

TWO RIVERS WATER RECLAMATION AUTHORITY

COUNTY OF MONMOUTH, NEW JERSEY

REPORT OF AUDIT

FISCAL YEARS ENDED OCTOBER 31, 2012 AND 2011

Prepared by:
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TWO RIVERS WATER RECLAMATION AUTHORITY

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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, 2012 and 2011, 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.

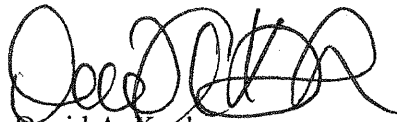
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of October 31, 2012 and 2011, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2013 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 9 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 opinions on the financial statements that collectively comprise the Authority's financial statements as a whole. 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. In our opinion the information, is fairly stated, in all material respects in relation to the financial statements as a whole.



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

DAK CPA

DAK CPA Certified Public Accountants

Long Branch, New Jersey
January 7, 2013

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 \$1,505,261 mainly due to the depreciation of capital assets. Total liabilities decreased by \$3,098,362 mainly due to the payment of revenue bond principal. Assets exceeded liabilities by \$70,400,316. This compares to 2011 where assets exceeded liabilities by \$68,807,214.

The Authority’s Net Assets of \$70,400,316 are comprised of the following:

1. Invested in Capital Assets, Net of Related Debt of \$46,518,035, 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 \$1,145,161 from the prior year.

Capital Assets - Net	\$	75,827,178
Less:		
Bonds Payable - Current		3,638,307
Bonds Payable - Long Term		<u>25,670,836</u>
Invested in Capital Assets, Net	\$	<u><u>46,518,035</u></u>

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 \$2,957,430 restricted for the purpose of Renewal and Replacement of “the System” which has accumulated from previous charges.
4. Net assets of \$357,199 restricted for the purpose of providing a Debt Service Reserve Fund, in accordance with the Authority’s debt covenants.
5. Net assets of \$400,000 restricted for future collection system improvements.

6. Net assets of \$190,000 restricted for a Shrewsbury River Dredging Project.
7. Net assets of \$11,241,844 have been restricted for future capital improvements.
8. Net assets of \$ 200,000 restricted for Rate Stabilization.
9. Unrestricted net assets of \$8,085,809 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 decreased by \$2,509,489 mainly due to the establishment of the Board Designated Renewal and Replacement Reserved Net Assets.

Comparative Condensed Statements of Net Assets

	<u>2012</u>	<u>As of October 31,</u> <u>2011</u>	<u>2010</u>
Total Current Assets	\$ 4,891,521	\$ 5,050,001	\$ 4,908,015
Total Restricted Assets	23,180,665	22,099,189	21,391,252
Capital Assets, Net	75,827,178	78,204,520	80,179,056
Deferred Costs	<u>337,661</u>	<u>388,575</u>	<u>439,490</u>
 Total Assets	 <u>\$ 104,237,025</u>	 <u>\$ 105,742,286</u>	 <u>\$ 106,917,813</u>
 Total Current Liabilities Payable from Current Assets	 \$ 1,447,451	 \$ 1,538,002	 \$ 1,586,265
Total Current Liabilities Payable from Restricted Assets	4,040,868	3,934,545	3,846,192
Accrued Non-Current Employee Benefits	2,247,411	1,711,687	1,174,649
Unemployment Claims Reserve	98,531	95,099	88,321
Compensated Absences Payable	338,035	357,886	363,787
Long-Term Obligations - Net	<u>25,664,412</u>	<u>29,297,850</u>	<u>32,815,090</u>
 Total Liabilities	 <u>\$ 33,836,709</u>	 <u>\$ 36,935,071</u>	 <u>\$ 39,874,304</u>
 Net Assets	 <u>\$ 70,400,316</u>	 <u>\$ 68,807,215</u>	 <u>\$ 67,043,509</u>

Total Current Assets decreased because Customer Charges Receivable decreased due to timely payments.

Total Restricted Assets have increased because investments increased.

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

Total Current Liabilities Payable from Unrestricted Assets have decreased, mainly due to a decrease in accounts payable.

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

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

Total Net Assets have increased as a result of the reported positive change in net assets for the 2012 fiscal year.

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

2012 Operating Revenues fell slightly from 2011 levels, mainly due to a decrease in revenues from Customer Municipalities. Total Operating Expenses were relatively unchanged from the prior year.

Total Operating Revenues less total Operating Expenses produced Operating Income of \$2,527,269 which is slightly less than 2011 Operating Income of \$2,750,753.

Total Net Assets as of October 31, 2012 increased by \$1,593,102, as is depicted below.

	<u>Fiscal Years Ended October 31,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total Operating Revenues	\$ <u>13,919,514</u>	\$ <u>14,197,949</u>	\$ <u>14,229,719</u>
Operating Expenses	8,434,358	8,415,680	8,375,791
Depreciation	<u>2,957,887</u>	<u>3,031,516</u>	<u>3,042,289</u>
Total Operating Expenses	<u>11,392,245</u>	<u>11,447,196</u>	<u>11,418,080</u>
Operating Income	2,527,269	2,750,753	2,811,639
Non-Operating Revenues/ (Expenses) - Net	<u>(934,166)</u>	<u>(987,048)</u>	<u>(960,561)</u>
Change in Net Assets	1,593,102	1,763,705	1,851,078
Net Assets, Beginning	<u>68,807,214</u>	<u>67,043,509</u>	<u>65,192,431</u>
Net Assets, Ending	<u>\$ 70,400,316</u>	<u>\$ 68,807,214</u>	<u>\$ 67,043,509</u>

Statement of Cash Flows

The net increase in Cash and Cash Equivalents was \$356,449. This compares to a net increase in Cash and Cash Equivalents in 2011 of \$110,436.

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 2012 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 2012 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, 2012 AND 2011

<u>ASSETS</u>	October 31,	
	2012	2011
Current Assets:		
Cash and Cash Equivalents	\$ 718,099	\$ 388,842
Investments	3,493,047	2,718,396
	4,211,145	3,107,238
Inventory	31,200	17,267
Customer Charges Receivable	40,931	1,161,932
Sewer Billings Receivable	608,245	763,566
Total Current Assets	4,891,521	5,050,003
Restricted Assets:		
Revenue Fund - Unemployment Cash and Cash Equivalents	98,418	94,986
Developer Deposits:		
Cash and Cash Equivalents - Escrow	131,584	107,824
Bond Service Account:		
Investments	947,462	924,321
Bond Reserve Account:		
Investments	363,822	363,220
General Account:		
Cash and Cash Equivalents	367,808	367,808
Investments	20,200,795	19,462,713
Construction Account:		
Investments	174,448	195,857
Intergovernmental Accounts Receivable	434,096	
Renewal and Replacement Account:		
Investments	462,232	582,460
Total Restricted Assets	23,180,665	22,099,189
Noncurrent Assets:		
Capital Assets - Non-Depreciable	1,470,400	1,470,400
Capital Assets - Net of Depreciation	74,356,778	76,734,120
Deferred Charges:		
Unamortized Bond Issue Costs	337,661	388,575
Total Noncurrent Assets	76,164,839	78,593,095
Total Assets	\$ 104,237,025	\$ 105,742,286

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, 2012 AND 2011

	October 31,	
<u>LIABILITIES</u>	2012	2011
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable	\$ 286,029	\$ 402,400
Accrued Expenses	162,871	124,623
Payroll Taxes Payable	21,597	29,000
Customer Overpayments	29,481	28,732
Deferred Revenue	947,473	953,247
Total Current Liabilities Payable from Unrestricted Assets	1,447,451	1,538,002
Current Liabilities Payable from Restricted Assets:		
Reserve for Developers' Deposits	131,227	107,552
Accrued Interest on Revenue Bonds Payable	271,334	304,490
Revenue Bonds Payable - Current Portion	3,638,307	3,522,503
Total Current Liabilities Payable from Restricted Assets	4,040,868	3,934,545
Long-Term Revenue Bonds Payable	25,670,836	29,309,143
Less:		
Unamortized Bond (Discount)/Premium	3,791	2,327
Unamortized Loss on Defeasance	(10,215)	(13,620)
	25,664,412	29,297,850
Accrued Non-Current Employee Benefits	2,247,411	1,711,687
Unemployment Claims	98,531	95,099
Compensated Absences Payable	338,035	357,886
Total Noncurrent Liabilities	28,348,389	31,462,522
Total Liabilities	\$ 33,836,709	\$ 36,935,071
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	\$ 46,518,035	\$ 45,372,874
Reserved for:		
Collection System Improvements	400,000	400,000
Rate Stabilization	200,000	200,000
Debt Service	357,199	357,199
Renewal and Replacement	2,957,430	450,000
Dredging Project - Shrewsbury River	190,000	190,000
Future Capital Improvements	11,241,844	11,241,844
Unrestricted	8,535,809	10,595,298
Total Net Assets	\$ 70,400,316	\$ 68,807,214

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, 2012 AND 2011

	October 31,	
	2012	2011
Operating Revenues:		
Customer Municipalities:		
Annual Charges	\$ 7,561,319	\$ 8,059,080
Participating Municipalities:		
Service Charges	5,690,609	5,696,432
Other Fees	667,586	442,438
Total Operating Revenues	13,919,514	14,197,949
Operating Expenses:		
Administration and General	2,218,745	2,216,897
Treatment Plant and Main Pumping Station	4,998,025	5,020,222
Lines and System Pumping Stations	1,141,716	1,038,438
Depreciation	2,957,887	3,031,516
Renewal and Replacement	75,873	140,123
Total Operating Expenses	11,392,245	11,447,196
Operating Income	2,527,269	2,750,753
Non-Operating Revenues/(Expenses):		
Interest on Bonds	(887,542)	(939,890)
Interest Income	18,231	69,421
Amortization of Debt Issue Costs	(50,914)	(50,914)
Amortization of Bond (Discount)/Premium - Net	(1,464)	(1,858)
Miscellaneous Income/(Expense)	(12,477)	(63,807)
Total Non-Operating Revenues/(Expenses)	(934,166)	(987,048)
Change in Net Assets	1,593,102	1,763,705
Net Assets, Beginning	68,807,214	67,043,509
Net Assets, Ending	\$ 70,400,316	\$ 68,807,214

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, 2012 AND 2011

	October 31,	
	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Receipts from Members and Customers	\$ 15,195,836	\$ 13,328,539
Payments to Employees and Suppliers	<u>(7,978,697)</u>	<u>(8,008,183)</u>
Net Cash Provided by Operating Activities	<u>7,217,139</u>	<u>5,320,356</u>
Cash Flows from Capital and Related Financing Activities:		
Purchase of Capital Assets	(1,044,287)	(1,056,979)
Repayment of Revenue Bonds Payable	<u>(3,522,503)</u>	<u>(3,427,502)</u>
Net Cash (Used) by Capital and Related Financing Activities	<u>(4,566,790)</u>	<u>(4,484,481)</u>
Cash Flows from Investing Activities:		
Interest Received	18,231	69,421
Interest Paid on Revenue Bonds	(917,293)	(927,255)
Redemption/(Purchase) of Investment Securities	<u>(1,394,838)</u>	<u>132,394</u>
Net Cash (Used) in Investing Activities	<u>(2,293,900)</u>	<u>(725,439)</u>
Net Increase/(Decrease) in Cash Equivalents	356,449	110,436
Cash and Cash Equivalents at Beginning of Year	<u>959,460</u>	<u>849,024</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,315,909</u>	<u>\$ 959,460</u>
Reconciliation of Net Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 2,527,269	\$ 2,750,753
Depreciation	2,957,887	3,031,516
Other Post Employment Benefits Accrual	535,724	537,038
Changes in Assets and Liabilities:		
(Increase)/Decrease in Receivables:		
Unrestricted Accounts	1,262,389	(871,882)
Increase/(Decrease) in Current Liabilities:		
Payable from Unrestricted Assets	(90,551)	(50,264)
Payable from Restricted Assets	106,323	(6,647)
Miscellaneous Income/(Expense)	(65,483)	(69,281)
Increase/(Decrease) in Other Liabilities	<u>(16,419)</u>	<u>(877)</u>
Net Cash Provided by Operating Activities	<u>\$ 7,217,139</u>	<u>\$ 5,320,356</u>
Reconciliation to Statement of Net Assets:		
Unrestricted Cash and Cash Equivalents	\$ 718,099	\$ 388,842
Restricted Cash and Cash Equivalents	<u>597,810</u>	<u>570,618</u>
	<u>\$ 1,315,909</u>	<u>\$ 959,460</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, 2012 AND 2011

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, 2012 and 2011 was \$31,200 and \$17,267, respectively.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2012 AND 2011

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, 2012 AND 2011

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, 2012 AND 2011

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, 2012 and 2011 is \$337,661 and \$388,575, 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.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2012 AND 2011

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 October 31, 2011	Current Year's Activity		Balance October 31, 2012	Useful Life
		Increase	Decrease		
Non-Depreciable Assets:					
Land and Easements	\$ 1,470,400	\$	\$	\$ 1,470,400	
Depreciable Assets:					
Buildings and Additions	13,640,965			13,640,965	40 - 75 Years
Other Improvements	68,069,402	454,190		68,523,592	7 - 20 Years
Sewer Mains and Interceptors	33,003,040		(472,543)	32,530,497	75 Years
Pump Stations	6,418,266	458,464	(55,539)	6,821,191	40 Years
Other Equipment	2,224,546	131,633	(6,694)	2,349,485	5 - 75 Years
Vehicles	1,056,123			1,056,123	5 Years
	\$ 125,882,742	\$ 1,044,287	\$ (534,776)	\$ 126,392,253	
Less: Accumulated Depreciation	(47,678,222)	(2,957,887)	71,035	(50,565,074)	
	<u>\$ 78,204,520</u>	<u>\$ (1,913,600)</u>	<u>\$ (463,741)</u>	<u>\$ 75,827,179</u>	

Accumulated depreciation at October 31, 2012 and 2011 was \$50,565,074 and \$47,678,222, respectively.

Depreciation expense for the years ended October 31, 2012 and 2011 was \$2,957,887 and \$3,031,517, 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, 2012 AND 2011

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, 2012 AND 2011

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, 2012, cash and cash equivalents (Deposits) of the Authority consisted of interest bearing Checking and Money Market Checking accounts totaling \$ 1,315,909.

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, 2012 AND 2011

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, 2012, investments were:

Description	Interest Rate	Market Value	Maturities	
			Less than 1 year	1-5 yrs.
<u>REVENUE FUND:</u>				
WELLS FARGO ADVANTAGE		\$ 3,489,167	\$ 3,489,167	\$ _____
GOV. MONEY MARKET FUND	Var.	<u>3,489,167</u>	<u>3,489,167</u>	<u>_____</u>
<u>BOND SERVICE FUND:</u>				
WELLS FARGO ADVANTAGE				
GOV. MONEY MARKET FUND	Var.	947,462	947,462	
		<u>947,462</u>	<u>947,462</u>	<u>_____</u>
<u>BOND RESERVE FUND:</u>				
WELLS FARGO ADVANTAGE				
GOV. MONEY MARKET FUND	Var.	223,609	223,609	
US TREASURY NOTE	1.125%	101,113	101,113	
US TREASURY NOTE	1.375%	40,100	40,100	
		<u>364,822</u>	<u>364,822</u>	<u>_____</u>
<u>CONSTRUCTION FUND:</u>				
WELLS FARGO ADVANTAGE				
GOV. MONEY MARKET FUND	Var.	174,448	174,448	
		<u>174,448</u>	<u>174,448</u>	<u>_____</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2012 AND 2011

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.	\$261,552	\$261,552	
U.S. TREASURY NOTES	.75%-1.375%	200,680	200,680	
		<u>462,232</u>	<u>462,232</u>	
<u>GENERAL FUND:</u>				
WELLS FARGO ADVANTAGE				
GOV MM FD	Var.	14,979,273	14,979,273	
CERTIFICATE OF DEPOSIT	Var.	221,663	221,663	
U.S. TREASURY SEC STRIPS	0.000%	204,666	204,666	
U.S. TREASURY NOTES	.75% to 1.375%	4,795,193	4,186,802	608,391
		<u>20,200,795</u>	<u>19,592,404</u>	<u>608,391</u>
GRAND TOTAL		<u>\$25,638,926</u>	<u>\$25,030,535</u>	<u>\$608,391</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, 2012 AND 2011

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 6.5% of pensionable wages through June 30, 2012 and 6.64% of pensionable wages thereafter. Employer's contributions are actuarially determined annually by the Division of Pensions. All contributions were equal to the required contributions for each of the three years, respectively.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2012 AND 2011

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>
2012	\$ 275,282	\$ 170,969
2011	273,136	138,748
2010	208,675	136,616

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, 2012, the following information was applied:

Bond Service Fund - Investments at October 31, 2012	\$ 947,462
Less: Principal Required November 1 - 2003 Series	\$ 855,000
Interest Required November 1 - 2003 Series	92,421
	<u>947,421</u>
Excess	\$ 41
Interfunds Payable	<u>41</u>
Excess	<u><u>\$ None</u></u>

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2012 AND 2011

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, 2012, the following information applied:

Bond Reserve Fund - Investments at October 31, 2012	\$	363,822
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	\$	6,623
Interfunds Payable		6,623
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, 2012.

Deferred Revenue of \$947,473 represents the portion of the participant's calendar year billings for November and December 2012, which are billed but unearned at October 31, 2012. Deferred Revenue at October 31, 2011 was \$953,247.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2012 AND 2011

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

The number of billing units within the participating municipalities as of October 31, 2012 and 2011 were as follows:

	Billing Units as of October 31,	
<u>Participating Municipality</u>	<u>2012</u>	<u>2011</u>
Fair Haven	2,284.88	2,272.80
Little Silver	2,813.08	2,813.11
Monmouth Beach	2,090.17	2,109.49
Oceanport	2,540.35	2,505.30
Shrewsbury Borough	2,682.62	2,707.13
West Long Branch	3,453.29	3,438.99
	15,864.39	15,846.82

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, 2012 AND 2011

Note 8. LONG-TERM DEBT

2000A Series Bonds - New Jersey Environmental Infrastructure Trust

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

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

The "Trust" portion of the Bond Issue, \$26,715,000, has remaining annual maturities due from August 1, 2013 through 2020 at amounts ranging from \$1,545,000 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, 2012 through 2016 at annual maturities ranging from \$855,000 to \$1,020,000 and bear interest, payable semi-annually, at rates ranging from 3.75% 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, 2012 AND 2011

Note 8. LONG-TERM DEBT (CONTINUED)

Changes in long-term debt are as follows:

	<u>Balance</u> <u>October 31, 2011</u>	<u>Decreased</u>	<u>Balance</u> <u>October 31, 2012</u>	<u>Due Within</u> <u>One Year</u>	<u>Long Term</u> <u>Portion</u>
Revenue Bonds	\$ 32,831,646	\$ 3,522,503	\$ 29,309,143	\$ 3,638,307	\$25,670,836
Total	<u>\$ 32,831,646</u>	<u>\$ 3,522,503</u>	<u>\$ 29,309,143</u>	<u>\$ 3,638,307</u>	<u>\$25,670,836</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>
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> </u>	<u>3,380,585</u>
	<u>\$ 29,309,143</u>	<u>\$ 3,104,907</u>	<u>\$ 32,414,050</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2012 AND 2011

Note 9. COMPENSATED ABSENCES PAYABLE

At October 31, 2012, 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, 2012 and 2011, \$338,035 and \$357,886, respectively, of compensated absence liability is recognized as a liability. For the purpose of establishing the liability, the Authority recognizes the value of current accumulations calculated in accordance with the policies enumerated above. This liability is fully funded.

Note 10. CONTINGENT LIABILITIES

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

The Authority incurred significant damage to its infrastructure as a result of Hurricane Sandy, which occurred on October 29, 2012. Employee overtime was incurred in preparation for the storm and after the storm for cleanup, remediation and restoration. Emergency repairs to roofs and other structures were made. Claims for reimbursement from both FEMA and the Authority's insurance carrier, either have been made or are in progress through the date of this report. An accrual for employee overtime associated with the storm, net of anticipated reimbursements from FEMA and insurance carriers has been made.

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2012 AND 2011

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>
2012	\$	\$ 3,432	\$	98,531
2011		6,778		95,099
2010	194	-		88,321

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2012 AND 2011

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).

	2012		
	<u>Per Schedule 3</u>	<u>Less Asset Acquisitions</u>	<u>Per Exhibit B</u>
Administration and General	\$ 2,223,135	\$ (4,390)	\$ 2,218,745
Treatment Plant	5,104,567	(106,542)	4,998,025
Lines and Pump Stations	1,167,088	(25,372)	1,141,716
Renewal & Replacement	974,905	(899,032)	75,873
	<u>\$ 9,469,695</u>	<u>\$ (1,035,336)</u>	<u>\$ 8,434,359</u>
	2011		
	<u>Per Schedule 3</u>	<u>Less Asset Acquisitions</u>	<u>Per Exhibit B</u>
Administration and General	\$ 2,223,366	\$ (6,469)	\$ 2,216,897
Treatment Plant	5,112,721	(92,499)	5,020,222
Lines and Pump Stations	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>

TWO RIVERS WATER RECLAMATION AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED OCTOBER 31, 2012 AND 2011

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, 2012 AND 2011

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 2012 and 2011 of \$633,375.

The following are the components of the 2012 and 2011 annual OPEB cost:

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

As of October 31, 2012 and 2011, 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

On October 29, 2012 Hurricane Sandy made landfall just south of the Authority plant site. The Authority's infrastructure was severely compromised by the flooding and wind damage caused by Hurricane Sandy. As of the date of this report, the plant is operating near normally and many of the structural repairs to buildings have been made. Further repairs are ongoing. Damage assessment continues and meetings with representatives of the Federal Emergency Management Agency are ongoing.