

TWO RIVERS WATER RECLAMATION AUTHORITY

COUNTY OF MONMOUTH, NEW JERSEY

REPORT OF AUDIT

FISCAL YEARS ENDED OCTOBER 31, 2011 AND 2010

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, 2011 AND 2010

	<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>	 15-34
 <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	35
2 Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Cash Equivalents and Investments - Restricted Accounts	36
3 Comparative Schedule of Operating Revenues and Expenditures Compared to Budget	37-41
4 Schedule of Long-Term Revenue Bonds Payable	42-43
 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
 <u>Officials in Office and Surety Bond/Insurance Coverage</u>	 46-47
 <u>General Comments and Recommendations</u>	 48-51

INDEPENDENT AUDITOR'S REPORT

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, 2011 and 2010, 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, 2011 and 2010, 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 28, 2011 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 to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 28, 2011

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.

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 \$1,175,557 mainly due to the depreciation of capital assets. Total liabilities decreased by \$2,939,233 mainly due to the payment of revenue bond principal. Assets exceeded liabilities by \$68,807,214. This compares to 2010 where assets exceeded liabilities by \$67,043,509.

The Authority's Net Assets of \$68,807,214 are comprised of the following:

1. Invested in Capital Assets, Net of Related Debt of \$45,372,874, 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 \$1,452,965 from the prior year.

Capital Assets - Net	\$	78,204,520
Less:		
Bonds Payable - Current		3,522,503
Bonds Payable - Long Term		29,309,143
		45,372,874
Invested in Capital Assets, Net	\$	45,372,874

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 \$11,241,844 have been restricted for future capital improvements.

7. Net assets of \$ 200,000 restricted for Rate Stabilization.
8. Unrestricted net assets of \$10,595,298 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 \$310,740.

Comparative Condensed Statements of Net Assets

	<u>2011</u>	<u>As of October 31,</u> <u>2010</u>	<u>2009</u>
Total Current Assets	\$ 5,050,001	\$ 4,908,015	\$ 5,164,682
Total Restricted Assets	22,099,189	21,391,252	20,039,794
Net Capital Assets	78,204,520	80,179,056	82,760,806
Deferred Costs	<u>388,575</u>	<u>439,490</u>	<u>535,067</u>
 Total Assets	 <u>\$ 105,742,286</u>	 <u>\$ 106,917,813</u>	 <u>\$ 108,500,349</u>
 Total Current Liabilities Payable from Current Assets	 \$ 1,538,002	 \$ 1,586,265	 \$ 1,396,135
Total Current Liabilities Payable from Restricted Assets	3,934,545	3,846,192	5,032,193
Accrued Non-Current Employee Benefits	1,711,687	1,174,649	633,375
Unemployment Claims Reserve	95,099	88,321	88,128
Compensated Absences Payable	357,886	363,787	344,286
Long-Term Obligations - Net	<u>29,297,850</u>	<u>32,815,090</u>	<u>35,813,801</u>
 Total Liabilities	 <u>\$ 36,935,071</u>	 <u>\$ 39,874,304</u>	 <u>\$ 43,307,918</u>
 Net Assets	 <u>\$ 68,807,215</u>	 <u>\$ 67,043,509</u>	 <u>\$ 65,192,431</u>

Total Current Assets increased because Customer Charges Receivable increased.

Total Restricted Assets have increased because investments increased.

Capital Assets acquired were \$1,056,979 and depreciation charged was \$3,031,517. 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 have increased because the current portion of Revenue Bonds Payable has increased.

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

Total Net Assets have increased as a result of the reported positive change in net assets for the 2011 fiscal year.

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

2011 Operating Revenues fell slightly from 2010 levels, mainly due to an increase in revenues from Customer Municipalities offset by a decrease in connection fee revenue. Total Operating Expenses were relatively unchanged from the prior year.

Total Operating Revenues less total Operating Expenses produced Operating Income of \$2,750,753 which is slightly less than 2010 Operating Income of \$2,811,639.

Total Net Assets as of October 31, 2011 increased by \$1,763,705, as is depicted below.

	<u>Fiscal Years Ended October 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total Operating Revenues	\$ <u>14,197,949</u>	\$ <u>14,229,719</u>	\$ <u>14,973,959</u>
Operating Expenses	8,415,680	8,375,791	8,441,610
Depreciation	<u>3,031,516</u>	<u>3,042,289</u>	<u>2,989,251</u>
Total Operating Expenses	<u>11,447,196</u>	<u>11,418,080</u>	<u>11,430,861</u>
Operating Income	2,750,753	2,811,639	3,543,098
Non-Operating Revenues/ (Expenses) - Net	<u>(987,048)</u>	<u>(960,561)</u>	<u>(1,220,038)</u>
Change in Net Assets before Extraordinary Item	1,763,705	1,851,078	2,323,060
Extraordinary Item			11,500,000
Net Assets, Beginning	<u>67,043,509</u>	<u>65,192,431</u>	<u>51,369,371</u>
Net Assets, Ending	<u>\$ 68,807,214</u>	<u>\$ 67,043,509</u>	<u>\$ 65,192,431</u>

Statement of Cash Flows

The net increase in Cash and Cash Equivalents was \$110,436. This compares to a net increase in Cash and Cash Equivalents in 2010 of \$34,251.

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 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 2011 budget.

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 38 and a 2011 budget of \$13.1 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.

This page intentionally left blank.

FINANCIAL STATEMENTS

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE STATEMENT OF NET ASSETS
OCTOBER 31, 2011 AND 2010

<u>ASSETS</u>	October 31,	
	2011	2010
Current Assets:		
Cash and Cash Equivalents	\$ 388,842	\$ 309,454
Investments	2,718,396	3,527,679
	3,107,237	3,837,133
Inventory	17,267	12,723
Customer Charges Receivable, Net of Allowance	1,161,932	249,317
Sewer Billings Receivable	763,566	806,770
Prepaid Expenses		2,072
Total Current Assets	5,050,001	4,908,015
Restricted Assets:		
Revenue Fund - Unemployment Cash and Cash Equivalents	94,986	88,207
Developer Deposits:		
Cash and Cash Equivalents - Escrow	107,824	83,555
Bond Service Account:		
Investments	924,321	912,475
Bond Reserve Account:		
Investments	363,220	372,184
General Account:		
Cash and Cash Equivalents	367,808	367,808
Investments	19,462,713	18,821,492
Construction Account:		
Investments	195,857	282,066
Renewal and Replacement Account:		
Investments	582,460	463,465
Total Restricted Assets	22,099,189	21,391,252
Noncurrent Assets:		
Capital Assets - Non-Depreciable	1,470,400	1,461,400
Capital Assets - Net of Depreciation	76,734,120	78,717,656
Deferred Charges:		
Unamortized Bond Issue Costs	388,575	439,490
	78,593,095	80,618,546
Total Assets	\$ 105,742,286	\$ 106,917,813

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, 2011 AND 2010

	October 31,	
<u>LIABILITIES</u>	2011	2010
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable	\$ 402,400	\$ 500,660
Accrued Expenses	124,623	110,802
Payroll Taxes Payable	29,000	23,897
Customer Overpayments	28,732	20,708
Deferred Revenue	953,247	930,199
Total Current Liabilities Payable from Unrestricted Assets	1,538,002	1,586,266
Current Liabilities Payable from Restricted Assets:		
Reserve for Developers' Deposits	107,552	83,358
Accrued Interest on Revenue Bonds Payable	304,490	335,331
Revenue Bonds Payable - Current Portion	3,522,503	3,427,503
Total Current Liabilities Payable from Restricted Assets	3,934,546	3,846,192
Long-Term Revenue Bonds Payable	29,309,143	32,831,645
Less:		
Unamortized Bond Discount/(Premium)	2,327	469
Unamortized Loss on Defeasance	(13,620)	(17,025)
	29,297,850	32,815,089
Accrued Non-Current Employee Benefits	1,711,687	1,174,649
Unemployment Claims	95,099	88,321
Compensated Absences Payable	357,886	363,787
Total Noncurrent Liabilities	31,462,523	34,441,846
Total Liabilities	\$ 36,935,071	\$ 39,874,304
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	\$ 45,372,874	\$ 43,919,909
Restricted:		
Collection System Improvements	400,000	400,000
Rate Stabilization	200,000	200,000
Debt Service	357,199	357,199
Renewal and Replacement	450,000	450,000
Dredging Project - Shrewsbury River	190,000	190,000
Future Capital Improvements	11,241,844	11,500,000
Unrestricted	10,595,298	10,026,402
Total Net Assets	\$ 68,807,214	\$ 67,043,509

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, 2011 AND 2010

	October 31,	
	2011	2010
Operating Revenues:		
Customer Municipalities:		
Annual Charges	\$ 8,059,080	\$ 7,627,062
Participating Municipalities:		
Service Charges	5,696,432	5,599,757
Other Fees	442,438	1,002,899
Total Operating Revenues	14,197,949	14,229,718
Operating Expenses:		
Administration and General	2,216,897	2,234,968
Treatment Plant and Main Pumping Station	5,020,222	5,058,332
Lines and System Pumping Stations	1,038,438	1,054,867
Depreciation	3,031,516	3,042,289
Renewal and Replacement	140,123	27,622
Total Operating Expenses	11,447,196	11,418,079
Operating Income	2,750,753	2,811,639
Non-Operating Revenues/(Expenses):		
Interest on Bonds	(939,890)	(1,058,173)
Interest Income	69,421	252,376
Amortization of Debt Issue Costs	(50,914)	(73,104)
Amortization of Bond (Discount)/Premium - Net	(1,858)	(2,085)
Miscellaneous Income/(Expense)	(63,807)	(79,575)
Total Non-Operating Revenues/(Expenses)	(987,048)	(960,561)
Change in Net Assets	1,763,705	1,851,078
Net Assets, Beginning	67,043,509	65,192,431
Net Assets, Ending	\$ 68,807,214	\$ 67,043,509

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, 2011 AND 2010

	October 31,	
	2011	2010
Cash Flows from Operating Activities:		
Receipts from Members and Customers	\$ 13,328,539	\$ 14,031,522
Payments to Employees and Suppliers	(8,008,183)	(7,639,354)
Net Cash Provided/(Used) by Operating Activities	5,320,356	6,392,168
Cash Flows from Capital and Related Financing Activities:		
Purchase of Capital Assets	(1,056,979)	(460,539)
Repayment of Revenue Bonds Payable	(3,427,502)	(4,178,441)
Net Cash Provided/(Used) by Capital and Related Financing Activities	(4,484,481)	(4,638,980)
Cash Flows from Investing Activities:		
Interest Received	69,421	252,376
Interest Paid on Revenue Bonds	(927,255)	(1,072,052)
Redemption/(Purchase) of Investment Securities	132,394	(899,261)
Net Cash Provided/(Used) in Investing Activities	(725,439)	(1,718,937)
Net Increase/(Decrease) in Cash Equivalents	110,436	34,251
Cash and Cash Equivalents at Beginning of Year	849,024	814,773
Cash and Cash Equivalents at End of Year	\$ 959,460	\$ 849,024
Reconciliation of Net Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 2,750,753	\$ 2,811,639
Depreciation	3,031,516	3,042,289
Other Post Employment Benefits Accrual	537,038	633,375
Changes in Assets and Liabilities:		
(Increase)/Decrease in Receivables:		
Unrestricted Accounts	(871,882)	(161,280)
Increase/(Decrease) in Current Liabilities:		
Payable from Unrestricted Assets	(50,264)	190,130
Payable from Restricted Assets	(6,647)	(52,734)
Miscellaneous Income/(Expense)	(69,281)	(90,945)
Increase/(Decrease) in Other Liabilities	(877)	19,694
Net Cash Provided by Operating Activities	\$ 5,320,356	\$ 6,392,168
Reconciliation to Statement of Net Assets:		
Unrestricted Cash and Cash Equivalents	\$ 388,842	\$ 309,454
Restricted Cash and Cash Equivalents	570,618	539,570
	\$ 959,460	\$ 849,024

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, 2011 AND 2010

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 and Strips, Governmental 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. Diesel fuel, valued at cost, at October 31, 2011 and 2010 was \$17,267 and \$12,723, respectively.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2011 AND 2010

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 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, 2011 AND 2010

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, 2011 AND 2010

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 Bond Issue Costs

Deferred bond 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 bond issuance costs as of October 31, 2011 and 2010 is \$388,575 and \$439,490, 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.

Allowance for Doubtful Accounts

Customer Charges Receivable, as reflected on the Statement of Net Assets, are reflected net of an allowance for doubtful accounts. An allowance was established in the amount of \$102,093 in response to the uncertainty over the collectability of this amount from the United States Department of Defense.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2011 AND 2010

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	Current Year's Activity		Balance	
	October 31, 2010	Increase	Decrease	October 31, 2011	Useful Life
Non-Depreciable Assets:					
Land and Easements	\$ 1,461,400	\$ 9,000		\$ 1,470,400	
Depreciable Assets:					
Buildings and Additions	13,552,878	88,087		13,640,965	40 - 75 Years
Other Improvements	67,904,573	170,069	(5,240)	68,069,402	7 - 20 Years
Sewer Mains and					
Interceptors	32,518,042	484,998		33,003,040	75 Years
Pump Stations	6,401,207	23,292	(6,233)	6,418,266	40 Years
Other Equipment	2,115,000	145,781	(36,235)	2,224,546	5 - 75 Years
Vehicles	920,371	135,752		1,056,123	5 Years
	<u>\$ 124,873,471</u>	<u>\$ 1,056,979</u>	<u>\$ (47,708)</u>	<u>\$ 125,882,742</u>	
Less: Accumulated Depreciation	<u>(44,694,413)</u>	<u>(3,031,517)</u>	<u>47,708</u>	<u>(47,678,222)</u>	
	<u>\$ 80,179,058</u>	<u>\$ (1,974,538)</u>	<u>\$</u>	<u>\$ 78,204,520</u>	

Accumulated depreciation at October 31, 2011 and 2010 was \$47,678,222 and \$44,694,413 respectively.

Depreciation expense for the years ended October 31, 2011 and 2010 was \$3,031,517 and \$3,042,289, 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, 2011 AND 2010

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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%.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2011 AND 2010

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, 2011, cash and cash equivalents (Deposits) of the Authority consisted of interest bearing Checking and Money Market Checking accounts totaling \$ 959,460.

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.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2011 AND 2010

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, 2011, 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		\$ 2,718,396	\$ 2,718,396	\$
GOV. MONEY MARKET FUND	Var.	<u>2,718,396</u>	<u>2,718,396</u>	<u> </u>
<u>BOND SERVICE FUND:</u>				
WELLS FARGO ADVANTAGE		924,321	924,321	
GOV. MONEY MARKET FUND	Var.	<u>924,321</u>	<u>924,321</u>	<u> </u>
<u>BOND RESERVE FUND:</u>				
WELLS FARGO ADVANTAGE		121,536	121,536	
GOV. MONEY MARKET FUND	Var.	101,055		101,055
US TREASURY NOTE	1.125%	40,574		40,574
US TREASURY NOTE	1.375%	100,055		100,055
US TREASURY NOTE	0.750%	<u>363,220</u>	<u>121,536</u>	<u>241,684</u>
<u>CONSTRUCTION FUND:</u>				
WELLS FARGO ADVANTAGE		195,857	195,857	
GOV. MONEY MARKET FUND	Var.	<u>195,857</u>	<u>195,857</u>	<u> </u>

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2011 AND 2010

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.	\$178,936	\$178,936	
U.S. TREASURY NOTES	.75%-1.375%	403,524	201,207	\$ 202,317
		<u>582,460</u>	<u>380,143</u>	<u>202,317</u>
<u>GENERAL FUND:</u>				
WELLS FARGO ADVANTAGE				
GOV MM FD	Var.	10,218,211	10,218,211	
CERTIFICATE OF DEPOSIT	Var.	221,357	221,357	
U.S. TREASURY SEC STRIPS	0.000%	5,902,213	5,698,254	203,959
U.S. TREASURY NOTES	.75% to 1.375%	3,120,932	2,210,150	910,782
		<u>19,462,713</u>	<u>18,347,972</u>	<u>1,114,741</u>
GRAND TOTAL		<u>\$24,246,967</u>	<u>\$22,688,225</u>	<u>\$1,558,742</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, 2011 AND 2010

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 were five and one-half percent of pensionable wages through October 1, 2011 and six and one-half percent thereafter through October 31, 2011. 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, 2011 AND 2010

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>
2011	\$ 269,851	\$ 138,748
2010	208,675	136,616
2009	182,100	131,567

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, 2011, the following information was applied:

Bond Service Fund - Investments at October 31, 2011		\$ 924,321
Less: Principal Required November 1 - 2003 Series	\$ 815,000	
Interest Required November 1 - 2003 Series	107,193	922,193
Excess		\$ 2,128
Interfunds Payable		2,128
Excess		\$ None

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2011 AND 2010

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, 2011, the following information applied:

Bond Reserve Fund - Investments at October 31, 2011	\$	363,220
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	\$	6,021
Interfunds Payable		6,021
Excess	\$	None

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, 2011.

Deferred Revenue of \$953,247 represents the portion of the participant's calendar year billings for November and December 2011, which are billed but unearned at October 31, 2011. Deferred Revenue at October 31, 2010 was \$930,199.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2011 AND 2010

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

The number of billing units within the participating municipalities as of October 31, 2011 and 2010 were as follows:

<u>Participating Municipality</u>	<u>Billing Units as of October 31,</u>	
	<u>2011</u>	<u>2010</u>
Fair Haven	2,272.80	2,276.79
Little Silver	2,813.11	2,801.75
Monmouth Beach	2,109.49	2,107.53
Oceanport	2,505.30	2,493.80
Shrewsbury Borough	2,707.13	2,656.77
West Long Branch	3,438.99	3,248.16
	15,846.82	15,584.80

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, 2011 AND 2010

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, 2012 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 from August 1, 2012 through 2020 at amounts ranging from \$1,470,000 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.

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, 2011 through 2016 at annual maturities ranging from \$815,000 to \$1,020,000 and bear interest, payable semi-annually, at rates ranging from 3.625% to 4.125%. 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.

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.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2011 AND 2010

Note 8. LONG-TERM DEBT (CONTINUED)

Changes in long-term debt are as follows:

	<u>Balance</u> <u>October 31, 2010</u>	<u>Decreased</u>	<u>Balance</u> <u>October 31, 2011</u>	<u>Due Within</u> <u>One Year</u>	<u>Long Term</u> <u>Portion</u>
Revenue Bonds	\$ 36,259,148	\$ 3,427,502	\$ 32,831,646	\$ 3,522,503	\$29,309,143
Total	<u>\$ 36,259,148</u>	<u>\$ 3,427,502</u>	<u>\$ 32,831,646</u>	<u>\$ 3,522,503</u>	<u>\$29,309,143</u>

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

<u>Year Ended</u> <u>October 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	3,380,585	_____	3,380,585
	<u>\$ 32,831,646</u>	<u>\$ 4,093,701</u>	<u>\$ 36,925,347</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2011 AND 2010

Note 9. COMPENSATED ABSENCES PAYABLE

At October 31, 2011, 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 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 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, 2011 and 2010, \$357,886 and \$363,787, 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. 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, 2011 AND 2010

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:

<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>
2011	\$	\$ 6,778	\$	\$ 95,099
2010	194	-		88,321
2009	283	3,261		88,127

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2011 AND 2010

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).

	2011		
	<u>Per Schedule 3</u>	<u>Less Asset</u> <u>Acquisitions</u>	<u>Per Exhibit B</u>
Administration	\$ 2,223,366	\$ (6,469)	\$ 2,216,897
Treatment Plant	5,112,721	(92,499)	5,020,222
Lines	1,065,653	(27,215)	1,038,438
Renewal & Replacement	271,100	(130,977)	140,123
	<u>\$ 8,672,840</u>	<u>\$ (257,160)</u>	<u>\$ 8,415,680</u>
	2010		
	<u>Per Schedule 3</u>	<u>Less Asset</u> <u>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, 2011 AND 2010

Note 13. 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, 2011 AND 2010

Note 13. 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 2011 and 2010 of \$633,375.

The following are the components of the 2011 annual OPEB cost:

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

As of October 31, 2011 and 2010, 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 14. SUBSEQUENT EVENTS

There were no events occurring through the date of the independent auditor's report, December 28, 2011 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, 2011

Cash and Cash Equivalents and Investments, November 1, 2010	\$	3,837,133
Cash Receipts:		
Customer Municipalities Annual Charges		6,852,362
Monmouth Park		294,102
Participating Municipalities Service Charges		5,867,646
Other Income		217,738
Interest Income		209
Connection Fees		224,700
Transfers from Restricted Accounts		<u>505,687</u>
Total Cash and Investments Available		<u>17,799,577</u>
Cash Disbursements:		
Vendors and Payroll		8,294,996
Transfers to Restricted Accounts		<u>6,397,344</u>
Total Cash Disbursements		<u>14,692,340</u>
Cash and Cash Equivalents and Investments, October 31, 2011	\$	<u><u>3,107,237</u></u>
Balance Comprised of:		
Cash and Cash Equivalents	\$	388,842
Investments		<u>2,718,396</u>
	\$	<u><u>3,107,237</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, 2011

	Accounts Required by Revenue Bond Agreement					Other Accounts		Total
	Bond Service	Bond Reserve	Renewal and Replacement	General	Construction	Unemployment Reserve	Escrow Deposits	
Cash and Cash Equivalents and Investments, November 1, 2010	\$ 912,475	\$ 372,184	\$ 463,465	\$ 19,189,300	\$ 282,066	\$ 88,207	\$ 83,555	\$ 21,391,252
Cash Receipts:								
Interest on Investments	2,128	220	1,285	52,711	216			56,560
Sewer Connections					18,200			18,200
Transfers from Unrestricted Funds	1,027,436		121,277	5,248,631				6,397,344
Transfers from Restricted Funds	3,417,185			6,338	750,000			4,173,522
Payroll Deductions								
Proceeds from NJEIT						6,779		6,779
Bond Proceeds - 2003 Refunding Series								
Proceeds from Note Sale								
Developers' Deposits							33,565	33,565
Total Cash and Investments Available	5,359,224	372,404	586,027	24,496,980	1,050,482	94,986	117,120	32,077,223
Cash Disbursements:								
Requisitions Paid					854,625			854,625
Payment of Bond Interest	927,255							927,255
Payment of Bond Principal	3,427,503							3,427,503
Premium on Redemption of Bonds								
Transfers to Unrestricted Funds		2,846	3,567	499,274				505,687
Transfers to Restricted Funds		6,338		4,167,185				4,173,522
NJEIT - Administrative Fee	80,146							80,146
Developers' Escrow Payments							9,296	9,296
Total Cash Disbursements	4,434,903	9,184	3,567	4,666,459	854,625		9,296	9,978,034
Cash and Cash Equivalents and Investments, October 31, 2011	\$ 924,321	\$ 363,220	\$ 582,460	\$ 19,830,521	\$ 195,857	\$ 94,986	\$ 107,824	\$ 22,099,189
Balance Comprised of:								
Cash and Cash Equivalents	\$ 924,321	\$ 363,220	\$ 582,460	\$ 19,462,713	\$ 195,857	\$ 94,986	\$ 107,824	\$ 570,618
Investments	\$ 924,321	\$ 363,220	\$ 582,460	\$ 19,830,521	\$ 195,857	\$ 94,986	\$ 107,824	\$ 21,528,571
	\$ 924,321	\$ 363,220	\$ 582,460	\$ 19,830,521	\$ 195,857	\$ 94,986	\$ 107,824	\$ 22,099,189

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, 2011 AND 2010

	Adopted Budget	October 31, 2011		October 31, 2010		Variance Final to Actual
		Final Budget	Realized	Final Budget	Realized	
Revenues						
Revenue from Customer Municipalities and Government Facilities:	\$ 7,160,000	\$ 7,160,000	\$ 2,057,695	\$ 7,075,632	\$ 2,012,980	\$ 2,012,980
Eatontown			1,224,778		1,248,729	1,248,729
Tinton Falls			1,426,122		1,359,457	1,359,457
Red Bank			1,613,662		1,552,443	1,552,443
Rumson			372,283		497,521	497,521
Sea Bright			160,538		119,837	119,837
Township of Shrewsbury			714,174		616,140	616,140
Fort Monmouth			489,828		219,955	219,955
Monmouth Park						
	<u>7,160,000</u>	<u>7,160,000</u>	<u>8,059,080</u>	<u>7,075,632</u>	<u>7,627,062</u>	<u>551,430</u>
Service Charges:						
Individual Billings Member Towns	<u>5,663,880</u>	<u>5,663,880</u>	<u>5,696,432</u>	<u>5,609,800</u>	<u>5,599,757</u>	<u>(10,043)</u>
Interest on Investments	<u>75,000</u>	<u>75,000</u>	<u>69,421</u>	<u>450,000</u>	<u>130,211</u>	<u>(319,789)</u>
Other Fees:						
Connection Charges	<u>244,000</u>	<u>244,000</u>	<u>224,700</u>	<u>300,000</u>	<u>955,133</u>	<u>655,133</u>
Miscellaneous Income	<u>20,000</u>	<u>20,000</u>	<u>217,738</u>	<u>20,000</u>	<u>47,766</u>	<u>27,766</u>
	<u>264,000</u>	<u>264,000</u>	<u>442,438</u>	<u>320,000</u>	<u>1,002,899</u>	<u>682,899</u>
Total Operating Revenues	<u>\$ 13,162,880</u>	<u>\$ 13,162,880</u>	<u>\$ 14,267,370</u>	<u>\$ 13,455,432</u>	<u>\$ 14,359,929</u>	<u>\$ 904,497</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, 2011 AND 2010

	October 31, 2011			October 31, 2010		
	Adopted Budget	Final Budget	Paid or Charged	Final Budget	Paid or Charged	Variance Final to Actual
Expenditures						
Administrative and General Expenses:						
Administrative Salaries and Wages	\$ 460,400	\$ 460,400	\$ 482,064	\$ (21,664)	\$ 507,868	\$(8,368)
Employee Benefits	157,080	157,080	115,613	41,467	121,316	123,684
FICA and Medicare	40,280	40,280	34,732	5,548	31,290	3,710
Employee Medical Related	2,000	2,000	1,461	539	2,000	2,000
Pension PERS	226,000	226,000	273,136	(47,136)	208,675	(75,675)
Billing Expenses:						
Computer Service	1,800	1,800	2,791	(991)	2,894	106
Billing Postage	27,000	27,000	10,414	16,587	12,522	15,778
Office Expenses:						
Other Postage	2,900	2,900	3,443	(543)	2,902	2,298
Stationery and Supplies	16,700	16,700	15,253	1,447	12,127	6,873
Equipment Rental and Supplies	18,000	18,000	17,655	345	14,018	1,482
Printing	16,750	16,750	8,335	8,415	1,062	15,088
Equipment Service Contracts	19,000	19,000	16,621	2,379	19,828	(2,328)
Telephone	15,000	15,000	11,634	3,366	15,526	974
General Expenses:						
Conferences and Training	3,400	3,400	8,348	(4,948)	4,015	(415)
Commissioners Conference	3,800	3,800	698	3,102	1,528	2,472
Travel Expenses	1,000	1,000	540	460	2,081	(1,081)
Auto and Fire Liability Business Insurance	166,000	166,000	166,113	(113)	148,434	9,566
Worker's Compensation Insurance	114,300	114,300	111,333	2,967	114,339	(39)
Advertising Fees	4,100	4,100	8,368	(4,268)	6,572	(2,572)
NJ/EIT Administration & Agent Fees	81,000	81,000	80,145	855	80,145	855
Dues and Membership	7,300	7,300	6,236	1,064	7,629	(429)
Subscriptions	1,600	1,600	1,909	(309)	1,798	(198)
Gift Baskets	700	700	300	400	435	265
Meeting Expenses	2,000	2,000	2,635	(635)	4,921	579
Leases of R.R. Property	105	105	101	4	99	1
Long Branch Sewer	3,300	3,300	3,432	(132)	3,300	
Contingency	7,000	7,000	3,011	3,989	18,912	(9,412)
Professional Expenses:						
Legal Fees	55,000	55,000	59,750	(4,750)	77,939	(22,939)
Engineering Fees	60,000	60,000	74,646	(14,646)	113,465	(52,465)
Trustee Fees	4,000	4,000		4,000	7,053	947
Auditors Fees	31,000	31,000	30,750	250	29,600	4,400

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, 2011 AND 2010

	October 31, 2011			October 31, 2010			
	Adopted Budget	Final Budget	Paid or Charged	Variance Final to Actual	Final Budget	Paid or Charged	Variance Final to Actual
Expenditures (Continued)							
Administrative and General Expenses (Continued):							
Professional Expenses (Continued):							
Investors Management Fees	\$ 40,800	\$ 40,800	\$ 23,112	\$ 17,688	\$ 19,200	\$ 33,624	\$ (14,424)
Misc. Division of Motor Vehicles	7,700	7,700	4,709	2,992	7,700	255	7,445
Pre-Employment Physical Fees	700	700		700	700		700
Bank Fees Revenue Fund	32,000	32,000	10,704	21,296			
Other Post Employment Benefits			633,375	(633,375)		633,375	(633,375)
Total Administrative and General Expenses	1,629,715	1,629,715	2,223,366	(593,651)	1,585,050	2,239,548	(654,498)
Treatment Plant and Main Pumping Expenses:							
Plant Salaries and Wages	1,779,000	1,779,000	2,049,881	(270,881)	1,832,500	1,961,486	(128,986)
Employee Benefits	549,780	549,780	451,014	98,766	404,000	367,762	36,238
FICA and Medicare	140,980	140,980	155,238	(14,258)	135,000	147,541	(12,541)
Other Treatment Plant Expenses:							
Stationery and Supplies	12,000	12,000	6,238	5,762	15,000	(868)	868
Conferences and Training	940,000	940,000	900,526	39,474	1,000,000	7,213	7,787
Electricity	75,000	75,000	66,613	8,387	75,000	885,347	114,653
Fuel - Diesel	100,000	100,000	78,114	21,886	100,000	49,981	25,019
Natural Gas	100,000	100,000	89,134	10,866	110,000	85,661	14,339
Sodium Hypochlorite	100,000	100,000	71,392	28,608	85,000	97,932	12,068
Polymer	80,000	80,000	44,016	35,984	70,000	87,260	(2,260)
Hydrogen Peroxide						90,898	(20,898)
Permanganate							
Non Bulk Chemicals	1,000	1,000		1,000	3,000		3,000
Fuel - Unleaded	20,000	20,000	29,104	(9,104)	20,000	23,101	(3,101)
Truck Maintenance	40,000	40,000	65,045	(25,045)	40,000	55,262	(15,262)
DEP and EPA Permits	45,000	45,000	34,745	10,255	50,000	41,225	8,775
Meter Calibration	3,000	3,000	1,533	1,467	10,000	1,817	8,183
Water	45,000	45,000	27,253	17,747	45,000	42,199	2,801
Stationery Supplies			404	(404)			
Maintenance Supplies	40,000	40,000	99,374	(59,374)	40,000	45,844	(5,844)
Equipment Service Contracts	45,000	45,000	34,489	10,511	40,000	22,532	17,468
Equipment Repair	50,000	50,000	20,473	29,527	50,000	122,758	(72,758)

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, 2011 AND 2010

	October 31, 2011			October 31, 2010		
	Adopted Budget	Final Budget	Paid or Charged	Final Budget	Paid or Charged	Variance Final to Actual
Expenditures (Continued)						
Treatment Plant and Main Pumping Expenses (Continued):						
Other Treatment Plant Expenses (Continued):						
Uniforms and Gloves	\$ 12,500	\$ 12,500	\$ 16,844	\$ (4,344)	\$ 15,913	\$ (2,913)
Equipment Replacement	30,000	30,000	41,568	(11,568)	28,081	1,919
Sludge Removal	990,000	990,000	676,969	313,031	799,528	200,472
Ash, Grit and Screenings	21,000	21,000	20,044	956	20,267	(267)
Laboratory Supplies	30,000	30,590	(590)	(590)	33,062	(3,062)
Outside Lab Fees	20,000	20,000	28,403	(8,403)	23,779	(1,279)
Municipal Services	28,000	28,000	25,481	2,519	25,080	920
Janitorial Supplies	8,000	8,000	8,389	(389)	11,804	(3,804)
Building and Ground Maintenance	42,500	42,500	20,382	22,118	50,641	(8,141)
Travel Expenses			2,454	(2,454)	91	(91)
Contingency	20,000	20,000	17,012	20,000	14,732	5,268
New Equipment	20,000	20,000	2,988	2,988	11,868	13,132
Penalties and Fines	49,000	49,000		49,000		49,000
Total Treatment Plant and Main Pumping Expenses	5,436,760	5,436,760	5,112,721	324,039	5,169,800	240,700
Lines and System Pumping Station:						
Line Salaries and Wages	415,000	415,000	393,350	21,650	382,101	31,899
Employee Benefits	78,540	78,540	93,540	(15,000)	79,500	11,500
FICA and Medicare	20,140	20,140	30,017	(9,877)	27,564	10,736
Other Lines Expenses:						
Conferences and Training	2,500	2,500	118	2,382	935	1,066
Electricity	144,000	144,000	113,984	30,016	133,582	(1,582)
Fuel - Unleaded Gasoline	15,000	15,000	8,342	6,658	3,895	11,105
Equipment Service - Contracts and Rentals	4,500	4,500	4,048	452	3,571	1,929
Truck Maintenance	7,500	7,500	3,182	4,318	14,786	(7,286)
Natural Gas	25,000	25,000	19,196	5,804	17,998	7,002
Hydrogen Peroxide	55,000	55,000	86,588	(31,588)	37,514	17,486
Nitrate Oxygen	9,000	9,000	22,284	(13,284)	37,377	(67,377)
Maintenance and Supplies	15,000	15,000	18,403	(3,403)	16,830	(1,830)
Uniforms and Gloves	3,600	3,600	2,846	754	2,098	1,902

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, 2011 AND 2010

	October 31, 2011			October 31, 2010		
	Adopted Budget	Final Budget	Paid or Charged	Final Budget	Paid or Charged	Variance Final to Actual
<u>Expenditures (Continued)</u>						
Lines and System Pumping Station (Continued):						
Other Lines Expenses (Continued):						
Buildings and Grounds Maintenance	\$ 25,000	\$ 25,000	\$ 8,679	\$ 16,321	\$ 17,006	\$ 12,994
Chemicals	7,500	7,500	7,796	(296)	7,500	7,500
Maintenance of Lines	175,000	175,000	176,641	(1,641)	222,586	(47,586)
Water	2,500	2,500	1,619	881	2,421	(421)
Fuel Diesel	8,000	8,000	855	7,145	1,235	6,765
Calibration Services	14,500	14,500	6,590	7,910	9,584	5,416
Communications Equipment	2,500	2,500	4,039	(1,539)	531	1,969
Equipment Repair	30,000	30,000	28,461	1,539	17,448	12,552
Equipment Replacement	30,000	30,000	32,004	(2,004)	22,091	7,909
Contingency	10,000	10,000	10,000	10,000	2,544	7,456
New Equipment	5,000	5,000	3,071	1,929	3,994	1,006
Total Lines and System Pumping Station Expenses	1,104,780	1,104,780	1,065,653	39,127	1,093,189	32,111
Total Operating Expenses	8,171,255	8,171,255	8,401,740	(230,485)	8,502,538	(381,688)
Other Costs Funded by Operating Revenues:						
Bond Principal	3,452,503	3,452,503	3,452,503	3,363,441	3,363,441	
Interest on Bonds	910,768	910,768	936,485	(25,717)	1,019,318	(9,110)
Rate Stabilization				200,000	200,000	
Renewal and Replacement	580,000	580,000	271,100	308,900	192,368	387,632
Total Other Costs Funded by Operating Revenues	4,943,271	4,943,271	4,660,088	283,183	4,775,127	378,522
Grand Totals	\$ 13,114,526	\$ 13,114,526	\$ 13,061,828	\$ 52,698	\$ 13,274,499	\$ (3,166)

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
SCHEDULE OF LONG-TERM REVENUE BONDS PAYABLE
FISCAL YEAR ENDED OCTOBER 31, 2011

Purpose	Date of Issue	Maturities		Interest Rate	Balance October 31, 2010	Paid	Balance October 31, 2011
		Date	Amount				
\$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	8/1/2012	\$ 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					
\$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	2/1/2012	224,653	0%			
		8/1/2012	1,012,850	0%			
		2/1/2013	204,948	0%			
		8/1/2013	1,033,359	0%			
		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			12,324,148		1,237,502	11,086,646	
			12,324,148		1,237,502	11,086,646	

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
SCHEDULE OF LONG-TERM REVENUE BONDS PAYABLE
FISCAL YEAR ENDED OCTOBER 31, 2011

Purpose	Date of Issue	Maturities		Interest Rate	Balance October 31, 2010	Paid	Balance October 31, 2011
		Date	Amount				
\$10,520,000 (Series 2003) Revenue Refunding Bonds - To redeem the Series 1993B bonds maturing 2004-2016	8/19/03	11/1/2011	\$ 815,000.00	3.625%	\$		\$
		11/1/2012	855,000.00	3.750%			
		11/1/2013	895,000.00	3.900%			
		11/1/2014	930,000.00	4.000%			
		11/1/2015	965,000.00	4.000%			
		11/1/2016	1,020,000.00	4.125%	6,270,000	790,000	5,480,000
Subtotal					6,270,000	790,000	5,480,000
Grand Total					\$ 36,259,148	\$ 3,427,502	\$ 32,831,646
Detail:							
							\$ 3,522,503
							29,309,143
							\$ 32,831,646

**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
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 fiscal year ended October 31, 2011, and have issued our report thereon dated December 28, 2011. 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 did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**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 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 28, 2011

OFFICIALS IN OFFICE AND SURETY BOND/INSURANCE COVERAGE

TWO RIVERS WATER RECLAMATION AUTHORITY

ROSTER OF OFFICIALS

FISCAL YEAR ENDED OCTOBER 31, 2011

<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	
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 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, 2011

A blanket policy issued by the New Jersey Utility Authorities Joint Insurance Fund for a one-year period expiring on January 1, 2012, 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, 2011

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 2011 bid threshold was \$36,000.

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

Pump Station 12 Bypass and Meter	Boiler Replacement
Polymer	UST/AST Site Improvements
Sodium Hypochlorite	Hydrogen Sulfide Removal -Nitrate Oxygen
Emergency Repairs	Hydrogen Sulfide Removal - Hydrogen
Hydrogen Sulfide Removal -Bioxide 71	Peroxide Process

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.

Emergency expenditures were made under the provisions of N.J.S.A. 40A:11-6 for the repair of Manhole MB-222 and the appurtenant 27" gravity main.

GENERAL COMMENTS (CONTINUED)
OCTOBER 31, 2011

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, 2011 covering all unpaid charges on that date.

Finding:

Condition: Material adjusting journal entries were proposed, accepted and recorded to bring unadjusted trial balance amounts for sewer charges due from participants and customer municipalities into agreement with actual year end balances.

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

Cause: Significant improvement of the general ledger was noted. Maintenance of the general ledger as a control for accounts receivable was not prioritized this year.

Authority Response: The Authority will develop a procedure which ensures monthly reconciliation of participant and customer municipality accounts receivable with general ledger control totals.

Recommendation: It is recommended that the general ledger be maintained accurately so as to act as a control for amounts due from participants and customer municipalities.

A test verification of delinquent charges outstanding at October 31, 2011 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.

GENERAL COMMENTS (CONTINUED)
OCTOBER 31, 2011

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.

Expenditures

In accordance with the Bond Resolution, Section 610, the Authority adopted an annual operating budget for the fiscal years ending October 31, 2011 and 2010.

The vouchers were examined to the extent deemed necessary.

Finding:

Condition: Our sample of items tested for expenditures revealed a lack of adequate supporting documentation was provided for many of the items requested.

Criteria: Sound internal controls require the Authority to retain and file the documentation supporting all expenditures in a manner that facilitates the ability to respond to inquiry regarding all expenditures.

Cause: A lack of control over vendor files when expenditures supportive documentation is removed for research and not returned.

Authority Response: The Authority will develop a procedure which ensures that every expenditure made be adequately supported and filed in a manner that facilitates response to inquiry.

Recommendation: It is recommended that all vendor payments be adequately supported and that all supportive documentation be filed in a manner that facilitates response to inquiry regarding those expenditures.

GENERAL COMMENTS (CONTINUED)
OCTOBER 31, 2011

Expenditures-Continued

An examination was made of the employees' compensation and payroll deductions for the year ended October 31, 2011 and for those employees examined, no exceptions were noted.

Prior Year Findings

The Authority acknowledged receipt of the audit report for the fiscal year ended October 31, 2010 and adopted a corrective action plan on the audit recommendations contained therein. All prior year recommendations were addressed and corrective action was successfully implemented.

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.

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

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

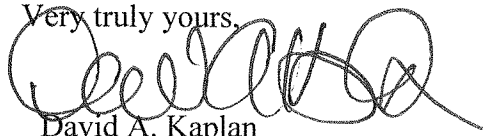
RECOMMENDATIONS

It is recommended:

- 2011-1 That the general ledger be maintained accurately so as to act as a control for amounts due from participants and customer municipalities.
- 2011-2 That all vendor payments be adequately supported and that all supportive documentation be filed in a manner that facilitates response to inquiry regarding those expenditures.

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