

TWO RIVERS WATER RECLAMATION AUTHORITY

COUNTY OF MONMOUTH, NEW JERSEY

REPORT OF AUDIT

FISCAL YEARS ENDED OCTOBER 31, 2010 AND 2009

Prepared by:
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TWO RIVERS WATER RECLAMATION AUTHORITY

TABLE OF CONTENTS

YEARS ENDED OCTOBER 31, 2010 AND 2009

	<u>Page</u>
Independent Auditor's Report	1-2
<u>Required Supplementary Information</u>	
Management's Discussion and Analysis	3-10
<u>Financial Statements</u>	
<u>Exhibit</u>	
A Comparative Statement of Net Assets	11-12
B Comparative Statement of Revenues, Expenses and Changes in Net Assets	13
C Comparative Statement of Cash Flows	14
<u>Notes to Financial Statements</u>	15-35
<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	43-44
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>	45-46
<u>Officials in Office and Surety Bond/Insurance Coverage</u>	47-48
<u>General Comments and Recommendations</u>	49-53

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Two Rivers Water Reclamation Authority, County of Monmouth, State of New Jersey (the "Authority"), as of and for the years ended October 31, 2010 and 2009, as listed in the table of contents, which collectively comprise the Authority's financial statements. These financial statements are the responsibility of the Authority's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

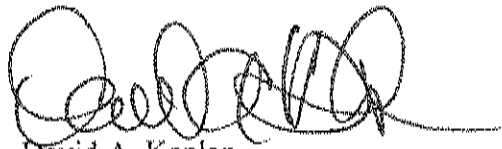
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of October 31, 2010 and 2009, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 24, 2010 on our consideration of the Authority's internal control over financial reporting and 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 our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 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 certain limited procedures, which consisted principally of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's financial statements. The information included in the supplementary schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is presented as additional analytical data as required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



David A. Kaplan
Certified Public Accountant
Registered Municipal Accountant #433

DAK CPA

DAK CPA Certified Public Accountants

Long Branch, New Jersey
December 24, 2010

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 Assets, the Comparative Statement of Revenues, Expenses and Changes in Net Assets, 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. The annual budget records all encumbrances as charges against the adopted appropriation even if the items or services have not been received.

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 Assets

The Authority's total assets decreased by \$1,582,537 mainly due to the depreciation of capital assets. Total liabilities decreased by \$3,433,615 mainly due to the payment of revenue bond principal. Assets exceeded liabilities by \$67,043,509. This compares to 2009 where assets exceeded liabilities by \$65,192,431.

The Authority's Net Assets of \$67,043,509 are comprised of the following:

1. Invested in Capital Assets, Net of Related Debt of \$43,919,909, 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. Invested in Capital Assets, Net of Related Debt increased by \$1,596,691 from the prior year.

Capital Assets - Net	\$	80,179,057
Less:		
Bonds Payable - Current		3,427,503
Bonds Payable - Long Term		32,831,645
Invested in Capital Assets, Net	\$	43,919,909

2. Net Assets of \$450,000 restricted for the purpose of Renewal and Replacement of "the System", which is determined each year by an independent consulting engineer.
3. Net assets of \$357,199 restricted for the purpose of providing a Debt Service Reserve Fund, in accordance with the Authority's debt covenants.
4. Net assets of \$400,000 restricted for future collection system improvements.
5. Net assets of \$190,000 restricted for a Shrewsbury River Dredging Project.
6. Net assets of \$11,500,000 have been restricted for future capital improvements.

7. Net assets of \$ 200,000 restricted for Rate Stabilization

8. Unrestricted net assets of \$10,626,402 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 Assets increased by \$146,688.

Comparative Condensed Statements of Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total Current Assets	\$ 4,908,015	\$ 5,164,682	\$ 5,566,443
Total Restricted Assets	21,391,252	20,039,794	10,527,927
Net Capital Assets	80,179,056	82,760,806	85,377,644
Deferred Costs	<u>439,490</u>	<u>535,067</u>	<u>623,343</u>
Total Assets	<u>\$ 106,917,813</u>	<u>\$ 108,500,349</u>	<u>\$ 102,095,357</u>
Total Current Liabilities Payable from Current Assets	\$ 1,586,265	\$ 1,396,135	\$ 1,573,158
Total Current Liabilities Payable from Restricted Assets	3,846,192	5,032,193	5,018,742
Accrued Non-Current Employee Benefits	1,174,649	633,375	
Unemployment Claims Reserve	88,321	88,128	84,584
Compensated Absences Payable	363,787	344,286	335,884
Long-Term Obligations - Net	<u>32,815,090</u>	<u>35,813,801</u>	<u>43,713,619</u>
Total Liabilities	<u>\$ 39,874,304</u>	<u>\$ 43,307,918</u>	<u>\$ 50,725,987</u>
Net Assets	<u>\$ 67,043,509</u>	<u>\$ 65,192,431</u>	<u>\$ 51,369,370</u>

Total Current Assets decreased because Unrestricted Investments have decreased.

Total Restricted Assets have increased because investments increased.

Capital Assets acquired were \$460,539 and depreciation charged was \$3,042,289. Consequently, Net Capital Assets have decreased by \$2,581,750.

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

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

Long Term Obligations have decreased due to the scheduled payment of revenue bond principal and the early redemption of the Series 2000 bonds.

Total Net Assets have increased as a result of the reported positive change in net assets for the 2010 fiscal year.

Comparative Condensed Statement of Revenues, Expenses and Changes in Net Assets

2010 Operating Revenues fell from 2009 levels, mainly due to an anticipated decrease in revenues from Customer Municipalities, associated with the bond redemptions.

Total Operating Expenses were relatively unchanged from the prior year.

Total Operating Revenues less total Operating Expenses produced Operating Income of \$2,811,639. This is less than 2009 Operating Income of \$3,543,098.

Total Net Assets as of October 31, 2010 increased by \$1,851,078, as is depicted below.

	<u>Fiscal Years Ended October 31,</u>		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total Operating Revenues	\$ <u>14,229,719</u>	\$ <u>14,973,959</u>	\$ <u>14,561,890</u>
Operating Expenses	8,375,791	8,441,610	7,720,346
Depreciation	<u>3,042,289</u>	<u>2,989,251</u>	<u>2,903,954</u>
Total Operating Expenses	<u>11,418,080</u>	<u>11,430,861</u>	<u>10,624,300</u>
Operating Income	2,811,639	3,543,098	3,937,590
Non-Operating Revenues/ (Expenses) - Net	<u>(960,561)</u>	<u>(1,220,038)</u>	<u>(1,239,427)</u>
Change in Net Assets before Extraordinary Item	1,851,078	2,323,060	2,698,163
Extraordinary Item		11,500,000	
Net Assets, Beginning	<u>65,192,431</u>	<u>51,369,371</u>	<u>48,671,208</u>
Net Assets, Ending	\$ <u><u>67,043,509</u></u>	\$ <u><u>65,192,431</u></u>	\$ <u><u>51,369,371</u></u>

Statement of Cash Flows

Net increase in Cash and Cash Equivalents was \$34,251. This compares to a decrease in Cash and Cash Equivalents in 2009 of \$220,878.

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 as a result of a recently completed upgrade and expansion of its treatment plant. The expanded and upgraded 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 Assets as "Customer Municipalities - Annual Charges and Participating Municipalities - Service Charges" and reported as Operating Revenues.

Budget Variations

There were no amendments made to the adopted 2010 budget.

Accountability

The Two Rivers Water Reclamation Authority's mission statement is:

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.

The Authority Board Members 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 38 and a 2010 budget of \$13.3 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
Edward J. Griffin, Financial Manager
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.

Independent Auditors

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

Prior audits can be obtained by contacting the Two Rivers Water Reclamation Authority.

FINANCIAL STATEMENTS

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE STATEMENT OF NET ASSETS
OCTOBER 31, 2010 AND 2009

<u>ASSETS</u>	October 31,	
	2010	2009
Current Assets:		
Cash and Cash Equivalents	\$ 309,454	\$ 63,082
Investments	3,527,679	4,191,998
	3,837,133	4,255,080
Inventory	12,723	17,337
Customer Charges Receivable	249,317	39,864
Sewer Billings Receivable	806,770	799,444
Prepaid Expenses	2,072	52,957
Total Current Assets	4,908,015	5,164,682
Restricted Assets:		
Revenue Fund - Unemployment Cash and Cash Equivalents	88,207	88,015
Developer Deposits:		
Cash and Cash Equivalents - Escrow	83,555	75,522
Bond Service Account:		
Investments	912,475	1,769,166
Bond Reserve Account:		
Investments	372,184	370,027
General Account:		
Cash and Cash Equivalents	367,808	588,155
Investments	18,821,492	16,086,959
Construction Account:		
Investments	282,066	604,492
Renewal and Replacement Account:		
Investments	463,465	457,458
Total Restricted Assets	21,391,252	20,039,794
Noncurrent Assets:		
Capital Assets - Non-Depreciable	1,461,400	1,468,925
Capital Assets - Net of Depreciation	78,717,656	81,291,882
Deferred Charges:		
Unamortized Bond Issue Costs	439,490	535,067
	80,618,546	83,295,874
Total Assets	\$ 106,917,813	\$ 108,500,350

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 ASSETS
OCTOBER 31, 2010 AND 2009

	October 31,	
<u>LIABILITIES</u>	2010	2009
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable	\$ 500,660	\$ 210,685
Accrued Expenses	110,802	198,419
Payroll Taxes Payable	23,897	15,450
Customer Overpayments	20,708	22,799
Deferred Revenue	930,199	948,782
Total Current Liabilities Payable from Unrestricted Assets	1,586,265	1,396,135
Current Liabilities Payable from Restricted Assets:		
Reserve for Developers' Deposits	83,358	70,687
Accrued Interest on Revenue Bonds Payable	335,331	388,065
Revenue Bonds Payable - Current Portion	3,427,503	4,573,441
Total Current Liabilities Payable from Restricted Assets	3,846,192	5,032,193
Long-Term Revenue Bonds Payable	32,831,645	35,864,148
Less:		
Unamortized Bond Discount/Premium	469	(1,616)
Unamortized Losses on Defeasance	(17,025)	(48,731)
	32,815,090	35,813,801
Accrued Non-Current Employee Benefits	1,174,649	633,375
Unemployment Claims	88,321	88,128
Compensated Absences Payable	363,787	344,286
Total Noncurrent Liabilities	34,441,847	36,879,591
Total Liabilities	\$ 39,874,304	\$ 43,307,919
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	\$ 43,919,909	\$ 42,323,218
Restricted:		
Collection System Improvements	400,000	400,000
Rate Stabilization	200,000	
Debt Service	357,199	449,499
Renewal and Replacement	450,000	450,000
Dredging Project - Shrewsbury River	190,000	190,000
Future Capital Improvements	11,500,000	11,500,000
Unrestricted	10,026,402	9,879,714
Total Net Assets	\$ 67,043,509	\$ 65,192,431

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 NET ASSETS
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2010 AND 2009

	October 31,	
	<u>2010</u>	<u>2009</u>
Operating Revenues:		
Customer Municipalities:		
Annual Charges	\$ 7,627,062	\$ 8,690,722
Participating Municipalities:		
Service Charges	5,599,757	5,697,020
Other Fees	1,002,899	586,217
	<u>14,229,718</u>	<u>14,973,959</u>
Total Operating Revenues		
Operating Expenses:		
Administration and General	2,234,968	2,360,146
Treatment Plant and Main Pumping Station	5,058,332	5,016,898
Lines and System Pumping Stations	1,054,867	1,005,170
Depreciation	3,042,289	2,989,251
Renewal and Replacement	27,622	59,396
	<u>11,418,080</u>	<u>11,430,861</u>
Total Operating Expenses		
Operating Income	<u>2,811,639</u>	<u>3,543,098</u>
Non-Operating Revenues/(Expenses):		
Interest on Bonds	(1,058,173)	(1,336,023)
Interest Income	252,376	130,211
Amortization of Debt Issue Costs	(73,104)	(72,174)
Amortization of Bond (Discount)/Premium - Net	(2,085)	(2,141)
Miscellaneous Income/(Expense)	(79,575)	60,089
	<u>(960,561)</u>	<u>(1,220,038)</u>
Total Non-Operating Revenues/(Expenses)		
Net Income Before Extraordinary Item	1,851,078	2,323,060
Extraordinary Item:		
Litigation Settlement		<u>11,500,000</u>
Change in Net Assets after Extraordinary Item	1,851,078	13,823,060
Net Assets, Beginning	<u>65,192,431</u>	<u>51,369,371</u>
Net Assets, Ending	<u>\$ 67,043,509</u>	<u>\$ 65,192,431</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, 2010 AND 2009

	October 31,	
	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities:		
Net Income	\$ <u>1,851,078</u>	\$ <u>13,823,060</u>
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation - Net	3,042,289	2,989,251
Amortization of Debt Issue Costs	73,104	72,174
Amortization of Bond Discount	2,085	2,141
Loss on Defeasance of 1996/2000 Series Bonds	22,475	15,879
Amortization of Loss on Defeasance	31,706	31,705
Changes in Assets and Liabilities:		
(Increase)/Decrease in Receivables:		
Unrestricted Accounts	(161,280)	150,902
Restricted Accounts		14,135
Increase/(Decrease) in Current Liabilities:		
Payable from Unrestricted Assets	190,130	(177,023)
Payable from Restricted Assets	(1,186,001)	13,451
Increase/(Decrease) in Other Liabilities	<u>560,967</u>	<u>645,323</u>
Total Adjustments to Net Income	<u>2,575,475</u>	<u>3,757,938</u>
Net Cash Provided by Operating Activities	<u>4,426,553</u>	<u>17,580,998</u>
Cash Flows from Capital and Related Financing Activities:		
Net Increase in Property, Plant and Equipment	(460,539)	(372,413)
Long-Term Bonds Payable	<u>(3,032,503)</u>	<u>(7,933,442)</u>
Net Cash Provided/(Used) by Capital and Related Financing Activities	<u>(3,493,041)</u>	<u>(8,305,855)</u>
Cash Flows from Investing Activities:		
Redemption/(Purchase) of Investment Securities	<u>(899,261)</u>	<u>(9,496,021)</u>
Net Cash Provided/(Used) in Investing Activities	<u>(899,261)</u>	<u>(9,496,021)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	34,251	(220,878)
Cash and Cash Equivalents at Beginning of Year	<u>814,773</u>	<u>1,035,651</u>
Cash and Cash Equivalents at End of Year	\$ <u>849,024</u>	\$ <u>814,773</u>
Reconciliation to Statement of Net Assets:		
Unrestricted Cash and Cash Equivalents	\$ 309,454	\$ 63,082
Restricted Cash and Cash Equivalents	<u>539,570</u>	<u>751,692</u>
	\$ <u>849,024</u>	\$ <u>814,773</u>

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, 2010 AND 2009

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 full 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 Note and Bonds, Federal Home Loan Bank Notes, Treasury Obligations Fund, Money Market Funds and a Certificate of Deposit. 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. Gasoline and diesel fuel inventory value at October 31, 2010 and 2009 was \$12,723 and \$17,337, respectively.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2010 AND 2009

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 1st day of February, May, August and November.

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 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities", gains or losses arising from debt refundings are to be deferred and amortized over the lesser of the original remaining life of the old debt or the life of the new debt. It also requires that gains or losses related to debt refundings be used to determine the carrying value of the new debt that was issued to finance the refunding. Annual amortization is reflected as a part of interest expense.

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, 2010 AND 2009

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

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2010 AND 2009

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Funds (Continued)

(1) Escrow Fund (Continued)

the services are performed, and amounts remaining at project completion, including a portion of interest earnings, are returned to the developer. Cash 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 Debt Issuance Costs

Deferred debt issuance costs incurred with the 2000 and 2003 bond issues are being amortized over the respective lives of the issues using the straight-line method. Unamortized debt issuance costs as of October 31, 2010 and 2009 is \$439,490 and \$535,067, respectively.

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.

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.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2010 AND 2009

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

Capital Assets (Continued)

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	
	<u>October 31, 2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>October 31, 2010</u>	<u>Useful Life</u>
Non-Depreciable Assets:					
Constr. in Progress	\$ 7,525		\$ (7,525)		
Land and Easements	1,461,400			1,461,400	
Depreciable Assets:					
Buildings and Additions	13,552,878			13,552,878	40 - 75 Years
Other Improvements	67,590,877	3,136,966		67,904,573	7 - 20 Years
Sewer Mains and Interceptors	32,518,042			32,518,042	75 Years
Pump Stations	6,377,463	23,744		6,401,207	40 Years
Other Equipment	1,984,376	1,306,244		2,115,000	5 - 75 Years
Vehicles	949,104		(28,733)	920,371	5 Years
	<u>\$ 124,441,665</u>	<u>\$ 4,680,664</u>	<u>\$ (36,258)</u>	<u>\$ 124,873,471</u>	
Less: Accumulated Depreciation	<u>(41,680,857)</u>	<u>(3,042,289)</u>	<u>28,733</u>	<u>(44,694,413)</u>	
	<u>\$ 82,760,808</u>	<u>\$ (2,574,225)</u>	<u>\$ (7,525)</u>	<u>\$ 80,179,058</u>	

Accumulated depreciation at October 31, 2010 and 2009 was \$44,694,413 and \$41,680,857, respectively.

Depreciation expense for the years ended October 31, 2010 and 2009 was \$3,042,289 and \$2,989,251, respectively.

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt to the extent expended 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 assets are 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.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2010 AND 2009

Note 3. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents include petty cash, change funds, amounts in deposits, 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%.

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, 2010, cash and cash equivalents (Deposits) of the Authority consisted of interest bearing Checking and Money Market Checking accounts totaling \$ 849,024.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2010 AND 2009

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

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.
- Local government investment pools.
- New Jersey State Cash Management Fund.
- Repurchase agreements of fully collateralized securities, subject to special conditions.

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 of the Authority's investments are considered Level 1 investments, as described below.

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.

The Authority believes its valuation methods are appropriate and consistent with other market participants.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2010 AND 2009

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

B. Investments (Continued)

As of October 31, 2010, investments of the Authority consisted of the following:

<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>				
COMMERCE CAPITAL TREASURY OBLIGATIONS CMA FUND	Var.	\$ 3,527,679	\$ 3,527,679	\$
		<u>3,527,679</u>	<u>3,527,679</u>	<u></u>
<u>BOND SERVICE FUND:</u>				
GOLDMAN SACHS TREASURY OBLIGATIONS CMA FUND	0.010%	912,475	912,475	
		<u>912,475</u>	<u>912,475</u>	<u></u>
<u>BOND RESERVE FUND:</u>				
GOLDMAN SACHS TREASURY OBLIGATIONS CMA FUND	0.010%	28,288	28,288	
US TREASURY BILL	0.000%	99,986	99,986	
US TREASURY NOTES	0.000%	243,910		243,911
		<u>372,184</u>	<u>128,274</u>	<u>243,911</u>
<u>CONSTRUCTION FUND:</u>				
GOLDMAN SACHS TREASURY OBLIGATIONS CMA FUND	0.010%	87,271	87,271	
FNMA DISCOUNT NOTE	0.000%	94,905	94,905	
FNMA DISCOUNT NOTE	0.000%	99,890	99,890	
		<u>282,066</u>	<u>282,066</u>	<u></u>

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2010 AND 2009

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>				
GOLDMAN SACHS TREASURY				
OBLIGATIONS CMA FUND	0.010%	\$56,971	\$56,971	
U.S. TREASURY NOTES	.75%-1.375%	406,494		\$ 406,494
		<u>463,465</u>	<u>56,971</u>	<u>406,494</u>
<u>GENERAL FUND:</u>				
GOLDMAN SACHS TREASURY				
OBLIGATIONS CMA FUND	0.010%	877,250	877,250	
CERTIFICATE OF DEPOSIT	Var.	221,259	221,259	
F.N.M.A. DISCOUNT NOTES	0.000%	2,497,400	2,497,400	
F.H.L.B. DISCOUNT NOTES	0.000%	1,268,619	1,268,619	
U.S. TREASURY BILLS	0.000%	249,950	249,950	
FIXED INCOME US TREAS.	Var.	13,707,014	4,996,507	8,710,507
		<u>18,821,492</u>	<u>10,110,985</u>	<u>8,710,507</u>
GRAND TOTAL		<u>\$24,379,361</u>	<u>\$15,018,449</u>	<u>\$9,360,912</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, 2010 AND 2009

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

All of 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 publicly available financial reports that include financial statements and required supplementary information. This report may be obtained by writing to the State of New Jersey, Division of Pensions.

Funding Policy and Contributions

Employee contributions are five and one-half percent of pensionable wages. 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, 2010 AND 2009

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>
2010	\$ 208,675	\$ 136,616
2009	182,100	131,567
2008	126,342	122,534

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, 2010, the following information was applied:

Bond Service Fund - Investments at October 31, 2010	\$	912,475
Less: Principal Required November 1 - 2003 Series	\$	790,000
Interest Required November 1 - 2003 Series		120,524
		910,524
Excess	\$	1,951
Interfunds Payable		1,951
Excess/(Deficiency)	\$	None

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2010 AND 2009

Note 6. AMOUNTS REQUIRED BY BOND RESOLUTION (CONTINUED)

Bond Reserve Requirements

The 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, 2010, the following information applied:

Bond Reserve Fund - Investments at October 31, 2010	\$	372,184
Reserve Requirement, interest which accrues during the period of one year after the authentication and delivery of the Revenue Bonds:		
Series 2003		<u>357,199</u>
Excess	\$	14,985
Interfunds Payable		<u>14,985</u>
Excess/(Deficiency)	\$	<u>None</u>

Note 7. RATES, BILLINGS AND DEFERRED REVENUE

Effective January 1, 2002, the residential unit service fee was revised to \$360.00 per year, payable at a rate of \$90.00 per quarter. That rate remained in effect throughout the fiscal year ended October 31, 2010.

Deferred Revenue of \$930,199 represents the portion of the participant's calendar year billings for November and December 2010, which are billed but unearned at October 31, 2010. Deferred Revenue at October 31, 2009 was \$948,782.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2010 AND 2009

Note 7. RATES, BILLINGS AND DEFERRED REVENUE (CONTINUED)

The number of billing units within the participating municipalities as of October 31, 2010 and 2009 were as follows:

	Billing Units as of October 31,	
Participating Municipality :	<u>2010</u>	<u>2009</u>
Fair Haven	2,276.79	2,307.29
Little Silver	2,801.75	2,820.12
Monmouth Beach	2,107.53	2,100.89
Oceanport	2,493.80	2,512.41
Shrewsbury Borough	2,656.77	2,823.67
West Long Branch	3,248.16	3,258.79
	15,584.80	15,823.17

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. Rumson Borough and Fort Monmouth have elected to prepay their share of the capital costs of trunk sewers and treatment plant, and will only be charged for their 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, 2010 AND 2009

Note 8. LONG-TERM DEBT

1996A Series Bonds

On February 20, 1996, the Authority adopted a Supplemental Bond Resolution to issue Revenue Refunding Bonds, Series 1996A, of \$12,385,000, to advance refund a portion of the Authority's Series 1978 Revenue Bonds, specifically \$12,185,000 term bonds due November 1, 2010. The bonds were issued November 19, 1996, and were dated November 1, 1996.

Redemption of the Bonds

On August 3, 2009 the Authority executed a full redemption of all of the \$3,360,000 1996A bonds outstanding, at a redemption price of 100%.

2000 Series Bonds

On February 1, 2000, the Authority issued \$1,695,000 in Series 2000 Revenue Bonds.

Redemption of the Bonds

Optional Redemption.

On November 1, 2009, the Authority executed a full redemption of all of the outstanding 2000 Series Bonds, at a redemption price of 101%.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2010 AND 2009

Note 8. LONG-TERM DEBT (CONTINUED)

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, 2011 through August 1, 2020 at maturities ranging from \$30,895 to \$1,178,194. The Bonds were issued with an original issue premium of \$20,099.50.

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 from August 1, 2011 through 2020 at amounts ranging from \$1,400,000 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 year ending October 31, 2006. The Authority realized present value savings of \$1,034,704.60.

2003 Series Revenue Refunding Bonds

On August 19, 2003, the Authority issued \$10,520,000 Revenue Refunding Bonds dated September 1, 2003 to provide funds placed in an irrevocable escrow with the Authority's trustee to refund, on a current basis, \$10,360,000 of the Authority's Revenue Refunding Bonds, Series 1993B. The remaining Bonds mature annually on November 1, 2010 through 2016 at annual maturities ranging from \$790,000 to \$1,020,000 and bear interest, payable semi-annually, at rates ranging from 3.375% to 4.125%.

Redemption of the Bonds

Optional Redemption. The Bonds of this issue maturing prior to November 1, 2014 are not subject to redemption prior to their stated maturities. The Bonds maturing on or after November 1, 2014 are redeemable at the option of the Authority at 100% in whole or in part on any date on or after November 1, 2013, upon notice as required, plus accrued interest to the date of redemption. The Bonds were issued to provide present value savings of \$705,698. The economic loss from this transaction of \$44,265 is being amortized over the life of the issue in accordance with GASB 23.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2010 AND 2009

Note 8. LONG-TERM DEBT (CONTINUED)

Changes in long-term debt are as follows:

	<u>October 31, 2009</u>	<u>Increased</u>	<u>Decreased</u>	<u>October 31, 2010</u>
Revenue Bonds	\$ 40,437,589		\$ 4,178,441	\$ 36,259,148
	<u>\$ 40,437,589</u>		<u>\$ 4,178,441</u>	<u>\$ 36,259,148</u>

Maturities on long-term debt are as follows:

<u>Year Ended</u> <u>October 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 3,427,503	\$ 1,086,934	\$ 4,514,437
2012	3,522,503	988,794	4,511,297
2013	3,638,307	801,695	4,440,002
2014	3,752,101	691,369	4,443,470
2015	3,866,564	574,121	4,440,685
2016	3,993,106	448,808	4,441,914
2017	4,137,174	316,683	4,453,857
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>3,380,585</u>
	<u>\$ 36,259,148</u>	<u>\$ 5,180,635</u>	<u>\$ 41,439,784</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2010 AND 2009

Note 9. COMPENSATED ABSENCES PAYABLE

The Authority allows employees to accumulate unused benefits as follows:

Sick Leave - Employees are granted thirteen (13) days of sick leave per contract year. Unused sick days can be accumulated from year to year with no limit. For Local 1034 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 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, 2010 and 2009 \$363,787 and \$344,286, respectively, of compensated absence liability is recorded 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. In the opinion of and by direct confirmation from the Authority Attorney, the Authority is not party to any legal proceedings which are presently determinable to have a material adverse affect on the financial statements or operations of the Authority.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2010 AND 2009

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.

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:

Fiscal Year Ended <u>October 31</u>	<u>Interest</u>	Employee <u>Contributions</u>	Amount <u>Reimbursed</u>	Ending <u>Balance</u>
2010	\$ 192	\$ -	\$	\$ 88,320
2009	283	3,261		88,128
2008	310	3,260		84,584

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2010 AND 2009

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 Net Assets (Exhibit B).

	2009		
	<u>Per Schedule 3</u>	<u>Less Asset Acquisitions</u>	<u>Per Exhibit B</u>
Administration	\$ 2,367,671	\$ (7,525)	\$ 2,360,146
Treatment Plant	5,042,156	(25,258)	5,016,898
Lines	1,008,158	(2,988)	1,005,170
Renewal & Replacement	340,139	(280,743)	59,396
	<u>\$ 8,758,124</u>	<u>\$ (316,514)</u>	<u>\$ 8,441,610</u>
	2010		
	<u>Per Schedule 3</u>	<u>Less Asset Acquisitions</u>	<u>Per Exhibit B</u>
Administration	\$ 2,239,546	\$ (4,578)	\$ 2,234,968
Treatment Plant	5,169,799	(111,467)	5,058,332
Lines	1,093,190	(38,323)	1,054,867
Renewal & Replacement	192,369	(164,747)	27,622
	<u>\$ 8,694,904</u>	<u>\$ (319,115)</u>	<u>\$ 8,375,789</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2010 AND 2009

Note 13. EXTRAORDINARY ITEM

The Comparative Statement of Revenues, Expenses and Changes in Net Assets reflects, for fiscal year ended October 31, 2009, an extraordinary item of revenue of \$11,500,000. The Authority concluded protracted litigation which resulted in the receipt of settlement proceeds during that fiscal year.

Note 14. OTHER EMPLOYEE BENEFITS

Benefit Plans

The Authority provides, pursuant to Board action and as provided by statute, certain group health care and dental benefits for active and certain retired employees (and for eligible dependents and survivors of active and certain retired employees). Collectively, these covered individuals are referred to as "participants".

The Authority implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2009.

Actuarial Methods and Assumptions

The Authority provides the benefits described above to fewer than 100 participants and meets all other requirements allowing it to utilize the alternative measurement method as is described in GASB Statement No. 45. The Authority has elected to utilize the alternative measurement method. Some of the assumptions utilized in the computations are as follows:

Discount Rate	4.0%
Mortality	RP 2000 Mortality Table for Males and Females
Turnover	Standard Turnover Assumptions
Healthcare Cost Trends	As per New Jersey State Health Benefits Guide
Marital Status	Present Status maintained throughout
Amortization Period	30 years
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Payroll
Average Retirement Age	66

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2010 AND 2009

Note 14. OTHER EMPLOYEE BENEFITS
(CONTINUED)

Other Postemployment Benefit Costs and Obligations

The annual non-pension postemployment benefit (OPEB) cost is actuarially determined in accordance with the parameters of the alternative measurement method, which also forms the basis for calculating the annual required contribution (ARC) for the Authority. The ARC represents that actuarially determined level of funding that, if paid on an ongoing basis, is projected to cover annual benefit costs and the 30-year amortization of the difference between the actuarial accrued liability and amounts previously recognized. The Authority recognized OPEB costs in 2009 of \$633,375.

The following are the components of the 2010 annual OPEB cost:

Normal Cost	\$ 346,838
Amortization Cost	<u>288,537</u>
ARC	<u>\$ 633,375</u>

As of October 31, 2010 and 2009, the actuarially determined liability for unfunded OPEB obligation equaled \$7,210,121. The difference between this actuarially determined accrued liability and the sum of the liability currently recognized is being amortized over a 30 year period.

Funding Status

The Authority provides funding for the annual normal cost of OPEB benefits. The Authority has not provided any funding for its unfunded accrued OPEB obligation. Funding alternatives are being reviewed.

Note 15. SUBSEQUENT EVENTS

There were no events occurring through the date of the independent auditor's report which have been considered necessary for subsequent events disclosure.

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, 2010

Cash and Cash Equivalents and Investments, November 1, 2009	\$ 4,255,080
Cash Receipts:	
Customer Municipalities Annual Charges	7,253,102
Monmouth Park	164,568
Participating Municipalities Service Charges	5,581,195
Other Income	47,766
Interest Income	7,457
Connection Fees	955,133
Transfers from Restricted Accounts	<u>1,735,957</u>
Total Cash and Investments Available	<u>20,000,258</u>
Cash Disbursements:	
Vendors and Payroll	7,790,523
Transfers to Restricted Accounts	<u>8,372,601</u>
Total Cash Disbursements	<u>16,163,124</u>
Cash and Cash Equivalents and Investments, October 31, 2010	\$ <u>3,837,133</u>
Balance Comprised of:	
Cash and Cash Equivalents	\$ 309,454
Investments	<u>3,527,679</u>
	<u>\$ 3,837,133</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, 2010**

	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, 2009	\$ 1,769,166	\$ 370,027	\$ 457,458	\$ 16,675,114	\$ 604,492	\$ 88,015	\$ 75,522	\$ 20,039,794
Cash Receipts:								
Interest on Investments	1,950		9,554	227,958	1,214	192	336	247,405
Sewer Connections		6,200			12,163			12,163
Transfers from Unrestricted Funds	1,030,595			7,220,866	121,140			8,372,601
Transfers from Restricted Funds	3,448,551							3,448,551
Developers' Deposits							11,182	11,182
Total Cash and Investments Available	6,250,263	376,227	467,012	24,123,938	739,009	88,207	87,040	32,131,696
Cash Disbursements:								
Requisitions Paid					214,662			214,662
Payment of Bond Interest	1,072,052							1,072,052
Payment of Bond Principal	4,178,441							4,178,441
Premium on Redemption of Bonds	7,150							7,150
Transfers to Unrestricted Funds		4,043	3,547	1,486,087	242,280			1,735,957
Transfers to Restricted Funds				3,448,551				3,448,551
NJEIT - Administrative Fee	80,145							80,145
Developers' Escrow Payments							3,485	3,485
Total Cash Disbursements	5,337,798	4,043	3,547	4,934,638	456,942		3,485	10,740,444
Cash and Cash Equivalents and Investments, October 31, 2010	\$ 912,475	\$ 372,184	\$ 463,465	\$ 19,189,300	\$ 282,066	\$ 88,207	\$ 83,555	\$ 21,391,252
Balance Comprised of:								
Cash and Cash Equivalents	\$ 912,475	\$ 372,184	\$ 463,465	\$ 19,189,300	\$ 282,066	\$ 88,207	\$ 83,555	\$ 20,851,682
Investments								
	\$ 912,475	\$ 372,184	\$ 463,465	\$ 19,189,300	\$ 282,066	\$ 88,207	\$ 83,555	\$ 21,391,252

**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, 2010 AND 2009**

	October 31, 2010			October 31, 2009		
	Adopted Budget	Final Budget	Realized	Final Budget	Realized	Excess/ (Deficit)
Revenues						
Revenue from Customer Municipalities and Government Facilities:						
Eatontown	\$ 7,075,632	\$ 7,075,632	\$ 2,012,980	\$ 8,660,000	\$ 2,385,146	2,385,146
Finton Falls			1,248,729		1,546,362	1,546,362
Red Bank			1,369,457		1,696,153	1,696,153
Rumson			1,552,443		1,658,231	1,658,231
Sea Bright			497,521		413,799	413,799
Township of Shrewsbury			119,837		135,783	135,783
Fort Monmouth			616,140		703,486	703,486
Monmouth Park			219,955		151,772	151,772
	<u>7,075,632</u>	<u>7,075,632</u>	<u>7,627,062</u>	<u>8,660,000</u>	<u>8,690,722</u>	<u>30,722</u>
Service Charges:						
Individual Billings Member Towns	5,609,800	5,609,800	5,599,757	5,709,240	5,637,020	(12,220)
Interest on Investments	269,067	269,067	252,376	450,000	130,211	(319,789)
Other Fees:						
Connection Charges	300,000	300,000	955,133	262,500	160,942	(111,558)
Miscellaneous Income	20,000	20,000	47,766	25,000	405,275	380,275
Reserve for Rate Stabilization						
	<u>320,000</u>	<u>320,000</u>	<u>1,002,899</u>	<u>317,500</u>	<u>566,217</u>	<u>268,717</u>
Total Operating Revenues	<u>\$ 13,274,499</u>	<u>\$ 13,274,499</u>	<u>\$ 14,482,094</u>	<u>\$ 15,136,740</u>	<u>\$ 15,104,170</u>	<u>\$ (32,570)</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, 2010 AND 2009**

Expenditures	October 31, 2010			October 31, 2009			
	Adopted Budget	Final Budget	Paid or Charged	Unexpended or (Excess)	Final Budget	Paid or Charged	Unexpended or (Excess)
Administrative and General Expenses:							
Administrative Salaries and Wages	\$ 469,500	\$ 469,500	\$ 507,868	\$ (38,368)	\$ 451,000	\$ 462,293	\$ (11,293)
Employee Benefits	245,000	245,000	121,315	123,684	228,000	207,257	20,743
FICA and Medicare	35,000	35,000	31,290	3,710	35,000	35,153	(153)
Employee Medical Related	2,000	2,000	208,675	(2,000)	1,500	181	\$,319
Pension PERS	133,000	133,000		(75,675)	158,000	182,100	(24,100)
Billing Expenses:							
Computer Service	3,000	3,000	2,894	106	3,000	2,401	599
Billing Postage	28,300	28,300	12,522	15,778	25,500	21,749	3,752
Office Expenses:							
Other Postage	5,200	5,200	2,902	2,298	4,200	1,459	2,741
Stationery and Supplies	19,000	19,000	12,127	6,873	20,500	13,058	7,442
Equipment Rental and Supplies	15,500	15,500	14,018	1,482	19,800	8,477	10,323
Printing	16,150	16,150	1,062	15,088	17,500	15,336	2,164
Equipment Service - Contracts and Rental	17,500	17,500	19,828	(2,328)	16,500	15,461	1,019
Telephone	15,500	15,500	15,526	974	20,000	16,774	3,226
General Expenses:							
Conferences and Training	3,600	3,600	4,015	(415)	2,800	5,773	(2,973)
Commissioners Conference	4,000	4,000	1,528	2,472	4,200	1,568	2,632
Travel Expenses	1,000	1,000	2,081	(1,081)	1,400	1,803	(403)
Auto and Fire Liability Business Insurance	158,000	158,000	148,434	9,566	178,000	150,625	27,375
Worker's Compensation Insurance	114,300	114,300	114,339	(39)	95,100	106,797	(11,697)
Advertising Fees	4,000	4,000	6,572	(2,572)	5,000	3,746	1,254
NJETT Administration & Agent Fees	81,000	81,000	80,145	855	81,000	80,145	855
Dues and Membership	7,200	7,200	7,929	(429)	6,300	6,430	(130)
Subscriptions	1,600	1,600	1,798	(198)	1,900	1,519	381
Gift Baskets	700	700	435	265	700	373	327
Meeting Expenses	5,500	5,500	4,921	579	6,000	6,756	(756)
Leases of R. R. Property	100	100	99	1	100	99	1
Long Branch Sewer	3,300	3,300	3,300		3,300	3,300	
Contingency	9,500	9,500	18,312	(9,412)	12,300	38,087	(25,787)
Professional Expenses:							
Legal Fees	55,000	55,000	77,939	(22,939)	59,000	80,800	(1,800)
Engineering Fees	61,000	61,000	113,485	(52,485)	84,000	63,646	20,354
Trustee Fees	8,000	8,000	7,053	947	8,000	8,000	
Auditors Fees	34,000	34,000	29,600	4,400	35,000	29,100	5,900

**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, 2010 AND 2009**

	October 31, 2010			October 31, 2009		
	Adopted Budget	Final Budget	Unexpended or (Excess)	Adopted Budget	Final Budget	Unexpended or (Excess)
Expenditures (Continued)						
Administrative and General Expenses (Continued):						
Professional Expenses (Continued):						
Engineering Litigation Expense	\$ 19,200	\$ 19,200	\$ (14,424)	\$ 228,000	\$ 88,176	\$ 136,824
Legal Litigation Expense	7,700	7,700	7,445	300,000	62,940	237,060
Investors Management Fees	700	700	700	13,000	24,302	(6,302)
Misc. Division of Motor Vehicles				7,500	6,110	1,390
Pre-Employment Physical Fees					481	219
Other Post Employment Benefits					633,375	(633,375)
	\$ 1,585,050	\$ 1,585,050	\$ (654,456)	\$ 2,239,546	\$ 2,367,671	\$ (231,171)
Total Administrative and General Expenses						
Treatment Plant and Main Pumping Expenses:						
Plant Salaries and Wages	1,832,500	1,832,500	(128,986)	1,961,486	1,899,891	(121,864)
Employee Benefits	404,000	404,000	36,238	367,762	358,870	45,630
FICA and Medicare	135,000	135,000	(12,541)	147,541	141,525	(5,325)
Other Treatment Plant Expenses:						
Stationery and Supplies	15,000	15,000	868	(868)	94	(94)
Conferences and Training	1,000,000	1,000,000	7,787	7,213	6,905	8,095
Electricity	75,000	75,000	114,653	885,347	840,150	459,650
Fuel - Diesel	100,000	100,000	25,019	49,981	57,356	17,644
Natural Gas	110,000	110,000	14,339	85,661	72,079	27,921
Sodium Hypochloride	85,000	85,000	12,068	97,932	106,303	(6,303)
Polymer	70,000	70,000	(2,260)	87,260	100,474	(20,474)
Hydrogen Peroxide				90,898	81,655	(11,655)
Permanganate					2,000	2,000
Non Bulk Chemicals					2,500	2,500
Fuel - Unleaded	20,000	20,000	3,000	23,101	22,824	(2,824)
Truck Maintenance	40,000	40,000	(3,101)	55,262	72,332	(92,332)
DEP and EPA Permits	50,000	50,000	(15,262)	41,225	42,414	17,586
Meter Calibration	10,000	10,000	8,775	1,817	1,921	8,079
Water	45,000	45,000	8,183	42,199	46,196	(1,196)
Maintenance Supplies	40,000	40,000	2,901	45,844	39,043	(4,043)
Equipment Service Contracts	40,000	40,000	(5,844)	22,532	50,000	9,529
Equipment Repair	50,000	50,000	17,468	122,758	52,802	(12,802)

**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, 2010 AND 2009**

Expenditures (Continued)	October 31, 2010			October 31, 2009			
	Adopted Budget	Final Budget	Paid or Charged	Unexpended or (Excess)	Final Budget	Paid or Charged	Unexpended or (Excess)
Treatment Plant and Main Pumping Expenses (Continued):							
Other Treatment Plant Expenses (Continued):							
Uniforms and Gloves	\$ 13,000	\$ 13,000	\$ 15,913	\$ (2,913)	\$ 16,000	\$ 16,223	\$ (223)
Equipment Replacement	30,000	30,000	28,081	1,919	30,038	30,761	(723)
Sludge Removal	1,000,000	1,000,000	799,528	200,472	1,200,000	813,791	386,209
Ash, Grit and Screenings	20,000	20,000	20,267	(267)	20,000	15,977	4,023
Laboratory Supplies	30,000	30,000	33,062	(3,062)	30,000	50,226	(20,226)
Outside Lab Fees	22,500	22,500	23,779	(1,279)	22,500	14,582	7,918
Municipal Services	26,000	26,000	25,080	920	26,000	24,349	1,651
Janitorial Supplies	8,000	8,000	11,804	(3,804)	7,000	10,783	(3,783)
Building and Ground Maintenance	42,500	42,500	50,641	(8,141)	50,000	49,108	891
Travel Expenses			\$1	(91)		80	(80)
Contingency	20,000	20,000	14,732	5,268	20,000	12,225	7,775
New Equipment	25,000	25,000	11,868	13,132	25,000	10,744	14,256
Penalties and Fines	49,000	49,000		49,000	49,000	10,000	39,000
Total Treatment Plant and Main Pumping Expenses	5,410,500	5,410,500	5,199,799	240,701	5,858,738	5,042,156	816,582
Lines and Systems Pumping Station:							
Line Salaries and Wages	414,000	414,000	382,101	31,899	402,000	352,248	49,752
Employee Benefits	91,000	91,000	79,500	11,500	88,500	80,615	7,885
FICA and Medicare	38,300	38,300	27,564	10,736	31,000	26,206	4,794
Other Lines Expenses:							
Conferences and Training	2,000	2,000	935	1,065	3,000	3,631	(631)
Electricity	132,000	132,000	133,582	(1,582)	115,000	126,442	(11,442)
Fuel - Unleaded Gasoline	15,000	15,000	3,895	11,105	15,000	15,000	
Equipment Service - Contracts and Rentals	5,500	5,500	3,571	1,929	5,500	7,307	(1,807)
Truck Maintenance	7,500	7,500	14,786	(7,286)	10,000	3,862	6,138
Natural Gas	25,000	25,000	17,998	7,002	20,000	21,975	(1,975)
Hydrogen Peroxide	55,000	55,000	37,514	17,486	55,000	68,725	(13,725)
Nitrate Oxygen	6,000	6,000	73,377	(67,377)	6,000	16,350	(10,350)
Maintenance and Supplies	15,000	15,000	16,830	(1,830)	17,500	19,611	(2,111)
Uniforms and Gloves	4,000	4,000	2,098	1,902	5,000	2,475	2,525

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, 2010 AND 2009

Expenditures (Continued)	October 31, 2010			October 31, 2009			
	Adopted Budget	Final Budget	Paid or Charged	Unexpended or (Excess)	Final Budget	Paid or Charged	Unexpended or (Excess)
Lines and System Pumping Station (Continued):							
Other Lines Expenses (Continued):							
Buildings and Grounds Maintenance	\$ 30,000	\$ 30,000	\$ 17,006	\$ 12,994	\$ 35,000	\$ 12,803	\$ 22,197
Chemicals	7,500	7,500	7,500	7,500	7,500	736	6,764
Maintenance of Lines	175,000	175,000	222,586	(47,586)	175,000	186,343	(11,343)
Water	2,000	2,000	2,421	(421)	2,000	1,891	109
Fuel Diesel	8,000	8,000	1,235	6,765	8,000	407	7,593
Calibration Services	15,000	15,000	9,584	5,416	15,000	14,302	698
Communications Equipment	2,500	2,500	531	1,969	2,500	2,152	348
Equipment Repair	30,000	30,000	17,448	12,552	30,000	42,471	(12,471)
Equipment Replacement	30,000	30,000	22,091	7,909	30,000	12,907	17,093
Contingency	10,000	10,000	2,544	7,456	10,000	3,275	6,725
New Equipment	5,000	5,000	3,994	1,006	5,000	1,425	3,575
Total Lines and System Pumping Station Expenses	1,125,300	1,125,300	1,093,190	32,110	1,093,500	1,008,158	85,342
Total Operating Expenses	8,120,850	8,120,850	8,502,538	(381,688)	9,088,738	8,417,985	670,753
Other Costs Funded by Operating Revenues:							
Bond Principal	3,363,441	3,363,441	3,363,441		6,791,312	6,757,637	33,675
Interest on Bonds	1,010,208	1,010,208	1,019,318	(9,110)	1,309,472	1,288,438	21,034
Rate Stabilization	200,000	200,000	200,000		580,000		580,000
Renewal and Replacement	580,000	580,000	192,388	387,612		340,139	239,861
Total Other Costs Funded by Operating Revenues	5,153,649	5,153,649	4,775,127	378,522	8,680,784	8,386,214	294,570
Grand Totals	\$ 13,274,499	\$ 13,274,499	\$ 13,277,663	\$ (3,164)	\$ 17,769,522	\$ 16,804,199	\$ 965,323

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
SCHEDULE OF LONG-TERM REVENUE BONDS PAYABLE
FISCAL YEAR ENDED OCTOBER 31, 2010

Purpose	Date of Issue	Maturities	Interest Rate	Balance October 31, 2009	Paid			Balance October 31, 2010
					Annual Maturity	Early Redemption		
\$ 1,685,000 (Series 2000) To provide funds for certain costs incurred in the design and reconstruction of pump stations 3 & 5, Seaview Ave., and costs of issuance.	2/1/2000			\$	\$	\$	\$	
				840,000	125,000	715,000		
Subtotal				840,000	125,000	715,000		
\$25,715,000 (Series 2000 MJETT) Trust Loan - To provide funds for the Treatment Plant Expansion and Upgrade Project and costs of issuance.	11/9/2000							
			5.00%					
	8/1/2011	\$ 1,400,000.00	5.00%					
	8/1/2012	1,470,000.00	5.00%					
	8/1/2013	1,545,000.00	5.00%					
	8/1/2014	1,620,000.00	5.00%					
	8/1/2015	1,700,000.00	5.13%					
	8/1/2016	1,790,000.00	5.13%					
	8/1/2017	1,880,000.00	5.25%					
	8/1/2018	1,980,000.00	5.25%					
	8/1/2019	2,085,000.00	5.25%					
	8/1/2020	2,195,000.00	5.25%					
Subtotal				19,000,000	1,335,000		17,665,000	
				19,000,000	1,335,000		17,665,000	

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
SCHEDULE OF LONG-TERM REVENUE BONDS PAYABLE
FISCAL YEAR ENDED OCTOBER 31, 2010

Purpose	Date of Issue	Maturities Date	Maturities Amount	Interest Rate	Balance October 31, 2009	Paid		Balance October 31, 2010
						Annual Maturity	Early Redemption	
					\$		\$	
\$22,642,977 (Series 2000A NJEIT) Fund Loan - To provide funds for the Treatment Plant Expansion and Upgrade Project and costs of issuance.	11/19/2000	2/1/2011 8/1/2011 2/1/2012 8/1/2012 2/1/2013 8/1/2013 2/1/2014 8/1/2014 2/1/2015 8/1/2015 2/1/2016 8/1/2016 2/1/2017 8/1/2017 2/1/2018 8/1/2018 2/1/2019 8/1/2019 2/1/2020 8/1/2020	\$ 243,419 994,083 224,653 1,012,850 204,948 1,033,358 184,238 1,052,863 1,074,042 139,164 1,086,942 114,570 1,122,604 86,108 1,149,762 60,241 1,178,194 30,895 1,154,691	9% 0% 0% 0% 0% 0% 0% 0% 0% 0% 0% 0% 0% 0% 0% 0% 0% 0% 0%	\$	\$	\$	\$
					13,562,589	1,238,441	1,238,441	12,324,148
Subtotal					<u>13,562,589</u>	<u>1,238,441</u>	<u>1,238,441</u>	<u>12,324,148</u>
\$10,520,000 (Series 2003) Revenue Refunding Bonds - To redeem the Series 1993B bonds maturing 2004-2016	8/19/03	11/1/2010 11/1/2011 11/1/2012 11/1/2013 11/1/2014 11/1/2015 11/1/2016	790,000.00 815,000.00 856,000.00 895,000.00 930,000.00 965,000.00 1,020,000.00	3.375% 3.625% 3.750% 3.900% 4.000% 4.125%	7,035,000	765,000	765,000	6,270,000
Subtotal					<u>7,035,000</u>	<u>765,000</u>	<u>765,000</u>	<u>6,270,000</u>
Grand Total					<u>\$ 40,437,589</u>	<u>\$ 3,463,441</u>	<u>\$ 715,000</u>	<u>\$ 36,259,148</u>
Detail:								
Current Portion								\$ 3,427,503
Long-Term Liability								<u>32,831,645</u>
								<u>\$ 36,259,148</u>

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

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

We have audited the financial statements of the Two Rivers Water Reclamation Authority, County of Monmouth, State of New Jersey (the "Authority"), as of and for the year ended October 31, 2010, and have issued our report thereon dated December 24, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses. We identified deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. These material weaknesses are described in the accompanying General Comments and Recommendations as findings 2010-1 and 2010-2.


**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 of 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 that are required to be reported under *Government Auditing Standards*.

We noted certain immaterial instances of noncompliance that we have reported to management of the Authority in the "General Comments and Recommendations" section of this report.

This report is intended solely for the information and use of the members of the Authority's Board and its management and for filing with the Division of Local Government Services, Department of Community Affairs, State of New Jersey and is not intended to be and should not be used by anyone other than these specified parties.



David A. Kaplan
Certified Public Accountant
Registered Municipal Accountant #433

DAK CPA

DAK CPA Certified Public Accountants

Long Branch, New Jersey
December 24, 2010

OFFICIALS IN OFFICE AND SURETY BOND/INSURANCE COVERAGE

TWO RIVERS WATER RECLAMATION AUTHORITY

ROSTER OF OFFICIALS

FISCAL YEAR ENDED OCTOBER 31, 2010

<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. Baarek, 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	
Birdsall Engineering Group	Engineer	

Surety Coverages:

- A. Municipal Excess Liability Joint Insurance Fund: Public Officials Liability/Employment Practices. \$2,000,000 in the aggregate on a claims made basis per member local unit for each fund year subject to a deductible and coinsurance. There is a combined POL/EPL \$2,000,000 per member annual aggregate.
- B. Municipal Excess Liability Joint Insurance Fund: Excess Public Officials Bond. \$1,000,000 in the aggregate.
- C. Municipal Excess Liability Joint Insurance Fund: Public Official Bond.
Robin Pitts (Member Town Billing Administrator = \$100,000. Michael A. Gianforte, P.E. = \$50,000.

TWO RIVERS WATER RECLAMATION AUTHORITY

INSURANCE COVERAGE

FISCAL YEAR ENDED OCTOBER 31, 2010

A blanket policy issued by the New Jersey Utility Authorities Joint Insurance Fund for a one-year period expiring on January 1, 2011, 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:	
Business Auto	10,000,000
Uninsured Motorists	15,000 / 30,000
Commercial Excess Liability	10,000,000
Public Official Liability	2,000,000
Boiler and Machinery	150,000,000
Crime Coverage	50,000
Worker's Compensation	Statutory
Environmental Liability	2,500,000
Travel Accident Insurance (Commissioners)	500,000
Flood / Building	500,000
Flood / Contents	250,000

All of the insurance policies in force were examined. No attempt was made to determine the adequacy of coverage as part of this report. Adequacy of coverage is the responsibility of the Authority. Insurance coverages continued uninterrupted through the date of this report.

GENERAL COMMENTS AND RECOMMENDATIONS

GENERAL COMMENTS
OCTOBER 31, 2010

Cash Balances

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

Finding:

Condition: Our examination revealed material adjusting audit journal entries were necessary to bring cash and investment account balances into agreement with bank reconciliations.

Criteria: Sound internal controls require the Authority to reconcile all bank and investment accounts to general ledger control totals on a monthly basis.

Cause: Failure to comply with prior year corrective action plan.

Authority Response: The Authority will take appropriate action to ensure that bank reconciliations are prepared accurately.

Recommendation: It is again recommended that all bank reconciliations be prepared accurately on a monthly basis and that reconciled balances agree with general ledger amounts.

Cash on hand was counted.

Contracts and Agreements Required to be Advertised/Informal Quotes

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

Annual Lawn Maintenance
Polymer
Electricity Supply
Hydrogen Peroxide
Bio Filter Media Replacement

Main Pump Station Electrical Tap Box
Nitrate Oxygen
Emergency Repairs
Pavement Restoration

GENERAL COMMENTS (CONTINUED)
OCTOBER 31, 2010

Contracts and Agreements Required to be Advertised/Informal Quotes

Effective July 1, 2010 the bid threshold in accordance with N.J.S.A. 40A:11-2 was increased to \$36,000 by appointment of a Qualified Purchasing Agent (QPA).

Under N.J.S.A. 40A:11-9(b) the Authority appointed the Executive Director as their Qualified Purchasing Agent. Accordingly, the 2010 bid threshold was \$29,000.00.

The Commissioners and Executive Director of the 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.

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.

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

GENERAL COMMENTS (CONTINUED)
OCTOBER 31, 2010

Delinquent Sewer Charges

A detail of all unpaid sewer charges including customer municipality billings outstanding and amounts due from the participant municipality users is being properly carried on the Authority's records. An abstract taken from these records as at October 31, 2010 covering all unpaid charges on that date was verified with the accounting control figures shown in this report.

A test verification of delinquent charges outstanding at October 31, 2010 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 permanent 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, 2010

Expenditures

In accordance with the Bond Resolution, Section 610, the Authority adopted an annual operating budget for the fiscal years ending October 31, 2010 and 2009.

The vouchers were examined to the extent deemed necessary and found to be satisfactory with minor exceptions.

An examination was made of the employees' compensation records for the year ended October 31, 2010 and for those employees examined, no exceptions were noted

General Ledger

Finding:

Condition: Material adjusting journal entries were proposed, accepted and recorded to bring unadjusted trial balance amounts into agreement with actual year end balances.

Criteria: Sound internal controls and State regulations require the Authority to maintain an accurate general ledger.

Cause: A lack of defined roles over maintaining and monitoring the condition of the general ledger.

Authority Response: The Authority will develop a procedure which ensures the accuracy of the general ledger.

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

Prior Year Findings

The Authority acknowledged receipt of the audit report for the fiscal year ended October 31, 2009 and adopted a corrective action plan on the audit recommendations contained therein. Recommendations 2010-1 and 2010-2 are repeated from the prior year.

GENERAL COMMENTS (CONTINUED)
OCTOBER 31, 2010

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.

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
OCTOBER 31, 2010

It is recommended:

- 2010-1 That all bank reconciliations be prepared accurately on a monthly basis and that reconciled balances agree with general ledger amounts.
- 2010-2 That the general ledger be maintained accurately.

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