 Comparative Schedule of Operating Revenues and Expenditures Compared to Budget	38-42
4 Schedule of Long-Term Revenue Bonds Payable	43
 Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	 44-45
 Officials in Office and Surety Bond/Insurance Coverage	 46-47
 General Comments and Recommendations	 48-53

INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members
of the Board of Commissioners
Two Rivers Water Reclamation Authority
Monmouth Beach, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements and the related notes to financial statements of the Two Rivers Water Reclamation Authority ("Authority") as of and for the fiscal years ended October 31, 2013 and 2012, as listed in the accompanying 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 generally accepted accounting principles in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of October 31, 2013 and 2012 and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 10 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 limited procedures, which consisted principally of inquiries of management regarding methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The information contained in the supplementary information is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



David A. Kaplan, CPA
Registered Municipal Accountant #433

DAK CPA

DAK CPA
Certified Public Accountants

Long Branch, New Jersey
January 10, 2014

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section presents management's analysis of the Authority's financial condition and activities of the Authority for the year.

This information should be read in conjunction with the financial statements and notes, which immediately follow this section.

Management's Discussion and Analysis (MD&A) is Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34, *Basic Financial Statements-Management's Discussion and Analysis for Local Governments*.

Discussion of Financial Statements Included in Annual Audit

The Authority prepares and presents its financial statements on several different bases, because of accounting requirements and for internal use purposes.

The first set of statements which consist of the Comparative Statement of Net Position, the Comparative Statement of Revenues, Expenses and Changes in Net Position, and the Comparative Statement of Cash Flows is prepared on an accrual basis and is in accordance with accounting principles generally accepted in the United States of America (GAAP). These statements are the official financial statements of the Two Rivers Water Reclamation Authority.

After the first set of statements and the "Notes to the Financial Statements" that follow is the second set of statements. These statements are considered "Supplementary Information".

The Authority has historically presented its financial statements on a "GAAP Basis", and continues to do so because it relates more fairly to the annual budget for the same period.

Contained in the supplementary information are statements that report the Comparative Schedule of Operating Revenues and Expenditures Compared to Budget. This statement compares the "Budget" revenues and expenses to "Actual" revenues and expenses. Principal and interest are reported in this statement as Debt Service expense, and depreciation is not reported as an expense. On the "GAAP" based statements, Depreciation Expense is included, and only the Interest Expense component of the Debt Service expense is reported.

The Budget to Actual statement is a very important statement to the Authority management staff, because it is how we measure our financial performance, particularly as it compares to the approved and adopted annual budget and how it relates to the operational performance.

Other information or statements incorporated within the annual audit report are the Schedules of Cash Receipts, Cash Disbursements and Changes in Cash, Cash Equivalents and Investments – Restricted and Unrestricted and the Schedule of Long-Term Revenue Bonds Payable.

For the purpose of the Management Discussion and Analysis, the ensuing discussion will review the financial statements of the Two Rivers Water Reclamation Authority, those prepared on an accrual basis and in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to enterprise funds of state and local governments. This is the first set of statements included in the annual audit report.

Financial Condition

The Authority’s financial condition remained strong at year end, as depicted by the financial data which follows.

Comparative Statement of Net Position

The Authority’s total assets decreased by \$4,976,622 due mainly to the depreciation of capital assets as well as a decrease in investments. Total liabilities decreased by \$7,408,269 due mainly to the payment and redemption of bond principal. Assets exceeded liabilities by \$74,741,714. This compares to 2012 where assets exceeded liabilities by \$72,310,068

The Authority’s Net Position of \$74,741,714 is comprised of the following:

1. Net investment in capital assets of \$52,759,599, as depicted below, includes property plant and equipment, net of accumulated depreciation, and net of long-term debt related to the purchase or construction of capital assets. Net investment in capital assets increased by \$6,241,564 from the prior year.

Capital Assets - Net	\$	74,620,435
Less:		
Bonds Payable - Current		2,857,101
Bonds Payable - Long Term		<u>19,003,735</u>
Net Investment in Capital Assets	\$	<u><u>52,759,599</u></u>

2. Net Position of \$750,000 restricted for the purpose of Renewal and Replacement of “the System”, which is determined each year by an independent consulting engineer.
3. Net Position of \$2,613,010 restricted for the purpose of Renewal and Replacement of “the System” which has accumulated from previous charges.
4. Net Position of \$400,000 restricted for future collection system improvements.
5. Net Position of \$190,000 restricted for a Shrewsbury River Dredging Project.
6. Net Position of \$11,241,844 has been restricted for future capital improvements.

7. Net Position of \$ 200,000 restricted for Rate Stabilization.
8. Unrestricted Net Position of \$6,230,061 represent the portion available to maintain the Authority's continuing obligations to the contractual customers of its service area, its creditors and for its current liabilities.

Unrestricted Net Position decreased by \$4,109,919 mainly due to the early redemption of Series 2003 bonds and the impact of damage caused by Hurricane Sandy.

Comparative Condensed Statements of Net Position

	As of October 31,		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total Current Assets	\$ 6,099,132	\$ 4,891,521	\$ 5,050,001
Total Restricted Assets	18,206,580	23,180,665	22,099,189
Capital Assets, Net	74,620,435	75,827,178	78,204,520
Deferred Costs/Outflows	<u>6,810</u>	<u>10,215</u>	<u>388,575</u>
 Total Assets	 <u>\$ 98,932,957</u>	 <u>\$ 103,909,579</u>	 <u>\$ 105,742,286</u>
 Total Current Liabilities Payable from Current Assets	 \$ 1,544,232	 \$ 1,447,451	 \$ 1,538,002
Total Current Liabilities Payable from Restricted Assets	3,199,788	4,040,868	3,934,545
Unemployment Claims Reserve	98,531	98,531	95,099
Compensated Absences Payable	336,917	338,035	357,886
Long-Term Obligations - Net	<u>19,011,775</u>	<u>25,674,627</u>	<u>29,297,850</u>
 Total Liabilities	 <u>\$ 24,191,243</u>	 <u>\$ 31,599,513</u>	 <u>\$ 35,223,384</u>
 Net Position	 <u>\$ 74,741,714</u>	 <u>\$ 72,310,068</u>	 <u>\$ 70,518,901</u>

Total Current Assets increased because of the increases in customer charges receivable and investments.

Total Restricted Assets have decreased because investments decreased.

Capital Assets, Net decreased because depreciation charged exceeded net asset acquisitions.

Total Current Liabilities Payable from Unrestricted Assets have increased, mainly due to an increase in accounts payable.

Total Current Liabilities Payable from Restricted Assets have decreased because the current portion of Revenue Bonds Payable has decreased.

Long Term Obligations have decreased due to the repayment and redemption of revenue bond principal.

Total Net Position has increased as a result of the reported positive change in net position for the 2013 fiscal year.

Comparative Condensed Statement of Revenues, Expenses and Changes in Fund Net Position

2013 Operating Revenues increased slightly from 2012 levels, mainly due to an increase in connection fee revenues. Total Operating Expenses increased significantly from the prior year, mainly due to the cost of recovery from hurricane Sandy.

Total Operating Revenues less total Operating Expenses produced Operating Income of \$1,913,546 which is less than 2012's Operating Income of \$3,062,993.

Total Net Position as of October 31, 2013 increased by \$2,431,646 as is depicted below.

	Fiscal Years Ended		
	<u>2013</u>	<u>2012</u>	<u>2011</u>
Total Operating Revenues	\$ <u>14,105,723</u>	\$ <u>13,919,514</u>	\$ <u>14,197,949</u>
Operating Expenses	9,215,232	7,898,632	7,782,305
Depreciation	<u>2,976,946</u>	<u>2,957,887</u>	<u>3,031,516</u>
Total Operating Expenses	<u>12,192,178</u>	<u>10,856,519</u>	<u>10,813,821</u>
Operating Income	1,913,546	3,062,993	3,384,128
Non-Operating Revenues/ (Expenses) - Net	<u>518,100</u>	<u>(1,271,827)</u>	<u>(987,048)</u>
Change in Net Position	2,431,646	1,791,167	2,397,080
Net Position Beginning	<u>72,310,068</u>	<u>70,518,901</u>	<u>68,121,821</u>
Net Position Ending	<u>\$ 74,741,714</u>	<u>\$ 72,310,068</u>	<u>\$ 70,518,901</u>

Statement of Cash Flows

The net decrease in Cash and Cash Equivalents was \$298,121. This compares to a net increase in Cash and Cash Equivalents in 2012 of \$356,449.

Core Competencies

The Authority provides wastewater conveyance and treatment services under contracts with participant municipalities and six customer municipalities and the Fort Monmouth Area.

The System consists of a wastewater treatment plant, a wastewater collection system of approximately 230 miles of gravity interceptor and force mains, 19 pumping stations and an ocean outfall line discharging into the Atlantic Ocean through a diffuser system.

The wastewater treatment plant provides primary and secondary wastewater treatment and is situated on about 25 acres located on Raccoon Island in Monmouth Beach, NJ.

The treatment plant has a designed capacity of 13.83 million gallons per day. The plant is designed to serve the projected treatment needs of the service area based on current zoning ordinances.

The Two Rivers Water Reclamation Authority owns and operates the regional piping and pumping systems that receive, meter, and transport the municipal wastewater to the Authority's Regional Plant on Raccoon Island for treatment and discharge. It also owns and operates the collection system in the six participant communities.

The User Fee charged to the six municipalities is the source of revenue for the Authority in addition to the customer town charge paid by the six customer communities, Monmouth Park and the Fort Monmouth area. This is shown on the Comparative Statement of Revenues, Expenses and Changes in Net Position as "Customer Municipalities – Annual Charges and Participating Municipalities – Service Charges" and reported as Operating Revenues.

Budget Variations

There was one amendment made to the adopted 2013 budget, which adjusted interest on bonds.

The Chairman's Statement

"Our mission for the Two Rivers Water Reclamation Authority is to provide the ultimate wastewater collection and water reclamation system. Always responsive to the customers' needs and the growing community, in compliance with the applicable laws, rules and regulations, Two Rivers Water Reclamation Authority will continue to set and exceed the standards for the protection of the environment, while operating the most efficient system and maintaining a cost effective budget."

As the mission reads, this is who and what the Authority is accountable to. The Authority's accountability, first and foremost, is to protect the environment. The goal is to provide a cost effective and reliable service, and at the same time to protect the environment. This means the Authority is accountable to its customers, the agencies and people served using the same principals: cost effective, efficient, reliable and protective. This is what the employees of the Authority strive for each and every day. And each and every day, the Authority is accountable to its employees.

As an environmental utility, the Authority is also guided by or accountable to state government and the applicable rules and regulations that govern the Two Rivers Water Reclamation Authority. More specifically, the Authority is accountable to the Department of Community Affairs, Division of Local Government Services and the Department of Environmental Protection.

As an environmental utility, the Authority is accountable to the U.S Environmental Protection Agency.

The Authority is also accountable to the governing body of the Authority, the Two Rivers Water Reclamation Authority Board of Directors, and as such, accountable to certain government officials.

Governing Body

The governing body of the Authority consists of a 12 member board that is appointed for five-year terms by the participant communities they represent. Currently, they are:

William E. Leonard, Chairman
Thomas Barham, Vice Chairman
Barry J. Berdahl, Ph. D., Treasurer
William R. Baarck, P.E., Secretary
Richard N. Tocci, Assistant Treasurer
Arno H. Weber, Assistant Secretary
John Bonforte, Member
Gregory J. Christopher, Member
Catherine D. LaPorta., Member
Brian McPeak, Member
Scott Hartman, Member
William Nolze, Member

Management of the Authority

The Executive Director of the Two Rivers Water Reclamation Authority, Michael A. Gianforte, manages the daily operations of the Authority. He oversees a staff of 36 and a 2013 budget of \$13.8 million. Senior staff is charged with the management of the operations and financial affairs of the Authority. The Executive Director and senior staff are as follows:

Michael A. Gianforte, Executive Director
Kevin Kinneally, Financial Manager, Effective January 1, 2013
Gregory Seaman, Operations Manager
Dennis J. Galvin, Engineering Manager

Funding of Infrastructure and Debt Management

It is the current policy of the Two Rivers Water Reclamation Authority Board Members, Executive Director, and senior staff, that funding for capital improvements, additions or replacements, is to be accomplished using one or more of the following methods:

Borrowings from the New Jersey Environmental Infrastructure Trust
Funding Incrementally or Annually from Annual Operating Budget

Refunding of existing public debt is routinely reviewed, analyzed and recommended when appropriate. The Authority has defeased various Bond issues and achieved significant debt service savings. Early redemptions of Bonds outstanding have occurred. In 2013, \$3,810,000 of Revenue Bonds, Series 2003 were redeemed.

Independent Auditors

The Authority Auditor is David A. Kaplan, CPA of DAK CPA, Certified Public Accountants.

Financial Information

Prior audits and budgets can be obtained by contacting the Two Rivers Water Reclamation Authority or by visiting the Authority's website at www.trwra.org.

FINANCIAL STATEMENTS

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE STATEMENT OF NET POSITION
OCTOBER 31, 2013 AND 2012

<u>ASSETS</u>	October 31,	
	<u>2013</u>	<u>2012</u> (As Restated)
Current Assets:		
Cash and Cash Equivalents	\$ 369,030	\$ 718,099
Investments	4,700,591	3,493,047
	5,069,620	4,211,146
Inventory	27,501	31,200
Customer Charges Receivable	151,921	40,931
Sewer Billings Receivable	845,467	608,245
Miscellaneous Accounts Receivable	4,624	
	6,099,132	4,891,521
Total Current Assets		
Restricted Assets:		
Revenue Fund - Unemployment Cash and Cash Equivalents	98,418	98,418
Developer Deposits:		
Cash and Cash Equivalents - Escrow	182,533	131,584
Bond Service Account:		
Investments	1,150,349	947,462
Bond Reserve Account:		
Investments	362,408	363,822
General Account:		
Cash and Cash Equivalents	367,808	367,808
Investments	14,793,251	20,200,795
Accrued Interest Receivable	5,815	
Construction Account:		
Investments	183,567	174,448
Intergovernmental Accounts Receivable	312,038	434,096
Renewal and Replacement Account:		
Investments	750,393	462,232
	18,206,580	23,180,665
Total Restricted Assets		
Deferred Outflows of Resources:		
Deferred Charge on Refunding	6,810	10,215
	6,810	10,215
Total Deferred Outflows of Resources		
Noncurrent Assets:		
Capital Assets - Non-Depreciable	1,750,773	1,470,400
Capital Assets - Net of Depreciation	72,869,662	74,356,778
	74,620,435	75,827,178
Total Noncurrent Assets		
Total Assets	\$ 98,932,957	\$ 103,909,579

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

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE STATEMENT OF NET POSITION
OCTOBER 31, 2013 AND 2012

<u>LIABILITIES</u>	October 31,	
	2013	2012 (As Restated)
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable	\$ 390,050	\$ 286,029
Accrued Expenses	152,033	162,871
Payroll Taxes Payable	21,290	21,597
Customer Overpayments	27,673	29,481
Unearned Revenue	953,186	947,473
Total Current Liabilities Payable from Unrestricted Assets	1,544,232	1,447,451
Current Liabilities Payable from Restricted Assets:		
Reserve for Developers' Deposits	182,061	131,227
Accrued Interest on Revenue Bonds Payable	160,627	271,334
Revenue Bonds Payable - Current Portion	2,857,101	3,638,307
Total Current Liabilities Payable from Restricted Assets	3,199,788	4,040,868
Long-Term Revenue Bonds Payable	19,003,735	25,670,836
Add:		
Unamortized Bond Premium	8,040	3,791
	19,011,775	25,674,627
Unemployment Claims	98,531	98,531
Compensated Absences Payable	336,917	338,035
Total Noncurrent Liabilities	19,447,223	26,111,193
Total Liabilities	\$ 24,191,243	\$ 31,599,512
<u>NET POSITION</u>		
Net investment in capital assets	\$ 52,759,599	\$ 46,518,035
Restricted for:		
Collection System Improvements	400,000	400,000
Rate Stabilization	200,000	200,000
Debt Service	357,199	357,199
Renewal and Replacement	3,363,010	3,063,010
Dredging Project - Shrewsbury River	190,000	190,000
Future Capital Improvements	11,241,844	11,241,844
Unrestricted	6,230,061	10,339,980
Total Net Position	\$ 74,741,714	\$ 72,310,068

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

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

	October 31,	
	<u>2013</u>	<u>2012</u> <u>(As Restated)</u>
Operating Revenues:		
Customer Municipalities:		
Annual Charges	\$ 7,493,430	\$ 7,561,319
Participating Municipalities:		
Service Charges	5,758,129	5,690,609
Connection Charges	854,164	667,586
	<u>14,105,723</u>	<u>13,919,513</u>
Operating Expenses:		
Administration and General	2,008,391	1,683,019
Treatment Plant and Main Pumping Station	6,205,287	4,998,025
Lines and System Pumping Stations	970,531	1,141,716
Depreciation	2,976,946	2,957,887
Renewal and Replacement	31,022	75,873
	<u>12,192,178</u>	<u>10,856,520</u>
Total Operating Expenses		
Operating Income	<u>1,913,546</u>	<u>3,062,993</u>
Non-Operating Revenues/(Expenses):		
Interest on Bonds	(770,304)	(887,542)
Interest Income	11,841	18,231
Write off of Debt Issue Costs		(388,575)
Amortization of Bond (Discount)/Premium - Net	(4,249)	(1,464)
Insurance Recovery Related to Hurricane Sandy	822,070	
Loss on Disposition of Assets	(133,661)	
Federal Emergency Management Agency - Hurricane Sandy	275,381	
Miscellaneous Income/(Expense)	317,021	(12,477)
	<u>518,100</u>	<u>(1,271,827)</u>
Total Non-Operating Revenues/(Expenses)		
Change in Net Position	2,431,646	1,791,167
Net Position, Beginning	<u>72,310,068</u>	<u>70,518,901</u>
Net Position, Ending	<u>\$ 74,741,714</u>	<u>\$ 72,310,068</u>

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

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE STATEMENT OF CASH FLOWS
FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

	October 31,	
	2013	2012
Cash Flows from Operating Activities:		
Receipts from Members and Customers	\$ 13,757,512	\$ 15,195,836
Payments to Employees and Suppliers	(8,822,506)	(7,978,697)
Net Cash Provided by Operating Activities	4,935,006	7,217,139
Cash Flows from Capital and Related Financing Activities:		
Purchase of Capital Assets	(1,903,864)	(1,044,287)
Repayment of Revenue Bonds Payable	(7,448,307)	(3,522,503)
Net Cash (Used) by Capital and Related Financing Activities	(9,352,171)	(4,566,790)
Cash Flows from Investing Activities:		
Interest Received	11,841	18,231
Interest Paid on Revenue Bonds	(801,589)	(917,293)
Redemption/(Purchase) of Investment Securities	4,908,791	(1,394,838)
Net Cash Provided/(Used) in Investing Activities	4,119,044	(2,293,899)
Net Increase/(Decrease) in Cash Equivalents	(298,121)	356,449
Cash and Cash Equivalents at Beginning of Year	1,315,909	959,460
Cash and Cash Equivalents at End of Year	\$ 1,017,788	\$ 1,315,909
Reconciliation of Net Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 1,913,546	\$ 3,062,993
Depreciation	2,976,946	2,957,887
Changes in Assets and Liabilities:		
(Increase)/Decrease in Receivables:		
Unrestricted Accounts	(349,136)	1,262,389
Restricted Accounts	(5,815)	
Increase/(Decrease) in Current Liabilities:		
Payable from Unrestricted Assets	96,781	(90,551)
Payable from Restricted Assets	(841,080)	106,323
Other Income/(Expense)	1,144,883	(65,483)
Increase/(Decrease) in Other Liabilities	(1,119)	(16,419)
Net Cash Provided by Operating Activities	\$ 4,935,006	\$ 7,217,139
Reconciliation to Statement of Net Position:		
Unrestricted Cash and Cash Equivalents	\$ 369,030	\$ 718,099
Restricted Cash and Cash Equivalents	648,758	597,810
	\$ 1,017,788	\$ 1,315,909

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

NOTES TO FINANCIAL STATEMENTS

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Note 1. **ORGANIZATION**

The Two Rivers Water Reclamation Authority, Monmouth County, New Jersey, (the "Authority") is a public body politic and corporate of the State of New Jersey, created by virtue of ordinances of the Boroughs of Fair Haven, Little Silver, Monmouth Beach, Oceanport, Shrewsbury and West Long Branch on October 1, 1965, pursuant to the Sewerage Authorities Law of the State of New Jersey (P.L. 1946, Chapter 138 as amended and supplemented).

As a public body, under existing statutes, the Authority is exempt from both federal and state taxes.

Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Authority's utilizes the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (GAAP) revenue is recorded as earned and expenses are reflected as the liability is incurred.

The Authority applies all Governmental Accounting Standards Board pronouncements as well as Financial Accounting Standards Board statements and pronouncements.

The Authority has no component units as defined under Section 2100 of the GASB Codification.

Cash and Cash Equivalents

Amounts include petty cash and change funds, interest-bearing accounts and short-term investments with an original maturity date of three months or less from the date of purchase, carried at cost, which equals fair market value.

Investments

Investments include United States Treasury Notes, Governmental Money Market Funds, a Certificate of Deposit and municipally issued Bond Anticipation Notes. Investments are carried at market value. Investments have a maturity date of three months or more.

Inventory

Minimal inventories of parts, chemicals and supplies are maintained by the Authority and are expensed when purchased. Diesel fuel, valued at cost, at October 31, 2013 and 2012 was \$27,501 and \$31,200, respectively.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounts Receivable

The Authority bills its sewer charges to customers in participating municipalities quarterly and these quarterly bills are due on the 1st day of February, May, August and November.

Customer municipalities are billed in bulk, annually, and these customer charges are due on the 15th day of January, April, July and October.

Bonds and Notes - Discounts and Premiums

Bonds and notes - discounts and premiums are amortized using the interest method over the term of the bonds. Net bond and note discounts and premiums are presented as a reduction of the face amount of the bonds and notes payable.

Gains or Losses on Debt Refundings

In accordance with GASB Statement 65, "*Items previously reported as assets and liabilities*", gains or losses arising from debt or the life of the new debt are to be reflected as Deferred Outflows of Resources.

Restricted Funds

In accordance with the 1978 Bond Resolution and the 1991, 1993, 1993B, 1996A, 2000 and 2003 Supplemental Bond Resolutions, the Authority has established the following funds:

<u>Fund</u>	<u>Amount</u>	<u>Use for Which Restricted</u>
Revenue	All revenue received by the Authority.	Authorized operating expenses and periodic transfers to other funds in accordance with Section 506.
Construction	Proceeds of debt issued and construction grants-in-aid.	The cost of acquisition or construction of all or any part of the sewerage system.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Funds (Continued)

<u>Fund</u>	<u>Amount</u>	<u>Use for Which Restricted</u>
Bond Service	Amount needed to pay matured principal and interest plus principal and interest due on or before the first day of May or November next ensuing.	Principal and interest on Bonds.
Sinking	Amount of required installments according to Bond Resolution.	Retirement of the term bonds.
Bond Reserve	Amount of interest payable one year after authentication of the bonds.	Transfers to meet minimum levels required in the bond service and sinking funds. Any excess may be transferred into the general fund.
Renewal and Replacement	Amount needed to meet the system reserve requirement as certified by the consulting engineer.	The cost of major repairs, renewals and replacements. Any excess may be transferred into the general fund.
General	No minimum requirements.	Transfers to meet minimum levels required in all other funds. Any excess may be used by the Authority for any lawful purpose.

In addition to the restricted funds required by the Indenture of Trust and the Supplemental Indentures, the Authority has established additional restricted use funds as follows:

- (1) Escrow Fund - Advance payments and deposits required as a condition for the Authority to commence engineering reviews and inspections on new development, and cash in lieu of bonds required by the Authority. Monies held for reviews and inspections become earned revenues of the Authority as the services are performed, and amounts remaining at project completion, including a portion of interest earnings, are returned to the developer. Cash

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Funds (Continued)

(1) Escrow Fund (Continued)

held in lieu of bonds is refunded in the same manner, and following the same procedures, as those for the release of bonds required by the Authority.

(2) Reserve for Rate Stabilization Fund - Available to offset the impact on rates of future plant expansion.

Grants

Grants externally restricted for non-operating purposes are recorded as contributed capital and identified as grants-in-aid in the Authority's records.

Unamortized Bond Issue Costs

The unamortized deferred bond issuance costs incurred with the 2000 and 2003 bond issues were written off as of October 31, 2012.

Management's Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Operating versus Non-Operating Revenues

It is the Authorities position to treat Annual Charges received from Customer Municipalities, Service Charges received from Participating Municipalities and Connection Fees as Operating Revenues. All other revenues are considered Non-Operating.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources, which represents a consumption of net resources that applies to future periods.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital Assets are stated at cost which includes direct construction costs and other expenditures related to construction.

System construction costs are charged to construction-in-progress until such time as given segments of the system are completed and put into operation.

It is the Authorities policy to record capital assets when their cost exceeds \$2,000.

All reported capital assets except for land and construction in progress are depreciated. Changes in capital assets and the useful lives used for determination of annual depreciation are as follows:

	Balance	<u>Current Year's Activity</u>		Balance	Estimated
	<u>October 31, 2012</u>	<u>Increase</u>	<u>Decrease</u>	<u>October 31, 2013</u>	<u>Useful Lives</u>
Non-Depreciable Assets:					
Constr. in Progress	\$	\$ 280,373	\$	\$ 280,373	
Land and Easements	1,470,400			1,470,400	
Depreciable Assets:					
Buildings and Additions	13,640,965	1,017,687		14,658,652	40 - 75 Years
Other Improvements	68,523,592	248,025	(260,254)	68,511,363	7 - 20 Years
Sewer Mains and Interceptors	32,530,497			32,530,497	75 Years
Pump Stations	6,821,191	148,887		6,970,078	40 Years
Other Equipment	2,349,485	170,492		2,519,977	5 - 75 Years
Vehicles	1,056,123	38,400	(16,961)	1,077,562	5-10 Years
	<u>\$ 126,392,253</u>	<u>\$ 1,903,864</u>	<u>\$ (277,215)</u>	<u>\$ 128,018,902</u>	
Less: Accumulated Depreciation	<u>(50,565,074)</u>	<u>(2,976,946)</u>	<u>143,554</u>	<u>(53,398,466)</u>	
	<u>\$ 75,827,178</u>	<u>\$ (1,073,082)</u>	<u>\$ (133,661)</u>	<u>\$ 74,620,435</u>	

Accumulated depreciation at October 31, 2013 and 2012 was \$53,398,466 and \$50,565,074, respectively.

Depreciation expense for the years ended October 31, 2013 and 2012 was \$2,976,946 and \$2,957,887, respectively.

Depreciation on assets acquired with grants-in-aid and contributed capital assets are recorded as a reduction of contributed capital.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Note 3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents include petty cash, change funds, amounts on deposit, and short-term investments with original maturities of three months or less.

Investments are stated at cost, which approximates market. The Authority classifies certificates of deposit that have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments. The Authority is in compliance with GASB Statement No. 3 as amended by GASB Statement No. 40.

A. Deposits

New Jersey statutes require that authorities deposit public funds in public depositories located in New Jersey that are insured by the Federal Deposit Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed depository insurance limits as follows:

The market value of the collateral must equal at least 5% of the average daily balance of collected public funds on deposit.

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Note 3. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

A. Deposits - Continued

All collateral must be deposited with the Federal Reserve Bank of New York, the Federal Reserve Bank of Philadelphia, the Federal Home Loan Bank of New York or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

As of October 31, 2013, the book balances of cash equivalents (Deposits) of the Authority, consisting of interest bearing Checking and Money Market Checking accounts totaled \$ 1,017,788. The bank balances for these accounts totaled \$992,795. Of this, \$ 875,987 was covered by FDIC insurance.

B. Investments

New Jersey statutes permit the Authority to purchase the following types of securities:

- Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America. This includes instruments such as Treasury bills, notes and bonds.
- Government money market mutual funds.
- Any federal agency or instrumentality obligation authorized by Congress that matures within 397 days from the date of purchase, and has a fixed rate of interest not dependent on any index or external factors.
- Bonds or other obligations of the school district or local unit of which the school district is a part.
- Any other obligations with maturities not exceeding 397 days, as permitted by the Division of Investments, New Jersey State Department of Treasury, including investments in municipal bond anticipation notes.
- Local government investment pools.
- New Jersey State Cash Management Fund.
- Repurchase agreements of fully collateralized securities, subject to special conditions.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Note 3. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Generally accepted accounting principles (“GAAP”) establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). All investments are considered Level 1 investments. The Authority believes its valuation methods are appropriate and consistent with other market participants.

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Authority has the ability to access.

As of October 31, 2013, investments were:

<u>Description</u>	<u>Interest Rate</u>	<u>Market Value</u>	<u>Maturities</u>	
			<u>Less than 1 year</u>	<u>1-5 yrs.</u>
<u>REVENUE FUND:</u>				
WELLS FARGO ADVANTAGE		\$ 4,700,591	\$ 4,700,591	\$ _____
GOV. MONEY MARKET FUND	Var.	<u>4,700,591</u>	<u>4,700,591</u>	<u>_____</u>
<u>BOND SERVICE FUND:</u>				
WELLS FARGO ADVANTAGE				
GOV. MONEY MARKET FUND	Var.	<u>1,150,349</u>	<u>1,150,349</u>	<u>_____</u>
<u>BOND RESERVE FUND:</u>				
WELLS FARGO ADVANTAGE				
GOV. MONEY MARKET FUND	Var.	<u>362,408</u>	<u>362,408</u>	<u>_____</u>
<u>CONSTRUCTION FUND:</u>				
WELLS FARGO ADVANTAGE				
GOV. MONEY MARKET FUND	Var.	<u>183,567</u>	<u>183,567</u>	<u>_____</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Note 3. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

<u>Description</u>	<u>Interest Rate</u>	<u>Market Value</u>	<u>Maturities</u>	
			<u>Less than 1 year</u>	<u>1-5 yrs.</u>
<u>RENEWAL AND REPLACEMENT FUND:</u>				
WELLS FARGO ADVANTAGE				
GOV MM FD	Var.	\$ 750,393	\$ 750,393	
		<u>750,393</u>	<u>750,393</u>	<u></u>
<u>GENERAL FUND:</u>				
WELLS FARGO ADVANTAGE				
GOV MM FD	Var.	12,965,981	12,965,981	
CERTIFICATE OF DEPOSIT	Var.	221,785	221,785	
MUNICIPAL NOTES (BANS)	1.375%	1,000,000	1,000,000	
U.S. TREASURY NOTES	.50% to 1.250%	605,485	305,449	300,036
		<u>14,793,251</u>	<u>14,493,215</u>	<u>300,036</u>
GRAND TOTAL		<u>\$21,940,559</u>	<u>\$21,640,523</u>	<u>\$300,036</u>

Credit Risk:

Obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have concentration of credit risk.

Interest Rate Risk:

New Jersey Statutes and the Authority's Cash Management Plan limit investment maturities as a means of managing interest rate risk exposure.

Custodial Credit Risk - Deposits:

Custodial Credit Risk is the risk that in an event of a bank failure, the Authority's deposits may not be returned to it. The Authority has mitigated this risk by limiting deposits only with banks participating in both the FDIC and NJ GUDPA programs.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Note 4. DEFERRED COMPENSATION PLAN

The Authority has established a Deferred Compensation Plan pursuant to Section 457 of the Internal Revenue Code and under the provisions of N.J.S.A. 43:15-1. The Plan is an arrangement whereby a public employer may establish a plan and permit its employees to voluntarily authorize a portion of their current salary to be withheld and invested in one or more of the types of investments permitted under the governing regulations. Contributions are recognized when received by the Administrator, withdrawals and administrative fees when paid by the Administrator and earnings when the Administrator is notified by the company with which the funds are invested. Investments are managed by the Plan trustees under various investment options offered by the Equitable.

Amounts deferred under the plans are not available to employees until termination, retirement, death or unforeseen emergency.

Note 5. PENSION PLAN

Plan Description

The Authority's employees participate in the Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Division of Pensions in the Department of the Treasury, State of New Jersey. The plan provides retirement, death, disability benefits and medical benefits to certain qualifying plan members and beneficiaries. The Public Employees' Retirement System was established in January, 1955 under the provisions of N.J.S.A. 43:15A. The Public Employees' Retirement System issues a publicly available financial report that include financial statements and required supplementary information. This report may be obtained by writing to the State of New Jersey, Division of Pensions, 50 West State Street, Trenton, NJ 08025 or on the State of New Jersey website.

Funding Policy and Contributions

Employee contributions were 6.64% of pensionable wages through June 30, 2013 and 6.78% of pensionable wages thereafter. Employer's contributions are actuarially determined annually by the Division of Pensions. All contributions were equal to the required contributions for each of the three years, respectively.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Note 5. PENSION PLAN – (CONTINUED)

Funding Policy and Contributions – (Continued)

Employer and employee contributions for PERS for the last three years ended October 31 were as follows:

<u>Year</u>	<u>Employer</u>	<u>Employee</u>
2013	\$ 279,877	\$ 179,608
2012	275,282	170,969
2011	273,136	138,748

Note 6. AMOUNTS REQUIRED BY BOND RESOLUTION

Under the Bond Resolution of 1978, as supplemented, certain requirements are stipulated as follows:

Bond Service Requirements

The Bond Service Fund must equal the amount of any unpaid interest plus any interest to become due on or before the first day of May or November next ensuing, plus any unpaid principal then due, plus any principal maturing on or before the first day of May or November next ensuing.

In connection with these requirements at October 31, 2013, the following information was applied:

Bond Service Fund - Investments at October 31, 2013	\$ 1,150,349
Less: Interest Required	<u>160,627</u>
Excess	\$ 989,722
Interfunds Payable	<u>989,722</u>
Excess	<u><u>\$ None</u></u>

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Note 6. AMOUNTS REQUIRED BY BOND RESOLUTION (CONTINUED)

Bond Reserve Requirements

The Bond Reserve Fund must equal the aggregate of the amounts of interest with respect to every bond then outstanding which accrue during the period of one year after authentication and delivery of such Bond upon original issuance. Bonds issued through the NJEIT have a bond reserve requirement, held by the NJEIT.

In connection with these requirements at October 31, 2013, the following information applied:

Bond Reserve Fund - Investments at October 31, 2013	\$ 362,408
Reserve Requirement, interest which accrues during the period of one year after the authentication and delivery of the Revenue Bonds:	
Series 2003	357,199
Excess	\$ 5,209
Interfunds Payable	5,209
Excess	\$ None

Note 7. RATES, BILLINGS AND UNEARNED REVENUE

Effective January 1, 2002, the residential unit service fee was revised to \$360 per year, payable at a rate of \$90 per quarter. That rate remained in effect throughout the fiscal year ended October 31, 2013.

Unearned Revenue of \$953,186 represents the portion of the participant's calendar year billings for November and December 2013, which are billed but unearned at October 31, 2013. Unearned Revenue at October 31, 2012 was \$947,473.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Note 7. **RATES, BILLINGS AND UNEARNED REVENUE (CONTINUED)**

The number of billing units within the participating municipalities as of October 31, 2013 and 2012 were as follows:

<u>Participating Municipality</u>	<u>Billing Units as of October 31,</u>	
	<u>2013</u>	<u>2012</u>
Fair Haven	2,287.96	2,284.88
Little Silver	2,791.75	2,813.08
Monmouth Beach	2,080.81	2,090.17
Oceanport	2,551.12	2,540.35
Shrewsbury Borough	2,704.61	2,682.62
West Long Branch	3,445.92	3,453.29
	15,862.17	15,864.39

The Authority makes annual charges to the customer municipalities and government facilities as set forth in the customer agreements. Participating Municipalities may be assessed for deficiency charges pursuant to the Bond Resolution.

Annual charges are computed on a “per million gallons per year of sewage flow” basis. The annual charge will be a proportionate share of the trunk sewer capacity, the treatment capacity and a share of the administration, operation and maintenance costs.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Note 8. LONG-TERM DEBT

2000A Series Bonds - New Jersey Environmental Infrastructure Trust

On November 9, 2000, the Authority issued \$49,357,977 in Revenue Bonds through the New Jersey Environmental Infrastructure Trust ("NJEIT"). The "Fund" portion of the Bond Issue, \$22,642,977, was issued on an interest free basis. The remaining Bonds mature semi-annually from February 1, 2013 through August 1, 2020 at maturities ranging from \$30,895 to \$1,178,194. The Bonds were issued with an original issue premium of \$20,100.

On September 27, 2006, the Authority received notice from the NJDEP that \$53,137 was deobligated. A reduction of the final principal repayment due on August 1, 2020 was made.

The "Trust" portion of the Bond Issue, \$26,715,000, has remaining annual maturities due from August 1, 2014 through 2020 at amounts ranging from \$1,620,000 to \$2,195,000 and bear interest at rates ranging from 5.00% to 5.25%.

The "Trust" portion of the Bond Issue was refunded by the NJEIT during the fiscal years ending October 31, 2006 and 2010. The Authority realized present value savings of \$1,034,704.60 and \$139,070, respectively.

The "Fund" portion of the Bond Issue, \$22,642,977 has remaining semi-annual maturities due from February 1, 2014 through August 1, 2020 at amounts ranging from \$184,238 to \$1,154,691 and were issued at a 0% interest rate.

2003 Series Revenue Refunding Bonds

On March 15, 2013, the Authority executed an early redemption of all of the remaining 2003 Series Revenue Refunding Bonds. Sufficient funds were transferred to the Trustee, which are being held in an irrevocable escrow account to be utilized for redemption of the 2003 Series Bonds on November 1, 2013. Accordingly, the bonds have been defeased in full.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Note 8. LONG-TERM DEBT (CONTINUED)

Changes in long-term debt are as follows:

	<u>Balance</u> <u>October 31, 2012</u>	<u>Decreased</u>	<u>Balance</u> <u>October 31, 2013</u>	<u>Due Within</u> <u>One Year</u>	<u>Long Term</u> <u>Portion</u>
Revenue Bonds	\$ 29,309,143	\$ 7,448,307	\$ 21,860,836	\$ 2,857,101	\$19,003,735
Total	<u>\$ 29,309,143</u>	<u>\$ 7,448,307</u>	<u>\$ 21,860,836</u>	<u>\$ 2,857,101</u>	<u>\$19,003,735</u>

Principal and interest due on revenue bonds outstanding is as follows:

<u>Fiscal</u> <u>Year Ended</u> <u>October 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 2,857,101	\$ 556,041	\$ 3,413,142
2015	2,936,564	474,846	3,411,410
2016	3,028,106	387,433	3,415,539
2017	3,117,174	295,645	3,412,819
2018	3,217,871	196,826	3,414,697
2019	3,323,434	75,405	3,398,839
2020	<u>3,380,585</u>	<u> </u>	<u>3,380,585</u>
	<u>\$ 21,860,836</u>	<u>\$ 1,986,196</u>	<u>\$ 23,847,031</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Note 9. COMPENSATED ABSENCES PAYABLE

At October 31, 2013, the Authority allows employees to accumulate unused benefits as follows:

Sick Leave - Employees are granted eleven (11) days of sick leave per contract year. Unused sick days can be accumulated from year to year with no limit. For Local 1075 members with six years of service, upon death or retirement, an employee or their beneficiary will be paid for one-half of accumulated sick time up to 160 days. For Local 32 members and non-union employees with five years of service, upon separation or death, an employee or their beneficiary will be paid for one-half of accumulated sick time up to 150 days.

Vacation - Vacation time may be carried from year to year, up to five days per year, non-cumulatively.

At October 31, 2013 and 2012, \$336,917 and \$338,035, respectively, of compensated absence liability is recognized as a liability. For the purpose of establishing the liability, the Authority recognizes the value of current accumulations calculated in accordance with the policies enumerated above. This liability is fully funded.

Note 10. CONTINGENT LIABILITIES

In the normal course of business, the Authority may periodically be named as a defendant in litigation. The Authority's attorney has indicated the Authority does have litigation in progress with its Customer Municipalities. The attorney was unable to form an opinion as to the ultimate outcome of the claim. The claim filed by the Customer Municipalities seeks some \$19.2 million dollars from the Authority.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Note 11. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Health benefits are provided to employees through the State of New Jersey health benefits plan. The Authority retains the services of a risk manager to consult with the Authority to mitigate losses. The Authority is a member of the New Jersey Utilities Authority Joint Insurance Fund.

Property and Liability Insurance: The Authority maintains commercial insurance coverage for property, liability and surety bonds. A complete schedule of insurance coverage can be found in the Schedule of Insurance.

New Jersey Unemployment Compensation Insurance: The Authority has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". Under this plan, the Authority is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The Authority is billed quarterly for amounts due to the State. The following is a summary of Authority contributions, employee contributions, reimbursements to the State for benefits paid and the ending balance of the Authority's expendable trust fund for the current and prior two years:

<u>Ended</u> <u>October, 31</u>	<u>Interest</u>	<u>Employee</u> <u>Contributions</u>	<u>Amount</u> <u>Reimbursed</u>	<u>Ending</u> <u>Balance</u>
2013	\$	\$	\$	\$ 98,531
2012		3,432		98,531
2011		6,778		95,099

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Note 12. RECONCILIATION OF EXPENDITURES –
BUDGETARY BASIS TO GAAP BASIS

The following represents a reconciliation of expenditures from the Schedule of Operating Revenues and Expenditures Compared to Budget (Schedule 3) to the Comparative Statement of Revenues, Expenses and Changes in Fund Net Position (Exhibit B).

	2012		
	<u>Per Schedule 3</u>	<u>Less Asset Acquisitions</u>	<u>Per Exhibit B</u>
Administration and General	\$ 1,687,409	\$ (4,390)	\$ 1,683,019
Treatment Plant	5,104,567	(106,542)	4,998,025
Lines and Pump Stations	1,167,088	(25,372)	1,141,716
Renewal & Replacement	974,905	(899,032)	75,873
	<u>\$ 8,933,969</u>	<u>\$ (1,035,336)</u>	<u>\$ 7,898,633</u>
	2013		
	<u>Per Schedule 3</u>	<u>Less Asset Acquisitions</u>	<u>Per Exhibit B</u>
Administration and General	\$ 2,008,391	\$ -	\$ 2,008,391
Treatment Plant	7,993,465	(1,788,178)	6,205,287
Lines and Pump Stations	970,531	-	970,531
Renewal & Replacement	116,872	(85,850)	31,022
	<u>\$ 11,089,259</u>	<u>\$ (1,874,028)</u>	<u>\$ 9,215,231</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Note 13. POST-RETIREMENT BENEFITS

The Authority participates in the New Jersey State Health Benefits Program (“SHBP”), which qualifies as a cost-sharing, multiple-employer plan in accordance with GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The SHBP is administered by the State of New Jersey, Department of Treasury, Division of Pensions and Benefits.

Under the SHBP, retirees may continue the health benefits programs in which they were enrolled at the time of retirement, provided the retiree pays the costs of the benefits (at group rates) for themselves and their eligible dependents.

A retiree may also receive Authority paid health benefits in accordance with labor agreements if they have twenty-five (25) or more years enrolled in the pension system.

Funding Policy – The contribution requirements of plan members are established and may be amended by the state legislature. Participating local government units are contractually required to contribute at a rate assessed each year by the SHBP. The SHBP Commission sets the employer contribution rate based on that annual required contribution of the employers (ARC) as established in an annual rate recommendation report.

The Authority funds retiree health benefits on a pay as you go basis. For 2013 and 2012, the Authority’s contributions to the SHBP for retiree’s health benefits \$131,871 and \$97,650.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits issues publicly available financial reports that include financial statements and required supplementary information of the SHBP. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

Note 14. SUBSEQUENT EVENTS

The Authority has evaluated subsequent activity through the date of the auditors' report, January 10, 2014, which is the date the financial statements were available to be issued. No such disclosures are warranted.

Note 15. RECENT PRONOUNCEMENTS

During fiscal year 2013, the Authority adopted the following GASB Statements:

GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

GASB Statement 65, *Items Previously Reported as Assets and Liabilities*

Note 16. PRIOR PERIOD RESTATEMENTS

As required by GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, the Authority's Comparative Statement of Net Position and Comparative Statement of Revenues, Expenses and Changes in Fund Net Position are reflected as restated as of and for the fiscal year ended October 31, 2012.

As discussed above in Note 15, the Authority implemented the provisions of GASB Statement No. 65 this year. Bond issues costs previously recorded as deferred charges were eliminated. This restatement resulted in a reduction of unrestricted net position of \$337,631.

GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* prescribes accounting policy for participants in cost-sharing multiple-employer plans for post-retirement benefits. Accruals for other post-employment benefits have been eliminated. This restatement resulted in an increase in unrestricted net position of \$2,247,411.

Note 17. RESTRICTED NET POSITION

Enabling regulations including the bond resolution and Authority Commissioner's resolutions have placed restrictions on the following elements of Net Position:

Collection System Improvements, Rate Stabilization, Debt Service, Renewal and Replacement, Dredging Project and Future Capital Improvements.

This page intentionally left blank.

SUPPLEMENTARY INFORMATION

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
CASH AND CASH EQUIVALENTS AND INVESTMENTS - UNRESTRICTED ACCOUNTS
FISCAL YEAR ENDED OCTOBER 31, 2013

Cash and Cash Equivalents and Investments, November 1, 2012	\$ 4,211,145
Cash Receipts:	
Customer Municipalities Annual Charges	7,305,511
Monmouth Park	277,159
Participating Municipalities Service Charges	7,105,281
Other Income	317,022
Interest Income	6,026
Connection Fees	854,164
Transfers from Restricted Accounts	2,514,987
Federal Emergency Management Agency	275,381
Insurance Recovery Related to Hurricane Sandy	<u>822,070</u>
Total Cash and Investments Available	<u>23,688,747</u>
Cash Disbursements:	
Vendors and Payroll	12,542,023
Transfers to Restricted Accounts	<u>6,077,104</u>
Total Cash Disbursements	<u>18,619,127</u>
Cash and Cash Equivalents and Investments, October 31, 2013	\$ <u><u>5,069,620</u></u>
Balance Comprised of:	
Cash and Cash Equivalents	\$ 369,030
Investments	<u>4,700,591</u>
	\$ <u><u>5,069,620</u></u>

**TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
CASH AND CASH EQUIVALENTS AND INVESTMENTS - RESTRICTED ACCOUNTS
FISCAL YEAR ENDED OCTOBER 31, 2013**

	Accounts Required by Revenue Bond Agreement						Other Accounts	
	Bond Service	Bond Reserve	Renewal and Replacement	General	Construction	Unemployment Reserve	Escrow Deposits	Total
Cash and Cash Equivalents and Investments, November 1, 2012	\$ 947,462	\$ 363,822	\$ 462,232	\$ 20,568,602	\$ 174,448	\$ 98,418	\$ 131,584	\$ 22,746,568
Cash Receipts:								
Interest on Investments	87	658	813	5,798	19			7,375
Sewer Connections								9,100
Transfers from Unrestricted Funds	1,226,612		294,183	4,556,309	9,100			6,077,104
Transfers from Restricted Funds	3,496,229			2,942				3,499,172
Developers' Deposits							104,511	104,511
Total Cash and Investments Available	5,670,390	364,480	757,228	25,133,651	183,567	98,418	236,095	32,443,829
Cash Disbursements:								
Payment of Bond Interest	801,589							801,589
Payment of Bond Principal	3,638,307							3,638,307
Premium on Bond Anticipation Notes								4,935
Transfer to Escrow Agent				4,935				3,962,406
Transfers to Unrestricted Funds		2,072	3,893	3,962,406				2,514,987
Transfers to Restricted Funds			2,942	2,509,022				3,499,172
NJEIT - Administrative Fee	80,145			3,496,229				80,145
Developers' Escrow Payments							53,562	53,562
Total Cash Disbursements	4,520,041	2,072	6,835	9,972,592			53,562	14,555,102
Cash and Cash Equivalents and Investments, October 31, 2013	\$ 1,150,349	\$ 362,408	\$ 750,393	\$ 15,161,059	\$ 183,567	\$ 98,418	\$ 182,533	\$ 17,888,727
Balance Comprised of:								
Cash and Cash Equivalents	\$ 1,150,349	\$ 362,408	\$ 750,393	\$ 367,808	\$ 183,567	\$ 98,418	\$ 182,533	\$ 648,758
Investments				14,793,251				17,239,968
	\$ 1,150,349	\$ 362,408	\$ 750,393	\$ 15,161,059	\$ 183,567	\$ 98,418	\$ 182,533	\$ 17,888,727

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE SCHEDULE OF OPERATING REVENUES AND EXPENDITURES COMPARED TO BUDGET
FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

	October 31, 2013			October 31, 2012		
	Adopted Budget	Final Budget	Realized	Final Budget	Realized	Variance Final to Actual
<u>Revenues</u>						
Revenue from Customer Municipalities and Government Facilities:	\$ 7,491,065	\$ 7,491,065	\$ 1,975,309	\$ 6,897,706	\$ 1,684,202	\$ 1,684,202
Eatontown			1,121,090		973,265	973,265
Tinton Falls			1,540,119		1,711,111	1,711,111
Red Bank			1,399,627		1,660,632	1,660,632
Rumson			344,436		391,146	391,146
Sea Bright			136,744		146,971	146,971
Township of Shrewsbury			703,050		738,183	738,183
Fort Monmouth			273,055		255,809	255,809
Monmouth Park						
	<u>7,491,065</u>	<u>7,491,065</u>	<u>7,493,430</u>	<u>6,897,706</u>	<u>7,561,319</u>	<u>663,613</u>
Service Charges:						
Individual Billings Member Towns	5,667,120	5,667,120	5,758,129	5,652,000	5,690,609	38,609
Interest on Investments	25,000	25,000	11,841	25,000	18,231	(6,769)
Other Fees:						
Connection Charges	351,800	351,800	854,164	499,000	488,924	(10,076)
Miscellaneous Income	20,000	20,000	317,022	20,000	178,662	158,662
	<u>371,800</u>	<u>371,800</u>	<u>1,171,186</u>	<u>519,000</u>	<u>667,586</u>	<u>148,586</u>
Total Operating Revenues	<u>\$ 13,554,985</u>	<u>\$ 13,554,985</u>	<u>\$ 14,434,586</u>	<u>\$ 13,093,706</u>	<u>\$ 13,937,745</u>	<u>\$ 844,039</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE SCHEDULE OF OPERATING REVENUES AND EXPENDITURES COMPARED TO BUDGET
FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

	October 31, 2013			October 31, 2012		
	Adopted Budget	Final Budget	Paid or Charged	Final Budget	Paid or Charged	Variance Final to Actual
<u>Expenditures</u>						
Administrative and General Expenses:						
Administrative Salaries and Wages	\$ 476,700	\$ 476,700	\$ 530,665	\$ (53,965)	\$ 524,624	\$ (47,524)
Employee Benefits	278,000	278,000	296,719	(18,719)	132,978	2,782
FICA and Medicare	36,500	36,500	36,563	(63)	37,732	(1,860)
Employee Medical Related	1,500	1,500	2,495	(995)	385	1,115
Pension PERS	305,643	305,643	280,061	25,582	275,282	(15,163)
Computer Service	2,000	2,000	12,798	(10,798)	17,163	17,917
Billing Postage	30,000	30,000	20,476	9,524	11,083	
Office Expenses:						
Other Postage	4,500	4,500	3,037	1,463	5,184	(1,984)
Stationery and Supplies	16,500	16,500	21,672	(5,172)	9,014	6,987
Equipment Rental and Supplies	11,500	11,500	18,079	(6,579)	9,090	9,910
Printing	18,300	18,300	7,315	10,985	12,953	5,047
Equipment Service Contracts	36,300	36,300	20,502	15,798	18,773	3,227
Telephone	14,000	14,000	14,794	(794)	12,323	1,677
General Expenses:						
Conferences and Training	4,500	4,500	6,616	(2,116)	5,647	(2,447)
Commissioners Conference	3,000	3,000	801	2,199	2,794	206
Travel Expenses	400	400	5,171	(4,771)	1,015	(515)
Auto and Fire Liability Business Insurance	180,000	180,000	158,376	21,624	160,573	13,427
Worker's Compensation Insurance	117,200	117,200	104,242	12,958	109,396	6,604
Advertising Fees	7,500	7,500	18,104	(10,604)	6,031	1,489
NJEIT Administration & Agent Fees	81,000	81,000	80,145	855	80,145	855
Dues and Membership	10,000	10,000	7,467	2,533	4,500	2,900
Subscriptions	1,800	1,800	1,012	788	1,271	529
Gift Baskets	700	700	524	176	143	557
Meeting Expenses	3,200	3,200	5,705	(2,505)	3,063	(63)
Leases of R, R, Property	110	110	107	3	104	1
Long Branch Sewer	3,500	3,500	3,432	68	3,432	68
Contingency	5,000	5,000		5,000	6,093	(1,093)
Professional Expenses:						
Legal Fees	70,000	70,000	182,742	(112,742)	82,050	(33,050)
Engineering Fees	90,000	90,000	88,006	1,994	105,557	(44,557)
Trustee Fees	3,800	3,800	3,400	400	6,800	(3,000)
Auditors Fees	33,000	33,000	37,125	(4,125)	31,500	500

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE SCHEDULE OF OPERATING REVENUES AND EXPENDITURES COMPARED TO BUDGET
FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

	October 31, 2013			October 31, 2012		
	Adopted Budget	Final Budget	Paid or Charged	Final Budget	Paid or Charged	Variance Final to Actual
Expenditures (Continued)						
Administrative and General Expenses (Continued):						
Professional Expenses (Continued):						
Investors Management Fees	7,800	7,800	24,000	\$ (24,000)	\$	\$
Division of Motor Vehicles	1,400	1,400	565	7,236	150	7,650
Pre-Employment Physical Fees	39,000	39,000	475	925	700	700
Bank Fees Revenue Fund			15,200	23,800	10,563	24,437
Total Administrative and General Expenses	1,894,353	1,894,353	2,008,391	(114,038)	1,644,719	(42,690)
Treatment Plant and Main Pumping Expenses:						
Plant Salaries and Wages	2,025,100	2,025,100	2,151,199	(126,099)	2,145,478	(111,478)
Employee Benefits	541,300	541,300	510,896	30,404	494,352	100,428
FICA and Medicare	140,000	140,000	163,245	(23,245)	163,706	(9,008)
Other Treatment Plant Expenses:						
Conferences and Training	10,000	10,000	5,150	4,850	9,933	67
Electricity	875,000	875,000	542,300	332,700	712,601	162,399
Fuel - Diesel	75,000	75,000	130,682	(55,682)	51,173	23,827
Natural Gas	90,000	90,000	65,463	24,537	41,815	48,185
Sodium Hypochlorite	100,000	100,000	56,823	43,177	78,887	21,113
Polymer	100,000	100,000	86,112	13,888	100,600	(600)
Hydrogen Peroxide	80,000	80,000	37,596	42,404	35,838	44,162
Non Bulk Chemicals	2,000	2,000	2,000	2,000	90	910
Fuel - Unleaded	20,000	20,000	34,983	(14,983)	60,229	(40,229)
Truck Maintenance	50,000	50,000	77,093	(27,093)	32,850	7,150
DEP and EPA Permits	35,000	35,000	42,357	(7,357)	45,693	3,307
Calibration Services	6,000	6,000	719	5,281	2,087	913
Water	44,000	44,000	60,905	(16,905)	51,029	(7,029)
Stationery Supplies			734	(734)		
Maintenance Supplies	40,000	40,000	85,286	(45,286)	39,485	515
Equipment Service Contracts	50,000	50,000	39,444	10,556	45,841	(841)
Equipment Repair	50,000	50,000	114,384	(64,384)	55,827	(5,827)

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE SCHEDULE OF OPERATING REVENUES AND EXPENDITURES COMPARED TO BUDGET
FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

	October 31, 2013			October 31, 2012		
	Adopted Budget	Final Budget	Paid or Charged	Final Budget	Paid or Charged	Variance Final to Actual
Treatment Plant and Main Pumping Expenses (Continued):						
Other Treatment Plant Expenses (Continued):						
Uniforms and Gloves	\$ 12,500	\$ 12,500	\$ 20,147	\$ (7,647)	\$ 13,046	\$ (546)
Equipment Replacement	30,000	30,000	42,109	(12,109)	55,122	(25,122)
Sludge Removal	900,000	900,000	723,100	176,900	701,751	198,249
Ash, Grit and Screenings	21,000	21,000	15,419	5,581	16,003	4,997
Laboratory Supplies	30,000	30,000	29,707	293	30,076	(76)
Outside Lab Fees	20,000	20,000	20,325	(325)	16,103	3,897
Municipal Services	30,600	30,600	30,600	(4,159)	30,000	(1,000)
Janitorial Supplies	8,000	8,000	12,159	(4,159)	9,157	(1,157)
Building and Ground Maintenance	37,500	37,500	63,887	(26,387)	56,186	(18,686)
Travel Expenses			379	(379)		
Contingency	10,000	10,000	4,116	5,885	255	9,745
New Equipment	20,000	20,000	21,182	(1,182)	9,354	10,646
Hurricane Damage			2,804,965	(2,804,965)		
Total Treatment Plant and Main Pumping Expenses	5,453,000	5,453,000	7,993,465	(2,540,465)	5,104,567	418,911
Lines and System Pumping Station:						
Line Salaries and Wages	474,900	474,900	284,574	190,326	367,122	86,878
Employee Benefits	114,500	114,500	96,687	17,813	96,869	34,591
FICA and Medicare	35,000	35,000	20,563	14,437	28,942	4,688
Other Lines Expenses:						
Conferences and Training	2,500	2,500	921	1,579	199	2,301
Electricity	110,000	110,000	106,936	3,064	105,061	4,939
Fuel - Unleaded Gasoline	15,000	15,000	10,220	4,780		15,000
Equipment Service Contracts	4,500	4,500	5,460	(960)	6,086	(1,586)
Truck Maintenance	10,000	10,000	18,523	(8,523)	12,174	(4,674)
Natural Gas	30,000	30,000	18,303	11,698	10,542	14,458
Hydrogen Peroxide	100,000	100,000	42,587	57,413	180,889	(125,889)
Nitrate Oxygen	30,000	30,000	32,698	(2,698)	41,140	(9,000)
Maintenance and Supplies	20,000	20,000	17,993	2,007	17,776	(32,140)
Uniforms and Gloves	3,600	3,600	3,552	48	1,825	1,775

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE SCHEDULE OF OPERATING REVENUES AND EXPENDITURES COMPARED TO BUDGET
FISCAL YEARS ENDED OCTOBER 31, 2013 AND 2012

	October 31, 2013			October 31, 2012		
	Adopted Budget	Final Budget	Paid or Charged	Final Budget	Paid or Charged	Variance Final to Actual
Expenditures (Continued)						
Lines and System Pumping Station (Continued):						
Other Lines Expenses (Continued):						
Buildings and Grounds Maintenance	\$ 20,000	\$ 20,000	\$ 10,806	\$ 9,194	\$ 9,210	\$ 10,790
Chemicals	7,500	7,500	70,471	7,500	2,003	5,497
Bioxide 71	100,000	100,000	165,234	29,529		
Maintenance of Lines	175,000	175,000	2,750	9,766	236,916	(61,916)
Water	3,000	3,000	10,474	250	2,219	281
Diesel Fuel	8,000	8,000	9,266	(2,474)	520	6,980
Meter Calibration	14,500	14,500	1,686	5,234	10,543	3,957
Communications Equipment	2,500	2,500	814	814	550	1,960
Equipment Repair	30,000	30,000	35,159	(5,159)	10,636	19,364
Equipment Replacement	30,000	30,000	770	29,230	24,853	5,147
Contingency	10,000	10,000	54	9,946		10,000
New Equipment	5,000	5,000	4,844	156	1,013	3,987
Total Lines and System Pumping Station Expenses	1,355,500	1,355,500	970,531	384,969	1,167,088	3,602
Total Operating Expenses	8,702,853	8,702,853	10,972,387	(2,269,534)	7,959,063	379,824
Other Costs Funded by Operating Revenues:						
Bond Principal	3,678,307	3,678,307	3,678,307		3,562,503	(73,825)
Interest on Bonds	643,825	898,598	767,271	131,327	884,137	(394,905)
Renewal and Replacement	580,000	580,000	116,872	463,128	974,905	(488,730)
Total Other Costs Funded by Operating Revenues	4,902,132	5,156,905	4,562,450	594,455	5,421,545	(488,730)
Grand Totals	\$ 13,604,985	\$ 13,859,758	\$ 15,534,837	\$ (1,675,079)	\$ 13,380,608	\$ (88,907)

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
SCHEDULE OF LONG-TERM REVENUE BONDS PAYABLE
FISCAL YEAR ENDED OCTOBER 31, 2013

Purpose	Date of Issue	Maturities Date	Amount	Interest Rate	Balance		Paid		Balance October 31, 2013
					October 31, 2012	Scheduled	Scheduled	Redeemed	
\$26,715,000 (Series 2000 NJEIT) Trust Loan - To provide funds for the Treatment Plant Expansion and Upgrade Project and costs of issuance.	11/9/2000	8/1/2014	\$ 1,620,000	5.00%					
		8/1/2015	1,700,000	5.13%					
		8/1/2016	1,790,000	5.13%					
		8/1/2017	1,880,000	5.25%					
		8/1/2018	1,980,000	5.25%					
		8/1/2019	2,085,000	5.25%					
		8/1/2020	2,195,000	5.25%					
Subtotal					\$ 14,795,000	\$ 1,545,000	\$	\$ 13,250,000	
\$22,642,977 (Series 2000A NJEIT) Fund Loan - To provide funds for the Treatment Plant Expansion and Upgrade Project and costs of issuance.	11/9/2000	2/1/2014	184,238	0%					
		8/1/2014	1,052,863	0%					
		2/1/2015	162,522	0%					
		8/1/2015	1,074,042	0%					
		2/1/2016	139,164	0%					
		8/1/2016	1,098,942	0%					
		2/1/2017	114,570	0%					
		8/1/2017	1,122,604	0%					
		2/1/2018	88,109	0%					
		8/1/2018	1,149,762	0%					
		2/1/2019	60,241	0%					
		8/1/2019	1,178,194	0%					
		2/1/2020	30,895	0%					
8/1/2020	1,154,691	0%							
Subtotal					9,849,143	1,238,307		8,610,836	
\$10,520,000 (Series 2003) Revenue Refunding Bonds - To redeem the Series 1993B bonds maturing 2004-2016	8/19/2003								
Subtotal					4,665,000	855,000	3,810,000		
Grand Total					\$ 29,309,143	\$ 3,638,307	\$ 3,810,000	\$ 21,660,836	
Detail:									
									\$ 2,857,101
									19,003,735
									\$ 21,660,836

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

Honorable Chairman and Members
of the Board of Commissioners
Two Rivers Water Reclamation Authority
Monmouth Beach, New Jersey

We have audited the financial statements of the Two Rivers Water Reclamation Authority ("Authority"), in the County of Monmouth, State of New Jersey, as of and for the fiscal year ended October 31, 2013, which collectively comprise the Authority's basic financial statements and related notes to the financial statements and have issued our report thereon dated January 10, 2014. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency or 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 over financial reporting 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.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS-(CONTINUED)

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Authority in a separate report entitled, Auditor's Management Report on Administrative Findings - Financial, Compliance and Performance dated January 10, 2014.

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 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.



David A. Kaplan, CPA
Registered Municipal Accountant #433

DAK CPA
Certified Public Accountants

Long Branch, New Jersey
January 10, 2014

OFFICIALS IN OFFICE AND SURETY BOND/INSURANCE COVERAGE

TWO RIVERS WATER RECLAMATION AUTHORITY

ROSTER OF OFFICIALS

FISCAL YEAR ENDED OCTOBER 31, 2013

<u>Name</u>	<u>Title</u>	<u>Surety Bond</u>
William E. Leonard	Chairman	A, B
Thomas Barham	Vice Chairman	A, B
Barry J. Berdahl, Ph. D	Treasurer	A, B
William R. Baarck, P.E.	Secretary	A
Richard N. Tocci	Assistant Treasurer	A
Arno H. Weber	Assistant Secretary	A
John Bonforte	Member	A
Gregory J. Christopher	Member	A
Scott Hartman	Member	A
Catherine D. LaPorta	Member	A
Brian McPeak	Member	A
William Nolze	Member	A
Michael A. Gianforte, P.E.	Executive Director	A, B, C
Birdsall and Laughlin, LLC	Attorney	
Paulus, Sokolowski & Sartor, LLC	Engineer	

Surety Coverages:

- A. Municipal Excess Liability Joint Insurance Fund: Public Officials Liability/Employment Practices. \$5,000,000 in the aggregate on claims made basis per member local unit for each fund year subject to a deductible and coinsurance. There is a combined POL/EPL \$5,000,000 per member annual aggregate.
- B. Municipal Excess Liability Joint Insurance Fund: Excess Public Officials Bond. \$950,000 in the aggregate.
- C. Municipal Excess Liability Joint Insurance Fund: Public Official Bond. Blanket Bond All Employees \$50,000.

TWO RIVERS WATER RECLAMATION AUTHORITY

INSURANCE COVERAGE

FISCAL YEAR ENDED OCTOBER 31, 2013

A blanket policy issued by the New Jersey Utility Authorities Joint Insurance Fund for a one-year period expiring on January 1, 2014, payable semi-annually was in force during the period under audit. The following coverages were provided:

Commercial Property Package	\$ 150,000,000
Other Coverages in Effect:	
Underground & Outfall Pipe	5,000,000
Mobile Equipment	5,000,000
Business Auto	10,000,000
Uninsured Motorists	15,000 / 30,000
Commercial General Liability	10,000,000
Public Official Liability	5,000,000
Boiler and Machinery	150,000,000
Crime Coverage	50,000
Worker's Compensation	Statutory
Environmental Liability (Third Party Liability)	1,000,000
Travel Accident Insurance (Commissioners)	500,000
Flood / Building	500,000
Flood / Contents	500,000

GENERAL COMMENTS AND RECOMMENDATIONS

GENERAL COMMENTS
OCTOBER 31, 2013

Cash Balances

The cash balances were verified with the statements rendered by the trustee and other depositories and also confirmed by direct communication.

The cash on hand was verified by a physical cash count.

Contracts and Agreements Requiring Advertisement for Bids

The Commissioners and Executive Director of the Two Rivers Water Reclamation Authority have the responsibility of determining whether any contract or agreement might result in violation of the statute and, when necessary, the Authority's Counsel's opinion should be sought before a commitment is made.

Under N.J.S.A 40A:11-9(b) the Authority appointed the Executive Director as their Qualified Purchasing Agent. Accordingly, the 2013 bid threshold was \$36,000.

The minutes indicate that bids were requested by public advertising for the following items.

Biofilter Media Replacement	Administration Building Phase I Repairs
Debris Removal	Hydrogen Sulfide with Nitrate Oxygen
Emergency Outfall Cleaning	Administration Building Phase II Rehab
Electrical Upgrades	Emergency Repairs
Sodium Hypochlorite	Hydrogen Sulfide with Bioxide
Hydrogen Peroxide Processing	Liquid Polymer

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the result of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear cut violations existed.

Based on the results of our examination, we did not note any individual payments, contracts, or agreements made for the performance of any work or the furnishing or hiring of any materials or supplies, in excess of the statutory thresholds where there had been no advertising for bids in accordance with the provision of N.J.S.A. 40A: 11-2.

In reaction to Super Storm Sandy the Authority approved awards of emergency contracts in accordance with N.J.S.A 40A:11-6.

GENERAL COMMENTS (CONTINUED)
OCTOBER 31, 2013

Contracts and Agreements Requiring Advertisement for Bids - Continued

Resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S.A. 40A: 11-5.

Delinquent Sewer Charges

A detail of all unpaid sewer charges including customer municipality billings outstanding and amounts due from the participant municipality users is in agreement with an abstract taken from these records as at October 31, 2013 covering all unpaid charges on that date.

A test verification of delinquent charges outstanding at October 31, 2013 and accounts with no balances was made and the results indicated that the accounts of the Authority were in order, based on the replies returned on the verification notices mailed.

Collection of Interest on Delinquent Sewer Charges

The statutes provide the method for authorizing interest and maximum rates to be charged for nonpayment of sewer charges on or before the date when they would become delinquent. The Authority approved a resolution establishing an interest rate of 1½% per month for delinquent members' charges. The resolution was complied with.

Interest Requirements

The Authority paid all required interest on its revenue bonds during the period under audit.

Revenues

The Authority's revenues from participant billings, customer billings, connection fees and other authorized revenues were adequate in providing sufficient revenues to cover operating, maintenance and debt service costs for the fiscal year, in accordance with the requirements of the Bond Resolution.

Receipts from search fees and other charges were checked to the records maintained and verified as proper in conjunction with the fees established by the Authority.

The Authority's rules and regulations established various fees for application filings, legal and engineering inspections and performance bond requirements. The receipts for these fees were checked to the records maintained.

GENERAL COMMENTS (CONTINUED)
OCTOBER 31, 2013

Expenditures

In accordance with the Bond Resolution, Section 610, the Authority adopted annual operating budgets for the fiscal years ending October 31, 2013 and 2012.

Finding:

Condition: The Authority added an appropriation to the adopted budget without a budget amendment or an adopted resolution.

Criteria: N.J.A.C. 40A:5A-17

Cause: Hurricane Sandy.

Authority Response: The Authority did not realize that the Hurricane Sandy appropriation needed to be done by budget amendment.

Recommendation: It is recommended that any changes made to the adopted budget be completed by budget amendment in accordance with N.J.A.C. 40A:5A-17.

The vouchers were examined to the extent deemed necessary.

An examination was made of the employees' compensation and payroll deductions for the year ended October 31, 2013 and for those employees examined, no exceptions were noted except as follows.

Finding:

Condition: New hires were not enrolled timely in the Public Employees Retirement System causing back pension along with their current pension obligations.

Criteria: All full-time employees are required to be enrolled in the Public Employees Retirement System.

Cause: The Authority states that they tried to enroll the employees using a paper application but that the pension system required them to be enrolled electronically and they were not aware of this requirement, causing the delay.

Authority Response: The Authority is now clear on the required enrollment process and the employees are enrolled.

Recommendation: It is recommended that all new hires be enrolled in the Public Employees Retirement System timely.

GENERAL COMMENTS (CONTINUED)
OCTOBER 31, 2013

General Ledger

Finding:

Condition: Material adjusting journal entries were proposed, accepted and recorded to bring unadjusted trial balance amounts into agreement with audited balances. The adopted budget was not recorded in the general ledger.

Criteria: Sound internal controls require the Authority to maintain the general ledger accurately.

Cause: There was no plausible explanation given for the condition of the general ledger.

Authority Response: The Authority has employed additional personnel in the finance department which should allow more resources to be devoted to maintenance of the general ledger. More frequent interim reviews will also be conducted.

Recommendation: It is recommended that the general ledger be maintained accurately.

Other Comments

Finding:

Condition: The payroll bank reconciliation contained voided and stale dated checks along with payroll checks dated from the November 1, 2013 payroll listed as outstanding on the October reconciliation. The amount per the payroll bank reconciliation was not in agreement with the amount per the general ledger.

Criteria: Sound internal controls require the Authority to maintain all bank accounts accurately.

Cause: There was no plausible explanation given for this condition.

Authority Response: The Authority will be more diligent in preparing the bank reconciliations and will reconcile these amounts to the general ledger monthly.

Recommendation: It is recommended that all bank reconciliations be prepared accurately.

GENERAL COMMENTS (CONTINUED)
OCTOBER 31, 2013

Other Comments

Finding:

Condition: Numerous Developers' Escrow cash accounts exist that have been dormant for many years.

Criteria: Good business practice.

Cause: Retirement of prior financial manager.

Authority Response: The Authority will review the accounts for closure.

Recommendation: It is recommended that the dormant Developers' Escrow cash accounts be reviewed for closure.

Finding:

Condition: The sewer stubs were not available for audit.

Criteria: N.J.A.C. 14:3-7.8

Cause: The authority has been scanning the sewer stubs. The system crashed and all the stubs could not be retrieved for the audit. Since the authority was scanning the sewer stubs they thought this could take the place of keeping the actual stubs and the stubs were being destroyed as scanned.

Recommendation: It is recommended that all records are retained in accordance with N.J.A.C. 14:3-7.8

Exit Conference

An exit audit conference with the Authority was held.

Acknowledgment

We wish to express our appreciation for the cooperation received from the Authority officials and employees and the courtesies extended during the course of the audit.

Corrective Action Plan-Status of Prior Year Recommendations

A corrective action plan must be designed and implemented to insure that procedures are corrected or implemented. A corrective action plan was adopted for 2012 audit recommendations. 2013 recommendations reflected below that are repeated from the prior year are marked with an asterisk.

Filing Audit Report, N.J.S. 40A:5A-15

A copy of this report has been filed with the Division of Local Government Services.

RECOMMENDATIONS

It is recommended:

2013-1 That any changes made to the adopted budget be done by budget amendment in accordance with N.J.A.C. 40A:5A-17.

2013-2 That all new hires be enrolled in the Public Employees Retirement System timely.

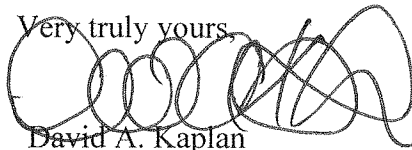
*2013-3 That the general ledger be maintained accurately.

2013-4 That all bank reconciliations be prepared accurately.

2013-5 That the dormant Developers' Escrow cash accounts be reviewed for closure.

2013-6 That all records are retained in accordance with N.J.A.C. 14:3-7.8.

The problems and weaknesses noted in my audit were not of such magnitude that they would affect my ability to express an opinion on the financial statements taken as a whole.

Very truly yours,

David A. Kaplan
Certified Public Accountant
Registered Municipal Accountant #433
DAK CPA Certified Public Accountants