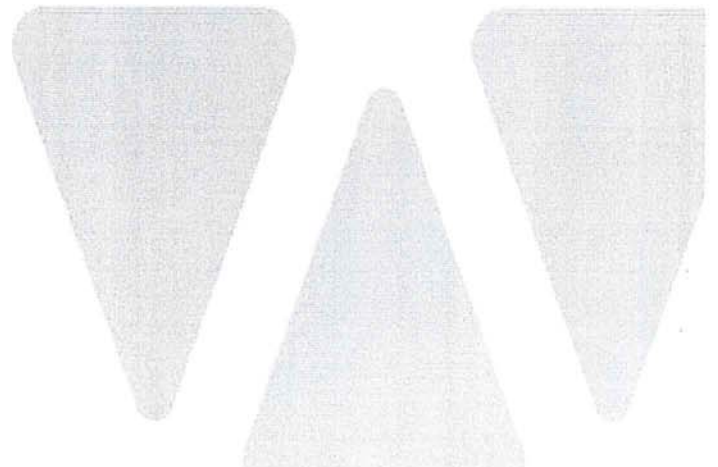




**Two Rivers Water Reclamation Authority  
Financial Statements  
with Supplementary Information**

**Years ended October 31, 2014 and 2013**

**and  
Independent Auditors' Report**



**TWO RIVERS WATER RECLAMATION AUTHORITY**

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**TWO RIVERS WATER RECLAMATION AUTHORITY**

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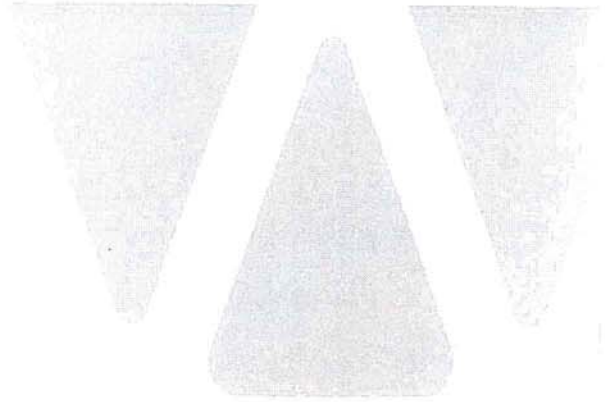
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## Independent Auditors' Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the Two Rivers Water Reclamation Authority, County of Monmouth, New Jersey (the "Authority"), as of and for the year ended October 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### *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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Prior Period Financial Statements*

The financial statements of the Two Rivers Water Reclamation Authority as of October 31, 2013, were audited by other auditors whose report dated January 10, 2014, expressed an unmodified opinion on those statements.

### *Restatement of Prior Period Financial Statements*

As discussed in Note 2 to the basic financial statements, the 2013 financial statements have been restated to properly reflect the effects of a deobligation of debt, to reclassify amounts previously reported as investments to cash and cash equivalents and to restate certain elements of net position. The prior period financial statements were restated by Wiss & Company, LLP. Wiss & Company, LLP has performed no additional procedures to the prior financial statements except for the procedures surrounding the accounts being restated.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that management's discussion and analysis as identified in the table of contents 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.

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information, which consists of the schedule of cash receipts, cash disbursements and changes in cash and cash equivalents – unrestricted, schedule of cash receipts, cash disbursements and changes in cash and cash equivalents – restricted, comparative schedule of operating revenues and expenditures compared to budget, schedule of long-term revenue bonds payable and schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the other information such as the officials in office and surety bond/insurance coverage and general comments and recommendations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The other information identified above has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

  
WISS & COMPANY, LLP

February 13, 2015  
Iselin, New Jersey

**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 fiscal years ended on October 31, 2014 and 2013.

This information should be read in conjunction with the basic financial statements and accompanying notes to the basic financial statements, 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*. Certain comparative information between the current fiscal year and the prior two fiscal years are presented in the MD&A as required by GASB Statement No. 34.

### Discussion of Financial Statements Included in Annual Audit

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

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

After the first set of statements and the "Notes to the Basic Financial Statements" that follow is the second set of schedules. These schedules 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 schedules that report the Comparative Schedule of Operating Revenues and Expenditures Compared to Budget (Schedule 3). This schedule 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 schedule is a very important schedule 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 schedules incorporated within the annual audit report are the Schedules of Cash Receipts, Cash Disbursements and Changes in Cash, Cash Equivalents and Investments – Restricted and Unrestricted and the Schedule of Long-Term Revenue Bonds Payable.



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

### Financial Condition

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

#### Comparative Statement of Net Position

The Authority's total assets decreased by \$884,305 due mainly to the depreciation of capital assets exceeding capital asset acquisitions. Total liabilities decreased by \$2,783,323 due mainly to the scheduled payment of revenue bond principal. Assets exceeded liabilities by \$77,366,449. This compares to 2013 where assets and deferred outflows of resources exceeded liabilities by \$75,467,431.

The Authority's Net Position of \$77,366,449 is comprised of the following:

1. Net investment in capital assets of \$54,505,315, as shown below, includes property plant and equipment, net of accumulated depreciation, and net of long-term debt related to the purchase or construction of capital assets. Net investment in capital assets increased by \$1,019,999 from the prior year.

Capital Assets - Net	\$	72,869,810
Less:		
Revenue Bonds Payable		18,364,495
Net Investment in Capital Assets	\$	54,505,315

2. Net position of \$750,000 restricted for the purpose of Renewal and Replacement of "the System", which is determined each year by an independent consulting engineer.
3. Net position of \$1,969,280 restricted for the purpose of Renewal and Replacement of "the System" which has accumulated from previous charges.
4. Net position of \$400,000 unrestricted - designated for future collection system improvements.
5. Net position of \$190,000 restricted for a Shrewsbury River Dredging Project.
6. Net position of \$4,425,582 unrestricted – designated for future capital improvements.

7. Net position of \$200,000 unrestricted - designated for rate stabilization.
8. Unrestricted, undesignated net position of \$14,926,272 represents the portion available to maintain the Authority's continuing obligations to the contractual customers of its service area, its creditors and for its current liabilities.

Unrestricted Net Position increased by \$1,314,690 mainly due to the positive change in net position, partially offset by the decrease in the unrestricted net position designated for future capital improvements.

Comparative Condensed Statements of Net Position

	<u>2014</u>	October 31, <u>2013</u> (As restated)	<u>2012</u>
Total current assets	\$ 10,700,225	\$ 6,099,134	\$ 4,891,521
Total restricted assets	14,478,619	18,206,580	23,180,668
Capital assets, net	72,869,810	74,620,435	75,827,178
Deferred outflows of resources	<u>                    </u>	<u>6,810</u>	<u>10,215</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 98,048,654</u>	<u>\$ 98,932,959</u>	<u>\$ 103,909,582</u>
Total current liabilities payable from unrestricted assets	\$ 1,587,610	\$ 1,544,232	\$ 1,447,451
Total current liabilities payable from restricted assets	3,146,914	3,113,313	4,040,868
Unemployment claims reserve	98,531	98,531	98,531
Compensated absences payable	323,223	336,917	338,035
Long term obligations, net	<u>15,525,927</u>	<u>18,372,535</u>	<u>25,674,628</u>
Total Liabilities	<u>\$ 20,682,205</u>	<u>\$ 23,465,528</u>	<u>\$ 31,599,513</u>
Total Net Position	<u>\$ 77,366,449</u>	<u>\$ 75,467,431</u>	<u>\$ 72,310,069</u>

Total current assets have increased because cash and cash equivalents and customer charges receivable increased.

Total restricted assets have decreased because of the closure of the bond reserve fund and the decrease in general fund cash and cash equivalents.

Capital assets, net decreased because depreciation expense exceeded capital asset acquisitions.

Total current liabilities payable from unrestricted assets have increased, mainly due to an increase in accounts payable.

Total current liabilities payable from restricted assets have remained relatively constant.

Long term obligations have decreased due to the repayment of revenue bond principal.

Total net position has increased as a result of the reported positive change in net position for the 2014 fiscal year.

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

2014 operating revenues increased slightly from 2013 levels, mainly due to an increase in annual charges from customer municipalities. Total operating expenses remained relatively constant. The increase in depreciation expense was offset by decreases in administration and plant operating expenses.

Total operating revenues less total operating expenses produced operating income of \$1,350,443 which is greater than 2013 operating income of \$1,059,382.

Total Net Position as of October 31, 2014 increased by \$1,899,018 as is depicted below.

	Years ended October 31,		
	<u>2014</u>	<u>2013</u> (Restated)	<u>2012</u>
Total operating revenues	\$ <u>13,417,382</u>	\$ <u>13,251,559</u>	\$ <u>13,919,515</u>
Operating expenses	8,866,482	9,215,231	7,898,632
Depreciation	<u>3,200,457</u>	<u>2,976,946</u>	<u>2,957,887</u>
Total operating expenses	<u>12,066,939</u>	<u>12,192,177</u>	<u>10,856,519</u>
Operating income	1,350,443	1,059,382	3,062,994
Nonoperating revenues (expenses) - net	<u>548,575</u>	<u>2,097,980</u>	<u>(1,271,826)</u>
Change in net position	1,899,018	3,157,362	1,791,168
Total net position - beginning (Restated)	<u>75,467,431</u>	<u>72,310,069</u>	<u>70,518,901</u>
Total net position - ending	<u>\$ 77,366,449</u>	<u>\$ 75,467,431</u>	<u>\$ 72,310,069</u>

### Comparative Statements of Cash Flows

The net decrease in cash and cash equivalents was \$6,165,396. This compares to a net decrease in cash and cash equivalents in 2013 of \$263,683. The main reason for the 2014 decrease is the purchase of investments.

### Debt Administration

As of October 31, 2014, the Authority had \$18,687,718 of outstanding debt. Of this amount, \$323,223 is for compensated absences and \$18,364,495 is for revenue bonds payable. As of October 31, 2013, the Authority had \$21,472,036 of outstanding debt.

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. No new debt was issued this year.

### Capital Assets

At the end of the fiscal years ended October 31, 2014 and 2013, the Authority had \$72,869,810 and \$74,620,435, respectively, invested in land, construction in progress, buildings and improvements, other improvements, sewer mains and interceptors, pump stations, other equipment and vehicles, net of accumulated depreciation. The decrease in net capital assets is due to the current year's depreciation expense exceeding current year's capital assets additions.

### 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 fees charged to the users of the system of the six participating municipalities is a major source of revenue for the Authority as are the revenues from the customer municipalities' charges paid by the six customer communities, Monmouth Park and the Fort Monmouth area. This is shown on the Comparative Statement of Revenues, Expenses and Changes in Net Position as "Customer Municipalities – Annual Charges and Participating Municipalities – Service Charges" and reported as operating revenue.

### **Budget Variations**

There were no adjustments made during the year to the adopted 2014 budget. Significant variations between final budgeted amounts and actual expenses occurred in the following budgetary line items: engineering – where expenses exceeded budgeted amounts due to additional services being provided, electricity – where expenses were controlled and were less than anticipated, sludge disposal – where expenses were controlled and were less than anticipated, and lines salaries and wages – where planning staffing increases did not occur.

### **The Chairman's Outlook for the Future**

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

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

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

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

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

#### **Governing Body**

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

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

#### **Management of the Authority**

The Executive Director of the Two Rivers Water Reclamation Authority, Michael A. Gianforte, manages the daily operations of the Authority. He oversees a staff of 36 and a 2014 budget of \$13.2 million. Senior staff is charged with the management of the operations and financial affairs of the Authority. The Executive Director and senior staff are as follows:

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

#### **Independent Auditors**

The Independent audit firm is Wiss & Company, LLP, Iselin, New Jersey.

#### **Financial Information**

Prior audits and budgets can be obtained by contacting the Two Rivers Water Reclamation Authority or by visiting the Authority's website at [www.trwra.org](http://www.trwra.org).

**BASIC FINANCIAL STATEMENTS**

TWO RIVERS WATER RECLAMATION AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY  
COMPARATIVE STATEMENT OF NET POSITION  
OCTOBER 31, 2014 AND 2013

	October 31,	
	2014	2013 (As restated)
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 8,443,570	\$ 5,069,621
Inventory	26,276	27,501
Customer charges receivable	1,307,208	151,921
Sewer billings receivable	923,171	845,467
Other accounts receivable		4,624
<b>Total current assets</b>	<b>10,700,225</b>	<b>6,099,134</b>
<b>Restricted assets:</b>		
Revenue fund - Unemployment cash and cash equivalents	98,418	98,418
Developer deposits:		
Cash and cash equivalents	160,540	182,533
Bond service account:		
Cash and cash equivalents	179,016	1,150,349
Bond reserve account:		
Cash and cash equivalents	3	362,408
General account:		
Cash and cash equivalents	5,116,959	13,333,789
Investments	7,610,118	1,827,270
Accrued interest receivable	34,351	5,815
Construction account:		
Cash and cash equivalents	218,201	183,567
Intergovernmental accounts receivable	312,038	312,038
Renewal and replacement account:		
Cash and cash equivalents	748,975	750,393
<b>Total restricted assets</b>	<b>14,478,619</b>	<b>18,206,580</b>
<b>Deferred outflows of resources:</b>		
Deferred loss on refunding		6,810
<b>Total deferred outflows of resources</b>		<b>6,810</b>
<b>Non-current assets:</b>		
Capital Assets - Non-depreciable	1,750,773	1,750,773
Capital Assets - Net of depreciation	71,119,037	72,869,662
<b>Total capital assets, net</b>	<b>72,869,810</b>	<b>74,620,435</b>
<b>Total assets and deferred outflows of resources</b>	<b>\$ 98,048,654</b>	<b>\$ 98,932,959</b>

See accompanying notes to the basic financial statements.



TWO RIVERS WATER RECLAMATION AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY  
COMPARATIVE STATEMENT OF NET POSITION  
OCTOBER 31, 2014 AND 2013

	October 31,	
	<u>2014</u>	<u>2013</u> (As restated)
<b>Liabilities</b>		
Current liabilities payable from unrestricted assets:		
Accounts payable	\$ 442,006	\$ 390,050
Accrued expenses	157,409	152,033
Payroll taxes payable		21,290
Customer overpayments	37,411	27,673
Unearned revenue	<u>950,784</u>	<u>953,186</u>
 Total current liabilities payable from unrestricted assets	 <u>1,587,610</u>	 <u>1,544,232</u>
Current liabilities payable from restricted assets:		
Reserve for developers' deposits	159,862	182,062
Accrued interest on bonds payable	141,449	160,627
Revenue bonds payable - current portion	<u>2,845,603</u>	<u>2,770,624</u>
 Total current liabilities payable from restricted assets	 <u>3,146,914</u>	 <u>3,113,313</u>
Non-current liabilities:		
Long-term revenue bonds payable	15,518,892	18,364,495
Unamortized bond premium	<u>7,035</u>	<u>8,040</u>
	15,525,927	18,372,535
Unemployment claims	98,531	98,531
Compensated absences payable	<u>323,223</u>	<u>336,917</u>
 Total noncurrent liabilities	 <u>15,947,681</u>	 <u>18,807,983</u>
 Total liabilities	 <u>\$ 20,682,205</u>	 <u>\$ 23,465,528</u>
<b>Net position</b>		
Net investment in capital assets	\$ 54,505,315	\$ 53,485,316
Restricted for:		
Debt service		357,199
Renewal and replacement	2,719,280	2,797,752
Dredging project - Shrewsbury River	190,000	190,000
Unrestricted:		
Designated for:		
Collection system improvements	400,000	400,000
Rate stabilization	200,000	200,000
Future capital improvements	4,425,582	9,711,733
Undesignated	<u>14,926,272</u>	<u>8,325,431</u>
 Total Net Position	 <u>\$ 77,366,449</u>	 <u>\$ 75,467,431</u>

See accompanying notes to the basic financial statements.

TWO RIVERS WATER RECLAMATION AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY  
COMPARATIVE STATEMENT OF REVENUES, EXPENSES  
AND CHANGES IN FUND NET POSITION  
YEARS ENDED OCTOBER 31, 2014 AND 2013

	October 31,	
	<u>2014</u>	<u>2013</u> (As restated)
Operating revenues:		
Customer municipalities:		
Annual charges	\$ 7,644,016	\$ 7,493,430
Participating municipalities:		
Service charges	<u>5,773,366</u>	<u>5,758,129</u>
Total operating revenues	<u>13,417,382</u>	<u>13,251,559</u>
Operating expenses:		
Administration and general	1,971,594	2,008,391
Treatment plant and main pumping station	5,647,841	6,205,287
Lines and system pumping stations	1,124,790	970,531
Depreciation	3,200,457	2,976,946
Renewal and replacement	<u>122,257</u>	<u>31,022</u>
Total operating expenses	<u>12,066,939</u>	<u>12,192,177</u>
Operating income	<u>1,350,443</u>	<u>1,059,382</u>
Nonoperating revenues (expenses):		
Interest on bonds	(631,176)	(857,286)
Interest income	46,334	11,841
Insurance recovery related to Hurricane Sandy		999,443
Loss on disposition of assets		(133,661)
NJEIT Series 2000 Bonds Deobligated		808,450
Federal Emergency Management Agency - Hurricane Sandy	622,964	275,381
Connection fees	399,295	854,164
Miscellaneous income	<u>111,158</u>	<u>139,648</u>
Total nonoperating revenues (expenses)	<u>548,575</u>	<u>2,097,980</u>
Change in net position	1,899,018	3,157,362
Total net position-beginning (As restated)	<u>75,467,431</u>	<u>72,310,069</u>
Total net position-ending	<u>\$ 77,366,449</u>	<u>\$ 75,467,431</u>

See accompanying notes to the basic financial statements.

TWO RIVERS WATER RECLAMATION AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY  
COMPARATIVE STATEMENT OF CASH FLOWS  
YEARS ENDED OCTOBER 31, 2014 AND 2013

	October 31,	
	<u>2014</u>	<u>2013</u> (Restated)
Cash flows from operating activities:		
Receipts from members and customers	\$ 12,184,391	\$ 13,757,512
Payments to employees	(3,061,021)	(2,977,276)
Payments to suppliers	<u>(5,786,323)</u>	<u>(7,114,423)</u>
Net cash provided by operating activities	<u>3,337,047</u>	<u>3,665,813</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(1,449,832)	(1,903,864)
Federal Emergency Management Agency - Hurricane Sandy	622,964	275,381
Repayment of revenue bonds payable	<u>(2,770,624)</u>	<u>(7,448,307)</u>
Net cash (used in) capital and related financing activities	<u>(3,597,492)</u>	<u>(9,076,790)</u>
Cash flows from investing activities:		
Interest received	17,798	11,841
Interest paid on revenue bonds	(650,354)	(801,589)
(Purchase) of investment securities	(7,085,333)	
Redemption of investment securities	<u>1,302,485</u>	<u>4,943,230</u>
Net cash (used in) provided by investing activities	<u>(6,415,404)</u>	<u>4,153,482</u>
Cash flows from noncapital financing activities:		
Connection fees	399,295	854,164
Miscellaneous income	<u>111,158</u>	<u>139,648</u>
Net cash provided by noncapital financing activities	<u>510,453</u>	<u>993,812</u>
Net (decrease) in cash and cash equivalents	(6,165,396)	(263,683)
Cash and cash equivalents, beginning of year	<u>21,131,078</u>	<u>21,394,761</u>
Cash and cash equivalents, end of year	<u>\$ 14,965,682</u>	<u>\$ 21,131,078</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,350,443	\$ 1,059,382
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,200,457	2,976,946
Changes in assets, deferred outflows of resources and liabilities:		
(Increase) decrease in receivables and other assets:		
Unrestricted accounts	(1,227,142)	(349,136)
Restricted accounts		(5,815)
Increase (decrease) in current liabilities:		
Payable from unrestricted assets	43,378	96,781
Payable from restricted assets	(23,205)	(111,226)
Other liabilities	(13,694)	(1,119)
Deferred outflows of resources	<u>6,810</u>	
Net cash provided by operating activities	<u>\$ 3,337,047</u>	<u>\$ 3,665,813</u>
Reconciliation to Statement of Net Position:		
Unrestricted cash and cash equivalents	\$ 8,443,570	\$ 5,069,621
Restricted cash and cash equivalents	<u>6,522,112</u>	<u>16,061,457</u>
	<u>\$ 14,965,682</u>	<u>\$ 21,131,078</u>

See accompanying notes to the basic financial statements.

**NOTES TO BASIC FINANCIAL STATEMENTS**

**TWO RIVERS WATER RECLAMATION AUTHORITY**  
**Notes to the Basic Financial Statements**  
**Years Ended October 31, 2014 and 2013**

**1. Summary of Significant Accounting Policies**

The financial statements of the Board of Commissioners (Board) of the Two Rivers Water Reclamation Authority (Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

**A. Reporting Entity:**

The Two Rivers Water Reclamation Authority, Monmouth County, New Jersey 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 (collectively, the Member Towns") on October 1, 1965, pursuant to the Sewerage Authority Law of the State of New Jersey (P.L. 1946, Chapter 138 as amended and supplemented). The Authority functions independently through a Board of Commissioners. The Board is comprised of twelve members appointed to five-year terms. The purpose of the Authority is to keep the local waters free of pollution.

The Authority, as the primary government for financial reporting purposes, has oversight responsibility and control over all activities related to the Two Rivers Water Reclamation Authority. The Authority receives funding from federal government sources and must comply with requirements of these funding source entities.

The Authority has no component units that are required to be included within the reporting entity as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards.

**B. Basis of Presentation, Basis of Accounting:**

**Basis of Presentation**

The operations of the Authority are accounted for as a proprietary fund. The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America applicable to proprietary funds as defined by the Governmental Accounting Standards Board ("GASB"). All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets, deferred outflows of resources and all liabilities, whether current or non-current, associated with their activity are included on their Comparative Statement of Net Position. Their reported fund equity (net position) is segregated into capital assets net of debt and restricted and unrestricted net position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position. Depreciation of all exhaustive capital assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the proprietary fund Comparative Statement of Net Position. Depreciation has been provided over the estimated useful lives using the straight-line method.

**TWO RIVERS WATER RECLAMATION AUTHORITY**  
**Notes to the Basic Financial Statements**  
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**B. Basis of Presentation, Basis of Accounting (continued):**

**Basis of Accounting**

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

The accrual basis of accounting is used for measuring financial position and operating results of proprietary fund types. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized when they are incurred.

**C. Assets, Liabilities and Net Position:**

**Cash and Cash Equivalents:**

Amounts include petty cash and change funds, interest-bearing checking 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 a United States Treasury Note, a Certificate of Deposit and municipally issued Bond Anticipation Notes. Investments are carried at market value. Investments have a maturity date of three months or more.

**Accounts Receivable:**

User charges are established by the Board annually. The charges are subject to adjustment by the Board and a public hearing must be advertised and held prior to adjustment. Receivables are evaluated periodically for collectability. Unpaid user charges are reported to the municipality where the user resides and referred for inclusion in annual tax sales. Allowances for doubtful accounts are established when deemed necessary.

**Inventories:**

Inventories are valued at cost, which approximates market, using the first-in-first-out (FIFO) method. At October 31, 2014 and 2013, the value of the inventory, consisting of diesel fuel on hand, was \$26,276 and \$27,501, respectively.

**Capital Assets:**

Capital assets, which include land, property, plant, equipment and construction in progress, are reported in financial statements. The Authority has established a formal system of accounting for its capital assets. Purchased or constructed capital assets are reported at cost. Donated capital assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized. The capitalization threshold used by Authorities in the State of New Jersey is \$2,000.

**TWO RIVERS WATER RECLAMATION AUTHORITY**  
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**C. Assets, Liabilities and Net Position-(Continued)**

All reported capital assets except for land and construction in progress are depreciated. Depreciation is computed using the straight-line method under the half-year convention over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	10-75
Pump Stations	5-40
Mains and Interceptors	5-75
Vehicles	5-10
Other improvements	10-75
Other equipment	5-20

**Unearned Revenue:**

Unearned revenue represents billings for system use which have been issued but not yet earned, due to the timing difference between the calendar year billing cycle and the Authority's fiscal year end of October 31.

**Net Position:**

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Designations of unrestricted net position are imposed by action of the Authority's Board.

**D. Revenues, Operating Revenues and Expenses:**

**Revenues - Exchange and Non-exchange Transactions:**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the accrual basis, revenue from system user charges is recognized in the fiscal year for which the user fees are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

**Operating Revenues and Expenses:**

Operating revenues are those revenues that are generated directly from the primary activity of the Authority. For the Authority, these revenues are for the collection and treatment of waste water. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Authority.

**TWO RIVERS WATER RECLAMATION AUTHORITY**  
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**E. Management 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 expenses during the reporting period. Actual results could differ from those estimates.

**F. GASB to be Implemented in the 2015 Fiscal Year**

In June, 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (“GASB No. 68”). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The requirements of this Statement are effective for financial statements for periods ending on or after June 30, 2015. The Authority has not completed the process of evaluating the impact that will result from adopting GASB No. 68.

**G. Deferred Outflows / Inflows or Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense / expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

**H. Subsequent Events**

Management has reviewed and evaluated all events and transactions occurring from October 31, 2014 through the date of the financial statement issuance, February 13, 2015, for possible disclosure and recognition in the accompanying financial statements and no such items have come to the attention of the Authority which would require disclosure or recognition.



**TWO RIVERS WATER RECLAMATION AUTHORITY**  
**Notes to the Basic Financial Statements**  
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**2. Restatement of Financial Statements**

The Authority restated its financial statements for the year ended October 31, 2013 to reflect a deobligation of a portion of its Series 2000 Revenue Bonds by the New Jersey Environmental Authority, which was due to the result of a refunding of NJEIT bonds. The Authority did not properly account for this bond refunding in the prior year financial statements. In the prior year, the Authority recorded the effect of the refunding as a reduction to interest expense in an amount of \$82,733. The current year restatement corrects the prior year presentation by reversing the reduction to interest expense of \$82,733 and recording non-operating revenue for the deobligation of the NJEIT bonds in an amount of \$808,450. The net effect on the Comparative Statement of Revenues, Expenses, and Changes in Fund Net Position was an increase in total net position of \$725,717. The effect of the restatement also resulted in a decrease in bonds payable of \$725,717 and an increase to the net investment in capital assets portion of net position as of October 31, 2013 by the same amount.

The Authority restated its Comparative Statement of Net Position as of October 31, 2013 to properly distinguish between cash and cash equivalents and investments. All assets held in governmental money market funds which were originally recorded as investments were reclassified to cash and cash equivalents, because of their liquidity. All amounts previously recorded as investments which had terms of three months or less when the investment was entered into were restated as cash and equivalents. The total amount that was restated was \$20,321,489. This restatement had no impact on the Authority's net position and did not impact the classification of long term or short term assets on the Authority's Comparative Statement of Net Position.

The Authority also restated its Comparative Statement of Net Position as of October 31, 2013 to properly classify the elements of net position. Components of net position which were restricted by an external source were continued to be classified as restricted net position whereas components of net position which were previously recorded as restricted due to internally placed restrictions were restated as designated components of unrestricted net position. The restatement relating to the Comparative Statement of Net Position had no impact on the Authority's total net position.

The following illustrates the impact of the aforementioned restatements of components of net position:

	Previously Reported Components of Net Position as of October 31, 2013	Effect of Restatement	Balance After Effect of Restatement
Restricted for:			
Collection System Improvements	\$ 400,000	\$ (400,000)	-
Rate Stabilization	200,000	(200,000)	-
Renewal and Replacement	3,363,010	(565,258)	\$ 2,797,752
Future Capital Improvements	11,241,844	(11,241,844)	-
Unrestricted	6,230,062	12,407,102	18,637,164

**TWO RIVERS WATER RECLAMATION AUTHORITY**  
**Notes to the Basic Financial Statements**  
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**Restatement of Financial Statements – (Continued):**

The following presents the effects of the restatements on unrestricted net position - undesignated:

Unrestricted net position as of October 31, 2013	\$ 6,230,062
Adjustment of restricted net position – Future capital improvements	11,241,844
Adjustment of restricted net position – Renewal and replacements	565,258
Adjustment of restricted net position – Collection System Improvements	400,000
Adjustment of restricted net position – Rate Stabilization	<u>200,000</u>
Unrestricted net position as of October 31, 2013, as restated	<u>\$ 18,637,164</u>

The following presents the effects of the restatements on restricted net position – renewal and replacements:

Restricted net position – renewal and replacements as of October 31, 2013	\$ 3,363,010
Adjustment to unrestricted net assets	<u>(565,258)</u>
Restricted net position – renewal and replacements as of October 31, 2013, as restated	<u>\$ 2,797,752</u>

**3. Deposits and Investments:**

**Cash and Cash Equivalents:**

Operating cash, in the form of checking and money market accounts, is held in the Authority's name by commercial banking institutions. At October 31, 2014, the carrying amount of the Authority's deposits was \$14,965,682 and the bank balance was \$14,846,235. Of the bank balance, \$500,000 was insured with Federal Deposit Insurance Corporation. At October 31, 2013, the carrying amount of the Authority's deposits was \$21,131,078.

Pursuant to GASB Statement No. 40, "Deposit and Investment Risk Disclosures" ("GASB 40"), the Authority's accounts are examined in order to determine exposure, if any, to Custodial Credit Risk (risk that in the event of bank failure, the Authority's deposits or investments may not be returned). Deposits are considered to be exposed to Custodial Credit Risk if they are: uncollateralized (securities not pledged to the depositor), collateralized with securities held by the pledging financial institution, or collateralized with securities held by the financial institution's trust department or agent but not in the Authority's name.

*Custodial Credit Risk:* Pursuant to GASB 40, the NJCMF, which is a pooled investment, is exempt from custodial credit risk exposure. The Authority does not have a policy for custodial credit risk.

*Credit Risk:* The Authority does not have an investment policy regarding the management of credit risk. GASB 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. Government or investments guaranteed by the U.S. government.

*Interest Rate Risk:* The Authority does not have a policy to limit interest rate risk.

*Concentration of Credit Risk:* The Authority places no limit on the amount the Authority may invest in any one issuer.

**TWO RIVERS WATER RECLAMATION AUTHORITY**  
**Notes to the Basic Financial Statements**  
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**Cash and Cash Equivalents – (Continued):**

At October 31, 2014, \$14,346,235 of the Authority's deposits were unsecured and uncollateralized. The Authority does not have a policy for the management of custodial credit risk, other than depositing all of its funds in banks covered by GUDPA. The Authority has adopted a cash management plan that requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect Government Units from a loss of funds on deposit with a failed banking institution in New Jersey.

N.J.S.A. 17:9-41 et. seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include savings and loan institutions, banks (both state and national banks) and savings banks, the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

**Investments:**

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

Bonds and other obligations of the United States or obligations guaranteed by the United States.

Bonds of any Federal Intermediate Credit Bank, Federal Home Loan Bank, Federal National Mortgage Agency or of any United States Bank which have a maturity date not greater than 397 days from the date of purchase.

New Jersey Cash Management Fund, New Jersey Asset and Rebate Management Fund and Government money market mutual funds.

The Authority's investments consisted of a United States Treasury Note, a Certificate of Deposit, and Bond Anticipation Notes purchased by the Authority from various municipalities during the years.

*Credit Risk* – As of October 31, 2014 the Authority's various investments in the Bond Anticipation Notes of South Bound Brook, Manchester, Hudson County Improvement Authority, Frenchtown, Deal, Wall, Avon, Califon, Bridgeton and Hammonton were not rated by a nationally recognized bond rating agency.

*Custodial Credit Risk* – For investments, custodial credit risk is the risk that in the event of the failure of the counter-party, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured and are not registered in the name of the Authority.

The Authority manages custodial credit risk by limiting its investments to the debt of other governmental units within the State of New Jersey and in United States Treasury Notes.

**TWO RIVERS WATER RECLAMATION AUTHORITY**  
**Notes to the Basic Financial Statements**  
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**Investments – (Continued):**

The following is the detail of the balance of the Authority’s investments, all of which are held directly by the Authority’s Trustee.

The following is the detail of the balance of the Authority’s investments, all of which are held directly by the Authority’s Trustee as of October 31, 2014.

Description of Investment	Interest Rates	Balance as of
General Fund		October 31, 2014
Bond Anticipation Notes:		
Borough of South Bound Brook	1.50%	\$ 458,669
Township of Manchester	1.25%	303,796
Hudson County Improvement Authority	1.25%	500,520
Frenchtown Borough	1.25%	388,886
Deal Borough	1.00%	516,490
Wall Township	1.50%	500,560
Borough of Avon by the Sea	0.84%	1,045,000
Borough of Avon by the Sea	0.73%	650,750
Borough of Avon by the Sea	0.82%	1,026,000
Borough of Califon	0.83%	565,000
City of Bridgeton	1.14%	494,000
Town of Hammonton	0.64%	635,540
<b>Total Bond Anticipation Notes</b>		<b>7,085,211</b>
Certificate of Deposit	Variable	221,907
United States Treasury Note	1.25%	303,000
<b>Grand Total</b>		<b>\$ 7,610,118</b>

The following is the detail of the balance of the Authority’s investments, all of which are held directly by the Authority’s Trustee as of October 31, 2013.

Description of Investment	Interest Rates	Balance as of
General Fund		October 31, 2013
Bond Anticipation Notes	Various	\$ 1,000,000
Certificate of Deposit	Variable	221,785
United States Treasury Note	.50% to 1.25%	605,485
<b>Grand Total</b>		<b>\$ 1,827,270</b>

**TWO RIVERS WATER RECLAMATION AUTHORITY**  
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**4. Capital Assets**

The following schedule is a summarization of the changes in capital assets for the year ended October 31, 2014.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:			
Construction in progress	\$ 280,373		\$ 280,373
Land	1,470,400		1,470,400
Total capital assets, not being depreciated	<u>1,750,773</u>		<u>1,750,773</u>
Capital assets, being depreciated:			
Buildings and improvements	14,658,652		14,658,652
Other improvements	68,511,363	\$ 579,639	69,091,002
Sewer mains and interceptors	32,530,497		32,530,497
Pump stations	6,970,078	166,158	7,136,236
Other equipment	2,519,977	645,934	3,165,911
Vehicles	1,077,562	58,101	1,135,663
Total assets being depreciated	<u>126,268,129</u>	<u>1,449,832</u>	<u>127,717,961</u>
Accumulated depreciation	<u>(53,398,467)</u>	<u>(3,200,457)</u>	<u>(56,598,924)</u>
Total capital assets, being depreciated, net	<u>72,869,662</u>	<u>(1,750,625)</u>	<u>71,119,037</u>
Net Capital Assets	<u>\$ 74,620,435</u>	<u>\$ (1,750,625)</u>	<u>\$ 72,869,810</u>

**5. Long-term liabilities**

During the year ended October 31, 2014, the following changes occurred in long-term liabilities.

	<u>Beginning Balance</u>	<u>Decreases</u>	<u>Ending Balance</u>
	(As restated)		
Compensated absences	\$ 336,917	\$ 13,694	\$ 323,223
Revenue bonds payable	21,135,119	2,770,624	18,364,495
Total	<u>\$ 21,472,036</u>	<u>\$ 2,784,318</u>	<u>\$ 18,687,718</u>
Current Portion	<u>\$ 2,770,624</u>		<u>\$ 2,845,603</u>

**TWO RIVERS WATER RECLAMATION AUTHORITY**  
**Notes to the Basic Financial Statements**  
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**5. Long-term liabilities (continued):**

2000A Series Bonds - New Jersey Environmental Infrastructure Trust

On November 9, 2000, the Authority issued \$49,357,977 in Revenue Bonds through the New Jersey Environmental Infrastructure Trust ("NJEIT"). The "Fund" portion of the Bond Issue, \$22,642,977, was issued on an interest free basis. The remaining Bonds mature semi-annually from February 1, 2015 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.

In 2013, the Authority received notice from the NJEIT that \$725,717 was deobligated. A reduction of the principal balance outstanding was made.

The "Trust" portion of the Bond Issue, \$26,715,000, has remaining annual maturities due from August 1, 2015 through 2020 at amounts ranging from \$1,609,038 to \$2,070,815 and bear interest at rates ranging from 5.13% 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 \$1,034,705 and \$139,070, respectively.

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

Remaining annual principal and interest payments are depicted below.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 2,845,603	\$ 565,808	\$ 3,411,411
2016	2,931,595	483,944	3,415,539
2017	3,015,042	397,777	3,412,819
2018	3,108,917	305,780	3,414,697
2019	3,206,938	191,902	3,398,840
2020	<u>3,256,400</u>	<u>124,185</u>	<u>3,380,585</u>
	<u>\$ 18,364,495</u>	<u>\$ 2,069,396</u>	<u>\$ 20,433,891</u>

**TWO RIVERS WATER RECLAMATION AUTHORITY**  
**Notes to the Basic Financial Statements**  
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**6. Compensated Absences**

The Authority records a liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee and is accrued as employees earn the rights to the benefits. The Authority uses the “vesting method” for estimating its accrued sick and vacation leave liability.

Authority employees are granted vacation and sick leave in varying amounts under the Authority’s personnel policies and according to negotiated contracts. In the event of retirement, according to contract, an employee is reimbursed for accumulated vacation and sick leave. The liability for vested compensated absences of the Authority amounted to \$323,223 and \$336,917 as of October 31, 2014 and October 31, 2013, respectively.

**7. Pension Plans**

**Description of Systems:**

Substantially all of the Authority’s employees participate in the following contributory defined benefit public employee retirement system, which have been established by State statute; the Public Employees’ Retirement System (PERS). This systems is sponsored and administered by the State of New Jersey. The Public Employees Retirement System is considered a cost-sharing multiple-employer plan.

**Public Employees’ Retirement System (PERS):**

The Public Employees’ Retirement System (PERS) was established in January 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees’ Retirement System is a cost-sharing multiple-employer plan.

Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, Authority or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction. Age eligibility and benefit provisions were affected by Chapters 92 and 103, P.L. 2007, Chapter 89, P.L. 2008, Chapter 1, P.L. 2010, and Chapter 78, P.L. 2011. Members are classified into one of five tiers dependent upon the date of their enrollment. Tier 1, 2 and 3 members are eligible to retire at age 60, 60, and 62, respectively with an annual benefit generally determined to be 1/55th of the average annual compensation for the highest three fiscal years’ compensation for each year of membership during years of credited service. Tier 4 and 5 members are eligible to retire at age 62 and 65, respectively with an annual benefit generally determined to be 1/60th of the average annual compensation for the highest five fiscal years’ compensation for each year of membership during years of credited service. Anyone who retires early and is under their respective tier’s retirement age receives retirement benefits as calculated in the above mentioned formulas but at a reduced rate in accordance with applicable New Jersey Statute based upon their tier.

**TWO RIVERS WATER RECLAMATION AUTHORITY**  
**Notes to the Basic Financial Statements**  
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**7. Pension Plans (continued)**

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

**Funding Policy**

The contribution policy is set by New Jersey State Statutes and contributions are required by active members and contributing members. Plan member and employer contributions may be amended by State of New Jersey legislation. Under the provisions of Chapter 78, P.L. 2011, employee contribution rates for PERS increased from 5.5% to 6.5% of employees' annual compensation. An additional increase is to be phased in over the next seven years that will bring the total pension contribution rate to 7.5% of employees' annual compensation. Employers are required to contribute at an actuarially determined rate for PERS. The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums.

The Authority's actuarially determined contributions to PERS for the years ended October 31, 2014, 2013 and 2012 were \$295,253, \$279,877 and \$275,282, respectively, equal to the required contributions for each year.

**Contribution Requirements:**

The contribution policy is set by New Jersey State Statutes and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provides for employee contributions of 6.78% of employees' annual compensation, as defined through June 30, 2014 and 6.92% thereafter. Employers are required to contribute at an actuarially determined rate. The actuarially determined contribution includes funding for both cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums.

**8. Defined Contribution Retirement Program**

The Defined Contribution Retirement Program (DCRP) was established on July 1, 2007 for certain public employees under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007. The program provides eligible members, with a tax-sheltered, defined contribution retirement benefit, in addition to life insurance and disability coverage. The DCRP is jointly administered by the Division of Pensions and Benefits and Prudential Financial.



**TWO RIVERS WATER RECLAMATION AUTHORITY**  
**Notes to the Basic Financial Statements**  
**Years Ended October 31, 2014 and 2013**

**9. Deferred Compensation**

The Authority offers its employees the following deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan which is administered by the AXA/Equitable, permits participants to defer a portion of their salary until future years. Amounts deferred under the plans are not available to employees until termination, retirement, death or unforeseeable emergency.

**10. 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.

**Property and Liability Insurance:**

The Authority maintains commercial insurance coverage through the New Jersey Utility Authorities Joint Insurance Fund for property, liability and surety bonds and does not retain risk of loss. A complete schedule of insurance coverage can be found in the Other Supplementary Information section of the report. There have been no significant reductions in insurance coverage from the prior year and no settlements have exceeded insurance coverage over the past three years.

**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. There are sufficient funds maintained in the separate unemployment compensation account to pay current billings.

**11. Contingent Liabilities**

**Grant Programs:**

The Authority participates in federal grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the Authority has not complied with the rules and regulations governing grants, refunds of any money received may be required. Management is not aware of any material items of noncompliance, which would result in the disallowance of program expenditures.

**Litigation:**

The Authority is involved in several pending lawsuits. The Authority's attorney has indicated the Authority does have litigation in progress with its Customer Municipalities. The attorney was unable to form an opinion as to the ultimate outcome of the claim. The claim filed by the Customer Municipalities seeks some \$19.2 million dollars from the Authority.

In the opinion of the Authority, there are no other significant contingent liabilities relating to compliance with the rules and regulations governing the Authority or its respective grants; therefore, no provisions have been recorded in the accompanying basic financial statements for such contingencies.

**TWO RIVERS WATER RECLAMATION AUTHORITY**  
**Notes to the Basic Financial Statements**  
**Years Ended October 31, 2014 and 2013**

**12. Restrictions on Net Position**

Certain portions of net position have been restricted. Restrictions include net position restricted for dredging project, \$190,000, and net position restricted for renewal and replacement, \$2,719,280.

**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 - UNRESTRICTED ACCOUNTS  
YEAR ENDED OCTOBER 31, 2014

Cash and Cash Equivalents, November 1, 2013	\$	5,069,621
Cash Receipts:		
Customer Municipalities Annual Charges		6,353,278
Monmouth Park		135,557
Participating Municipalities Service Charges		5,627,475
Other Income		199,377
Interest Income		508
Connection Fees		399,295
Transfers from Restricted Accounts		375,528
Federal Emergency Management Agency		<u>722,964</u>
Total Cash Available		<u>18,883,603</u>
Cash Disbursements:		
Vendors and Payroll		6,946,746
Transfers to Restricted Accounts		<u>3,493,287</u>
Total Cash Disbursements		<u>10,440,033</u>
Cash and Cash Equivalents, October 31, 2014	\$	<u><u>8,443,570</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  
 YEAR ENDED OCTOBER 31, 2014

	Accounts Required by Revenue Bond Agreement					Other Accounts		
	Bond Service	Bond Reserve	Renewal and Replacement	General	Construction	Unemployment Reserve	Escrow Deposits	Total
Cash and Cash Equivalents and Investments, November 1, 2013	\$ 1,150,349	\$ 362,408	\$ 750,393	\$ 15,161,059	\$ 183,567	\$ 98,418	\$ 182,533	\$ 17,888,727
Cash Receipts:								
Interest on Investments	57	9	75	17,467	19		236	17,863
Sewer Connections					34,615			34,615
Transfers from Restricted Funds	3,493,287							3,493,287
Transfer from Escrow Agent				1,053,459				1,053,459
Developers' Deposits							11,720	11,720
Total Cash and Investments Available	4,643,693	362,417	750,468	16,231,985	218,201	98,418	194,489	22,499,671
Cash Disbursements:								
Payment of Bond Interest	642,518							642,518
Payment of Bond Principal	2,770,624							2,770,624
Transfer to Escrow Agent	971,390							971,390
Transfers to Unrestricted Funds		362,414	1,493	11,621				375,528
Transfers to Restricted Funds				3,493,287				3,493,287
NJEIT - Administrative Fee	80,145							80,145
Developers' Escrow Payments							33,949	33,949
Total Cash Disbursements	4,464,677	362,414	1,493	3,504,908			33,949	8,367,441
Cash and Cash Equivalents and Investments, October 31, 2014	\$ 179,016	\$ 3	\$ 748,975	\$ 12,727,077	\$ 218,201	\$ 98,418	\$ 160,540	\$ 14,132,230
Balance Comprised of:								
Cash and Cash Equivalents	\$ 179,016	\$ 3	\$ 748,975	\$ 5,116,959	\$ 218,201	\$ 98,418	\$ 160,540	\$ 6,522,112
Investments				7,610,118				7,610,118
	\$ 179,016	\$ 3	\$ 748,975	\$ 12,727,077	\$ 218,201	\$ 98,418	\$ 160,540	\$ 14,132,230

TWO RIVERS WATER RECLAMATION AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY  
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET  
YEARS ENDED OCTOBER 31, 2014 AND 2013

	October 31, 2014			October 31, 2013		
	Adopted Budget	Final Budget	Realized	Final Budget	Realized	Variance Final to Actual
<b>Revenues</b>						
Revenue from Customer Municipalities and Government Facilities:	\$ 7,126,360	\$ 7,126,360	\$ 1,859,816	\$ 7,491,065	\$ 1,975,309	\$ 1,975,309
Eatontown			1,186,208		1,121,090	1,121,090
Tinton Falls			1,545,024		1,540,119	1,540,119
Red Bank			1,671,195		1,399,627	1,399,627
Runson			375,064		344,436	344,436
Sea Bright			182,422		136,744	136,744
Township of Shrewsbury			604,903		703,050	703,050
Fort Monmouth			219,384		273,055	273,055
Monmouth Park						
	<u>7,126,360</u>	<u>7,126,360</u>	<u>7,644,016</u>	<u>7,491,065</u>	<u>7,493,430</u>	<u>2,365</u>
Service Charges:						
Individual Billings Member Towns	5,661,350	5,661,350	5,773,366	5,667,120	5,758,129	91,009
Interest on Investments	25,000	25,000	46,334	25,000	11,841	(13,159)
Other Fees:						
Connection Charges	340,550	340,550	359,295	351,800	664,164	502,364
Miscellaneous Income	20,000	20,000	734,122	20,000	317,022	297,022
	<u>360,550</u>	<u>360,550</u>	<u>1,133,417</u>	<u>371,800</u>	<u>1,171,186</u>	<u>799,386</u>
<b>Total Revenues</b>	<u>\$ 13,173,270</u>	<u>\$ 13,173,270</u>	<u>\$ 14,597,133</u>	<u>\$ 13,554,985</u>	<u>\$ 14,434,686</u>	<u>\$ 879,601</u>

TWO RIVERS WATER RECLAMATION AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY  
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET  
YEARS ENDED OCTOBER 31, 2014 AND 2013

	October 31, 2014			October 31, 2013		
	Adopted Budget	Final Budget	Realized	Final Budget	Realized	Variance Final to Actual
<b>Expenditures</b>						
Administrative and General Expenditures:						
Administrative Salaries and Wages	\$ 581,342	\$ 581,342	\$ 518,750	\$ 62,592	\$ 476,700	\$ (53,965)
Employee Benefits	231,714	231,714	187,541	44,173	278,000	(18,719)
FICA and Medicare	41,983	41,983	30,441	11,542	36,500	(63)
Employee Medical Related	497	497	1,710	(1,213)	1,500	(995)
Pension PERS	290,000	290,000	295,253	(5,253)	305,643	25,582
Billing Expenses:						
Computer Service	7,901	7,901	25,489	(17,588)	2,000	(10,798)
Billing Postage	20,000	20,000	10,708	9,292	30,000	9,524
Bank Fees	11,674	11,674	8,866	1,808		
Office Expenses:						
Other Postage	3,624	3,624	1,998	1,626	4,500	1,463
Stationery and Supplies	13,260	13,260	25,312	(12,052)	16,500	(5,172)
General Expenses:						
Conferences and Training	4,700	4,700	9,253	(4,553)	4,500	(2,116)
Travel Expenses	250	250	4,194	(3,944)	400	(4,771)
Auto and Fire Liability Business Insurance	215,000	215,000	134,336	80,664	180,000	21,624
Worker's Compensation Insurance	178,701	178,701	95,328	83,373	117,200	12,958
Conferences, Training Expenses						
Pre-Employ Physician Fees						
Div Of Motor Vehicle Fee						
Advertising Fees	17,500	17,500	19,286	(1,786)	7,500	(10,604)
NJ/EIT Administration & Agent Fees	81,000	81,000	80,145	855	81,000	855
Dues and Membership	6,000	6,000	8,921	(2,921)	10,000	2,533
Subscriptions	1,800	1,800	1,151	649	1,800	788
Gift Baskets	300	300	1,146	(846)	700	176
Leases of R.R. Property	108	108	108		110	3
Long Branch Sewer	3,432	3,432	3,432		3,500	68
Miscellaneous - Other Expenses						
Contingency						
Professional Expenses:						
Legal Fees	175,000	175,000	154,953	20,047	70,000	(112,742)
Engineering Fees	90,000	90,000	221,359	(131,359)	90,000	1,994
Trustee Fees			3,400	(3,400)	3,800	400
Auditors Fees	35,000	35,000	28,000	7,000	33,000	(4,125)

TWO RIVERS WATER RECLAMATION AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY  
YEARS ENDED OCTOBER 31, 2014 AND 2013

	October 31, 2014			October 31, 2013		
	Adopted Budget	Final Budget	Variance Final to Actual	Final Budget	Realized	Variance Final to Actual
<b>Administrative and General Expenditures (Continued):</b>						
Professional Expenses (Continued):						
Engineering Litigation Expense	\$ 684	\$ 684	\$ 214	\$ 1,400	\$ 475	\$ 925
Legal Litigation Expense				39,000	15,200	23,800
Pre-Employment Physical Fees						
Bank Fees Revenue Fund						
Other Post Employment Benefits						
<b>Total Administrative and General Expenditures</b>	<b>2,156,480</b>	<b>2,156,480</b>	<b>132,847</b>	<b>1,927,353</b>	<b>2,045,516</b>	<b>(118,163)</b>
<b>Treatment Plant and Main Pumping Expenditures:</b>						
Plant Salaries and Wages	2,225,000	2,225,000	53,459	2,025,100	2,151,159	(126,059)
Employee Benefits	540,000	540,000	(53,548)	541,300	510,899	30,404
FICA and Medicare	170,000	170,000	6,956	140,000	163,245	(23,245)
Stationery and Supplies	12,000	12,000	(3,402)	10,000	5,150	4,850
Conferences and Training	850,000	850,000	249,241	875,000	542,300	332,700
Electricity	75,000	75,000	6,670	75,000	130,662	(55,662)
Fuel - Diesel	60,000	60,000	(27,761)	50,000	65,463	24,537
Natural Gas	100,000	100,000	29,611	100,000	56,923	43,177
Sodium Hypochlorite	110,000	110,000	32,283	100,000	86,112	13,888
Polymer	80,000	80,000	47,073	80,000	37,596	42,404
Hydrogen Peroxide						
Permanganate	1,000	1,000	1,000	2,000	2,000	2,000
Non Bulk Chemicals	33,000	33,000	(1,740)	20,000	34,983	(14,983)
Fuel - Unleaded	50,000	50,000	(33,906)	50,000	77,093	(27,093)
Truck Maintenance	49,000	49,000	(3,864)	35,000	42,357	(7,357)
DEP and EPA Permits	5,000	5,000	2,712	6,000	719	5,281
Calibration Services	50,000	50,000	(56,844)	44,000	60,905	(16,905)
Water						
Stationery Supplies	40,000	40,000	(1,378)	40,000	734	(734)
Maintenance Supplies	50,000	50,000	(69,650)	40,000	85,286	(45,286)
Equipment Service Contracts	50,000	50,000	(21,182)	50,000	39,444	10,556
Equipment Repair	50,000	50,000	(66,223)	50,000	114,384	(64,384)



TWO RIVERS WATER RECLAMATION AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY  
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET  
YEARS ENDED OCTOBER 31, 2014 AND 2013

	October 31, 2014			October 31, 2013			
	Adopted Budget	Final Budget	Realized	Variance Final to Actual	Final Budget	Realized	Variance Final to Actual
<b>Expenditures (Continued)</b>							
<b>Treatment Plant and Main Pumping Expenses (Continued):</b>							
Uniforms and Gloves	\$ 12,500	\$ 12,500	\$ 14,127	\$ (1,627)	\$ 12,500	\$ 20,147	\$ (7,647)
Equipment Replacement	30,000	30,000	66,329	(36,329)	30,000	42,109	(12,109)
Sludge Removal	900,000	900,000	699,724	200,276	900,000	723,100	176,900
Laboratory Supplies	32,500	32,500	26,166	6,334	30,000	29,707	293
Outside Lab Fees	17,500	17,500	20,616	(3,116)	20,000	20,325	(325)
Municipal Services	30,000	30,000	31,212	(1,212)	30,000	30,600	400
Janitorial Supplies	10,000	10,000	10,069	(69)	8,000	12,159	(4,159)
Building and Ground Maintenance	37,500	37,500	133,970	(96,470)	37,500	63,887	(26,387)
Travel Expenses		13		(13)		379	(379)
Contingency		841		841		4,116	5,885
Plant Renewal and Replacement	10,000	10,000	8,354	(8,354)	10,000	21,182	(1,182)
New Equipment	20,000	20,000	74,566	(54,566)	20,000	2,804,955	(2,804,955)
Hurricane Damage			947,236	(947,236)			
Penalties and Fines							
<b>Total Treatment Plant and Main Pumping Expenditures</b>	<b>5,671,000</b>	<b>5,671,000</b>	<b>6,535,902</b>	<b>(864,902)</b>	<b>5,453,000</b>	<b>7,993,465</b>	<b>(2,540,465)</b>
<b>Lines and System Pumping Station:</b>							
Line Salaries and Wages	506,000	506,000	276,105	229,894	474,900	284,574	190,326
Employee Benefits	120,000	120,000	107,873	12,127	114,500	96,687	17,813
FICA and Medicare	30,000	30,000	30,508	(508)	35,000	20,565	14,437
Other Lines Expenses:							
Travel Expenses		18		(18)			
Stationery and Supplies	2,500	2,500	169	(169)	2,500	921	1,579
Conferences and Training	110,000	110,000	1,791	709	110,000	106,936	3,064
Electricity	16,500	16,500	107,913	2,087	15,000	10,220	4,780
Fuel - Unleaded Gasoline	20,000	20,000	15,033	16,500	30,000	18,303	11,698
Natural Gas	100,000	100,000	79,910	4,167	100,000	42,587	57,413
Hydrogen Peroxide	35,000	35,000	26,581	8,419	30,000	32,698	(2,698)
Nitrate Oxygen	20,000	20,000	45,255	(25,255)	20,000	17,993	2,007
Maintenance and Supplies	3,400	3,400	3,313	87	3,600	3,552	48
Uniforms and Gloves							

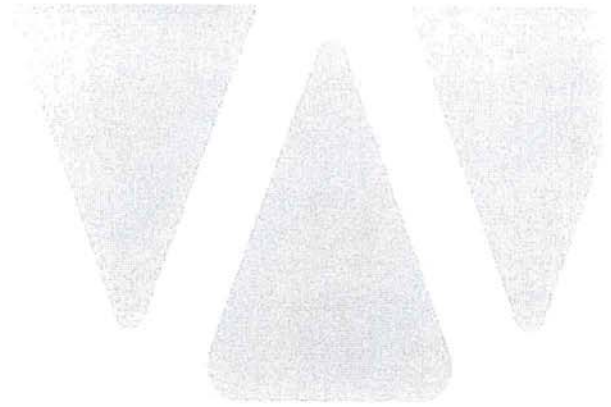
TWO RIVERS WATER RECLAMATION AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY  
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET  
YEARS ENDED OCTOBER 31, 2014 AND 2013

	October 31, 2014			October 31, 2013		
	Adopted Budget	Final Budget	Realized	Final Budget	Realized	Variance Final to Actual
<b>Expenditures (Continued)</b>						
Lines and System Pumping Station (Continued):						
Other Lines Expenses (Continued):						
Buildings and Grounds Maintenance	\$ 20,000	\$ 20,000	\$ 14,326	\$ 20,000	\$ 10,806	\$ 9,194
Chemicals	5,000	5,000	4,684	7,500	7,500	7,500
Bioside 71	100,000	100,000	76,058	100,000	70,471	29,529
Maintenance of Lines	200,000	200,000	244,356	175,000	165,234	9,766
Water	2,500	2,500	2,023	3,000	2,750	250
Diesel Fuel	8,000	8,000	6,000	8,000	10,474	(2,474)
Meter Calibration	14,500	14,500	11,393	14,500	9,266	5,234
Communications Equipment	2,500	2,500	933	2,500	1,686	814
Equipment Repair	30,000	30,000	80,735	30,000	35,159	(5,159)
Equipment Replacement	30,000	30,000	28,705	30,000	770	29,230
Contingency	10,000	10,000	26,324	10,000	54	9,946
New Equipment	5,000	5,000	8,867	5,000	4,844	156
<b>Total Lines and System Pumping Station Expenditures</b>	<b>1,407,900</b>	<b>1,407,900</b>	<b>1,206,939</b>	<b>1,355,500</b>	<b>970,531</b>	<b>384,969</b>
<b>Total Operating Expenditures</b>	<b>9,235,390</b>	<b>9,235,390</b>	<b>9,766,474</b>	<b>8,735,853</b>	<b>11,009,512</b>	<b>(2,273,659)</b>
Other Costs Funded by Revenues:						
Bond Principal	2,857,101	2,857,101	2,770,524	3,676,307	3,678,307	48,594
Interest on Bonds	535,791	535,791	631,176	898,598	850,004	48,594
Rate Stabilization						
Collection System Improvements						
Renewal and Replacement						
<b>Total Other Costs Funded by Revenues</b>	<b>3,972,892</b>	<b>3,972,892</b>	<b>3,979,640</b>	<b>5,155,905</b>	<b>4,645,183</b>	<b>511,722</b>
<b>Grand Totals</b>	<b>\$ 13,208,272</b>	<b>\$ 13,208,272</b>	<b>\$ 13,746,114</b>	<b>\$ 13,892,758</b>	<b>\$ 15,654,695</b>	<b>\$ (1,761,937)</b>

TWO RIVERS WATER RECLAMATION AUTHORITY  
 COUNTY OF MONMOUTH, NEW JERSEY  
 SCHEDULE OF LONG-TERM REVENUE BONDS PAYABLE  
 YEAR ENDED OCTOBER 31, 2014

Purpose	Date of Issue	Maturities		Interest Rate	Paid	Balance October 31, 2013 (As restated)	Balance October 31, 2014
		Date	Amount				
\$25,715,000 (Series 2000 NJEIT) Trust Loan - To provide funds for the Treatment Plant Expansion and Upgrade Project and costs of issuance.	11/9/2000	8/1/2015	\$ 1,609,038	5.13%			
		8/1/2016	1,693,489	5.13%			
		8/1/2017	1,777,868	5.25%			
		8/1/2018	1,871,046	5.25%			
		8/1/2019	1,968,503	5.25%			
		8/1/2020	2,070,815	5.25%	1,533,523	\$ 12,524,283	\$ 10,990,760
\$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	2/1/2015	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	1,154,891	0%	1,237,101	8,610,836	7,373,735
Grand Total					\$ 2,770,624	\$ 21,135,119	\$ 18,364,495
Detail:							
Current portion					\$ 2,770,624	\$ 2,845,603	\$ 2,845,603
Long-term liability					18,364,495	15,518,892	15,518,892
					\$ 21,135,119	\$ 21,135,119	\$ 18,364,495

**SINGLE AUDIT SECTION**



Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed  
in Accordance with *Government Auditing Standards*

Independent Auditors' Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Two Rivers Water Reclamation Authority, in the County of Monmouth, New Jersey (the "Authority") as of and for the year ended October 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated February 13, 2015.

**Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

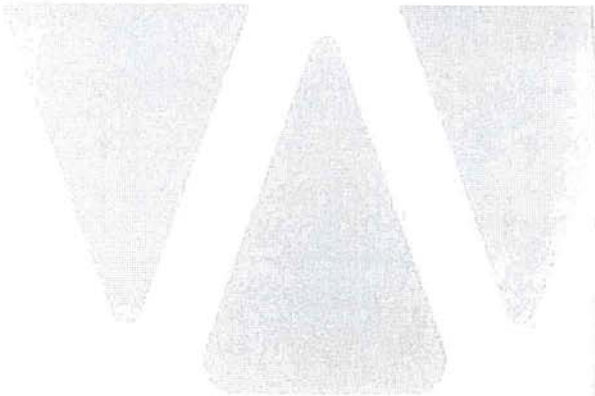
### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

February 13, 2015  
Iselin, New Jersey



WISS & COMPANY, LLP



**Report on Compliance For Each Major Federal Program and  
Report on Internal Control Over Compliance**

**Independent Auditors' Report**

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

**Report on Compliance for Each Major Federal Program**

We have audited Two Rivers Water Reclamation Authority's, in the County of Monmouth, New Jersey (the "Authority") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the Authority's major federal program for the year ended October 31, 2014. The Authority's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal program.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for the Authority's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

### **Opinion on the Major Federal Program**

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to previously that could have a direct and material effect on its major federal program for the year ended October 31, 2014.

### **Report on Internal Control Over Compliance**

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to previously. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



**Purpose of this Report**

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purposes.

*Wiss & Company*  
WISS & COMPANY, LLP

February 13, 2015  
Iselin, New Jersey

Two Rivers Water Reclamation Authority  
County of Monmouth

Schedule of Expenditures of Federal Awards

Year Ended October 31, 2014

Federal Funding Department	CFDA Number	State Program Code	Total Award	Grant Year	2014	
					Cash Receipts	Expenditures
U.S. Department of Homeland Security Pass-Through the State of New Jersey; Disaster Grants - Public Assistance	97.036	066-1160-100-A92	\$ 1,260,372	2012-2014	\$ 722,964	\$ 984,991
Sub-total - Pass-Through Awards					\$ 722,964	\$ 984,991
Total expenditures					\$ 722,964	\$ 984,991

See accompanying notes to schedules of expenditures of federal awards.

**Two Rivers Water Reclamation Authority  
Monmouth County, New Jersey**

**Notes to Schedule of Expenditures of Federal Awards  
October 31, 2014**

**Note 1 - General:**

The accompanying schedule of expenditures of federal awards presents the activity of all federal awards programs of the Two Rivers Water Reclamation Authority. The Authority is defined in Note 1 to the financial statements. To the extent identified, the federal assistance that passed through other governmental agencies is included on the schedule of expenditures of federal awards.

**Note 2 - Basis of Accounting:**

The accompanying schedule of expenditures of federal awards is presented using the basis of accounting as described in Note 1 to the Authority's financial statements.

**Note 3 - Relationship to Financial Statements:**

Amounts reported in the accompanying schedule agree with amounts reported in the Authority's financial statements.

**Note 4 - Relationship to Federal Financial Reports:**

Amounts reported in the accompanying schedule of expenditures of federal awards agree with the amounts reported in the related federal financial reports, where required. Expenditures incurred for Disaster Grants for Public Assistance are based upon project worksheets submitted to the Federal Emergency Management Agency. Several of the project worksheets are based upon estimated amounts and may change from preliminary estimates resulting in a reduction of funds to be received or funds due back to the grantor agency.

**SUPPLEMENTARY INFORMATION RELATING TO SCHEDULES OF EXPENDITURES  
OF FEDERAL AWARDS – OTHER SUPPLEMENTARY INFORMATION**

**Two Rivers Water Reclamation Authority  
Monmouth County, New Jersey**

**Schedule of Findings and Questioned Costs  
For the Year Ended October 31, 2014**

*Section I - Summary of Auditor's Results*

**Financial Statement Section**

Type of auditors' report issued:	<u>Unmodified</u>		
Internal Control over financial reporting:			
Material weakness(es) identified?	_____ Yes	_____ X _____	No
Significant deficiency(ies) identified?	_____ Yes	_____ X _____	None Reported
Noncompliance material to the financial statements noted?	_____ Yes	_____ X _____	No

**Federal Awards**

Dollar threshold used to distinguish between type A and B programs:	<u>\$300,000</u>		
Auditee qualified as low-risk auditee?	_____ Yes	_____ X _____	No
Internal Control over major programs:			
Material weakness(es) identified?	_____ Yes	_____ X _____	No
Significant deficiency(ies) identified?	_____ Yes	_____ X _____	None Reported
Type of auditors' report issued on compliance for major programs:	<u>Unmodified</u>		
Any audit findings disclosed that are required to be reported in accordance with with Section 510(a) of OMB Circular A-133?	_____ Yes	_____ X _____	No

Identification of major programs:

<u>Program Number(s)</u>	<u>Name of Federal Program or Cluster</u>
97.036	Disaster Grants – Public Assistance

Two Rivers Water Reclamation Authority  
Monmouth County, New Jersey

Schedule of Findings and Questioned Costs  
For the Year Ended October 31, 2014

Section II – Schedule of Financial Statement Findings

No financial statement findings noted that are required to be reported under *Government Auditing Standards*.

**Two Rivers Water Reclamation Authority  
Monmouth County, New Jersey**

**Schedule of Findings and Questioned Costs  
For the Year Ended October 31, 2014**

**Section III – Federal Awards Findings and Questioned Costs**

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal programs, as required by U.S. OMB Circular A-133.

**Federal Award Programs:**

No compliance or internal control findings noted that are required to be reported in accordance with OMB Circular A-133.

**Two Rivers Water Reclamation Authority  
Monmouth County, New Jersey**

**Summary Schedule of Prior Year Audit Findings  
For the Year Ended October 31, 2014**

SUMMARY OF PRIOR YEAR FINDINGS

Not applicable.



**OTHER SUPPLEMENTARY INFORMATION**  
**GENERAL COMMENTS AND RECOMMENDATIONS**

**TWO RIVERS WATER RECLAMATION AUTHORITY**

**ROSTER OF OFFICIALS**

**FISCAL YEAR ENDED OCTOBER 31, 2014**

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

Surety Coverages:

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

**TWO RIVERS WATER RECLAMATION AUTHORITY**

**INSURANCE COVERAGE**

**FISCAL YEAR ENDED OCTOBER 31, 2014**

A blanket policy issued by the New Jersey Utility Authorities Joint Insurance Fund for a one-year period expiring on January 1, 2015, payable semi-annually was in force during the period under audit. The following coverages were provided:

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

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  
OCTOBER 31, 2014**

Cash Balances

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

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 the expenditures in any category will exceed the statutory thresholds within the contract year. Where question arises as to whether any contract or agreement might result in violation of the statute, the solicitor's opinion should be sought before a commitment is made.

Under *N.J.S.A. 40A:11-9(b)* the Authority appointed their Executive Director as their Qualified Purchasing Agent. Accordingly, the 2014 bid threshold was \$36,000.

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.

The results of our examination indicated that no individual payments, contracts, or agreements were made for the performance of any work or goods or services, 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*.

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, 2014 covering all unpaid charges on that date.

A test verification of delinquent charges outstanding at October 31, 2014 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 confirmations mailed.

**GENERAL COMMENTS (CONTINUED)**  
**OCTOBER 31, 2014**

Collection of Interest on Delinquent Sewer Charges

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

Interest Requirements

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

Revenues

The Authority's operating revenues from participant billings and customer billings, and non-operating revenues including 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 annual operating budgets for the fiscal years ending October 31, 2014 and 2013.

Vouchers were examined on a test basis.

An test was made of the employees' compensation and payroll deductions for the year ended October 31, 2014 and for those employees tested, no exceptions were noted except as follows:

**Finding:**

**Condition:** Employees' payroll deductions for health insurance deductions were withheld in incorrect amounts.

**Criteria:** Chapter 78, P.L. 2011.

**GENERAL COMMENTS (CONTINUED)**  
**OCTOBER 31, 2014**

Expenditures – (Continued)

**Cause:** The Authority misinterpreted the statutory timelines for implementing increases in the withholding amounts. While New Jersey State Health Benefit rate increases occur in January of each year, the Authority did not revise withholding amounts for these increases until July.

**Authority Response:** The Authority estimates the value of this timing difference as being immaterial and is now clear on the timing of changes in payroll deduction amounts for health benefit contributions.

**Recommendation:** That payroll deductions for employees' contributions for health insurance be compliant with the requirements of Chapter 78, P.L. 2011.

Other Comments

**Finding:**

**Condition:** Numerous developers' escrow cash accounts exist that have been dormant for many years.

**Criteria:** Good business practice.

**Cause:** Research into cancellation process and escheat regulations.

**Authority Response:** The Authority has taken steps toward the closure of these dormant accounts and expects to have them closed during the current fiscal year.

**Recommendation:** That the dormant developers' escrow cash accounts be reviewed for closure.

Exit Conference

An exit audit conference with the Authority was held.

Acknowledgment

We wish to express our appreciation for the complete cooperation received from the Authority officials and employees and we greatly appreciate the courtesies extended to the members of the audit team during the course of the audit.

**GENERAL COMMENTS (CONTINUED)**  
**OCTOBER 31, 2014**

Follow-up Prior Year's Recommendations

In accordance with *Government Auditing Standards*, our procedures included a review of all prior year recommendations including findings. A corrective action plan must be designed and implemented to insure that procedures are corrected or implemented. A corrective action plan was adopted for 2013 audit recommendations. 2014 recommendations reflected below that are repeated from the prior year are marked with an asterisk.

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

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

**RECOMMENDATIONS**

It is recommended that:

2014-1 Payroll deductions for employees' contributions for health insurance be compliant with the requirements of Chapter 78, P.L. 2011.

\*2014-2 Dormant developers' escrow cash accounts be reviewed for closure.

The findings noted in our audit were not of such magnitude that they would affect our ability to express an opinion on the financial statements taken as a whole and were not deemed to be material weaknesses or significant deficiencies.