

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

Years ended October 31, 2017 and 2016

**and
Independent Auditors' Report**

TWO RIVERS WATER RECLAMATION AUTHORITY

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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

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 years ended October 31, 2017 and 2016 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 audits. We conducted our audits 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 and the audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards and requirements 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 opinion.

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, 2017 and 2016, and the respective changes in financial position, and cash flows, thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of the Authority's proportionate share of the net pension liability - PERS and schedule of Authority contributions - PERS, 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.

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, such as the schedule of cash receipts, cash disbursements and changes in cash and cash equivalents – unrestricted accounts, schedule of cash receipts, cash disbursements and changes in cash and cash equivalents – restricted accounts, comparative schedule of operating revenues and expenditures compared to budget, schedule of long-term revenue bonds payable and analysis of capital projects, and the other information, such as the roster of officials, insurance coverage and the general comments and recommendations are presented for purposes of additional analysis and are also 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 such as the roster of officials, insurance coverage and the general comments and recommendations that appear on pages 47-53 of the report 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 May 11, 2018 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 solely 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 effectiveness of the Authority's 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

WISS & COMPANY, LLP

May 11, 2018
Livingston, New Jersey

REQUIRED SUPPLEMENTARY INFORMATION

PART I

MANAGEMENT'S DISCUSSION AND ANALYSIS

TWO RIVERS WATER RECLAMATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (Required Supplementary Information)

This section presents management's analysis of the Authority's financial condition and activities for the years ended October 31, 2017 and 2016.

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 Net Position, and the Comparative Statement of Cash Flows are prepared on the accrual basis 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 Expenses 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, the Schedule of Long-Term Revenue Bonds Payable, and the Analysis of Capital Projects.

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 and deferred outflows of resources decreased by \$1,892,706 due mainly to decreases in customer charges receivable, sewer billings receivable and net capital assets. Total liabilities and deferred inflows of resources decreased by \$3,159,995 due mainly to decreases in bonds payable and the net pension liability offset by the increase in the pension related deferred inflow of resources. Assets and deferred outflows exceeded liabilities and deferred inflows by \$68,768,199. This compares to 2016 where assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$67,500,910.

The Authority’s Net Position of \$68,768,199 is comprised of the following:

1. Net investment in capital assets of \$58,423,143, 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 \$1,065,444 from the prior year.

Capital Assets - Net	\$	70,968,826
Less:		
Revenue Bonds Payable, Net of Unamortized Premium		(13,204,531)
Add:		
Unspent Revenue Bond Proceeds		658,848
Net Investment in Capital Assets	\$	58,423,143

2. Net position of \$1,500,000 is 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 \$190,000 is restricted for a Shrewsbury River Dredging Project.
4. Net position of \$100,000 is restricted for debt service reserve related to the 2016 revenue bonds.
5. Net position of \$400,000 is unrestricted - designated for future collection system improvements.
6. Net position of \$3,000,000 is unrestricted - designated for rate stabilization.
7. Unrestricted, undesignated net position of \$5,155,056 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 undesignated net position increased by \$201,845 mainly due to the change in net position, of \$1,267,289 offset by the increase in the net investment in capital assets of \$1,065,444.

	<u>2017</u>	October 31, <u>2016</u>	<u>2015</u>
Total current assets	\$ 5,230,098	\$ 3,378,569	\$ 14,193,976
Total restricted assets	16,984,214	19,295,637	10,418,271
Capital assets, net	70,968,826	72,384,829	71,708,918
Deferred outflow of resources	<u>2,925,139</u>	<u>2,941,948</u>	<u>1,371,250</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 96,108,277</u>	<u>\$ 98,000,983</u>	<u>\$ 97,692,415</u>
Total current liabilities payable from unrestricted assets	\$ 2,253,662	\$ 2,280,552	\$ 5,548,950
Total current liabilities payable from restricted assets	3,547,215	3,593,227	3,158,943
Unemployment claims reserve	82,151	82,151	82,151
Compensated absences payable	380,746	387,643	356,639
Net pension liability	8,868,046	10,212,174	8,243,126
Long term obligations, net	9,880,613	13,209,315	12,593,328
Deferred inflows of resources	<u>2,327,645</u>	<u>735,011</u>	<u>609,972</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 27,340,078</u>	<u>\$ 30,500,073</u>	<u>\$ 30,593,109</u>
Total Net Position	<u>\$ 68,768,199</u>	<u>\$ 67,500,910</u>	<u>\$ 67,099,306</u>

Total current assets have increased because cash and cash equivalents increased offset by decreases in customer charges receivable, sewer billings receivable and other accounts receivable.

Total restricted assets have decreased because of the decreases in cash and cash equivalents in the general and construction funds offset by increases in investments in the general fund.

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

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

Total current liabilities payable from restricted assets have decreased mainly due to decreases in accounts payable and accrued interest on bonds offset by increases in the reserve for developers' deposits and the current portion of revenue bonds payable.

Long-term bonds payable have decreased due to the repayment of revenue bond principal.

The net pension liability and deferred outflow of resources decreased and deferred inflow of resources increased due to the requirements of GASB Statement Nos. 68 and 71.

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

Operating revenues from customer municipalities fell by \$110,624 or 1.54% while operating revenues from participating municipalities increased by \$189,595 or 3.26%. Overall operating revenues increased by \$78,971 or less than 1.00% from 2016 levels.

Total operating expenses were lower in 2017 than 2016, mainly due to decreases in administration and general expenses, and lines and pumping station expenses. Total operating revenues less total operating expenses produced operating income of \$962,757 which is greater than 2016 operating income of \$363,178.

Total Net Position as of October 31, 2017 increased by \$1,267,289 as is depicted below.

	Year ended October 31,		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total operating revenues	\$ <u>13,093,437</u>	\$ <u>13,014,466</u>	\$ <u>12,972,235</u>
Operating expenses	9,054,878	9,677,872	9,239,186
Depreciation	<u>3,075,802</u>	<u>2,973,416</u>	<u>2,856,044</u>
Total operating expenses	<u>12,130,680</u>	<u>12,651,288</u>	<u>12,095,230</u>
Operating income	962,757	363,178	877,005
Nonoperating revenues (expenses) - net	<u>304,532</u>	<u>38,426</u>	<u>231,307</u>
Change in net position before special item	1,267,289	401,604	1,108,312
Special item - Settlements of litigation	<u> </u>	<u> </u>	<u>(3,651,739)</u>
Change in net position after special item	1,267,289	401,604	(2,543,427)
Total net position - beginning	<u>67,500,910</u>	<u>67,099,306</u>	<u>69,642,733</u>
Total net position - ending	\$ <u><u>68,768,199</u></u>	\$ <u><u>67,500,910</u></u>	\$ <u><u>67,099,306</u></u>

Comparative Statements of Cash Flows

The net decrease in cash and cash equivalents was \$3,680,000. This compares to a net decrease in cash and cash equivalents in 2016 of \$5,380,728. The main reason for the 2017 decrease was the purchase of investments.

Debt Administration

As of October 31, 2017, the Authority had \$22,453,323 of long-term liabilities. Of this amount, \$380,746 is for compensated absences, \$13,142,256 is for revenue bonds payable, \$62,275 which represents an unamortized bond premium and \$8,868,046 relates to the net pension liability. As of October 31, 2016, the Authority had \$16,812,000 of long-term liabilities.

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 for qualified projects.

- Traditional revenue bond issuance.
- 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. There were no Revenue Bonds issued this year. \$3,770,000 in Revenue Bonds were issued in 2016. See Note 5 to the basic financial statements for additional information.

Capital Assets

As of October 31, 2017 and 2016, the Authority had \$70,968,826 and \$72,384,829, 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 exceeding capital assets additions. See Note 4 to the basic financial statements for additional information.

Core Competencies

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

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, Monmouth Park and the former Fort Monmouth area are major sources of revenue for the Authority as are the revenues from the customer municipalities' charges paid by the six customer communities. This is shown on the Comparative Statement of Revenues, Expenses and Changes in Fund Net Position as "Customer Municipalities – Annual Charges .Municipalities – Service Charges" and is reported as operating revenue.

Budget Variations

There were no adjustments made during the year to the adopted 2017 budget. Significant variations between final budgeted amounts and actual expenses occurred in the following budgetary line items: Administration – Pension PERS, where expenses were greater than budgeted due to the impact of GASB Statement Nos. 68 and 71 Administration – Employee Benefits, where actual expenses were less than budgeted to a reallocation of expenses, Treatment Plant – Employee Benefits, where expenses were higher than budgeted due to the reallocation discussed above, Treatment Plant – Electricity, where expenses were less than budgeted due to conservation, Treatment Plant – Sludge Removal where expenses were greater than budgeted due to process changes, Treatment Plant – Contingency, where no charges were made to the \$40,000 appropriation and Lines and Pumping Station – Maintenance of Lines where actual expenses exceeded the final budget due to unforeseen conditions in the lines.

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:

Barry J. Berdahl, Ph. D., Chairman
Thomas B. Barham, Vice Chairman
William E. Leonard, Member
William R. Baarck, P.E., Secretary
Richard N. Tocci, Assistant Treasurer
Arno H. Weber, Assistant Secretary (Deceased 10/26/2017)
John Bonforte, Member
Gregory J. Christopher, Member
Brian McPeak, Member
Scott Hartman, Member
David Twigg, 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 35 and a 2017 budget of \$13.45 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
Dennis J. Galvin, Engineering Manager

Independent Auditors

The Independent audit firm is Wiss & Company, LLP, Livingston, 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.

BASIC FINANCIAL STATEMENTS

**TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE STATEMENT OF NET POSITION
OCTOBER 31, 2017 AND 2016**

	October 31,	
	2017	2016
Assets		
Current Assets:		
Cash and cash equivalents	\$ 4,189,675	\$ 1,354,935
Inventory	22,339	18,324
Customer charges receivable	1,772	347,907
Sewer billings receivable	966,412	1,398,272
Other accounts receivable	49,900	259,131
	<u>5,230,098</u>	<u>3,378,569</u>
Total current assets		
Restricted assets:		
Revenue fund - Unemployment cash and cash equivalents	98,418	98,418
Developer deposits:		
Cash and cash equivalents	123,199	56,377
Bond service account:		
Cash and cash equivalents	89	49
Bond reserve account:		
Cash and cash equivalents	100,003	100,003
General account:		
Cash and cash equivalents	1,216,724	6,844,433
Investments	13,080,302	8,881,267
Accrued interest receivable	95,437	61,404
Construction account:		
Cash and cash equivalents	730,075	1,692,316
Intergovernmental accounts receivable	29,645	59,396
Renewal and replacement account:		
Cash and cash equivalents	1,510,322	1,501,974
	<u>16,984,214</u>	<u>19,295,637</u>
Total restricted assets		
Non-current assets:		
Capital Assets - Non-depreciable	1,718,955	4,311,773
Capital Assets - Net of depreciation	69,249,871	68,073,056
	<u>70,968,826</u>	<u>72,384,829</u>
Total capital assets, net		
Total assets	<u>93,183,138</u>	<u>95,059,035</u>
Deferred outflow of resources		
Pension deferrals	2,925,139	2,941,948
	<u>2,925,139</u>	<u>2,941,948</u>
Total deferred outflow of resources		
Total assets and deferred outflow of resources	<u>\$ 96,108,277</u>	<u>\$ 98,000,983</u>

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, 2017 AND 2016**

	October 31,	
	2017	2016
Liabilities		
Current liabilities payable from unrestricted assets:		
Accounts payable	\$ 1,037,349	\$ 1,128,313
Accrued expenses	187,203	171,738
Payroll taxes payable		2,689
Customer overpayments	48,403	38,997
Unearned revenue	980,707	938,815
Total current liabilities payable from unrestricted assets	2,253,662	2,280,552
Current liabilities payable from restricted assets:		
Accounts payable		177,893
Reserve for developers' deposits	121,504	54,788
Accrued interest on bonds payable	101,793	145,504
Revenue bonds payable - current portion	3,323,918	3,215,042
Total current liabilities payable from restricted assets	3,547,215	3,593,227
Non-current liabilities:		
Net pension liability	8,868,046	10,212,174
Long-term revenue bonds payable, net	9,880,613	13,209,315
	18,748,659	23,421,489
Unemployment claims	82,151	82,151
Compensated absences payable	380,746	387,643
Total non-current liabilities	19,211,556	23,891,283
Total liabilities	25,012,433	29,765,062
Deferred inflow of resources		
Pension deferrals	2,327,645	735,011
Net position		
Net investment in capital assets	58,423,143	57,357,699
Restricted for:		
Debt service	100,000	100,000
Renewal and replacement	1,500,000	1,500,000
Dredging project - Shrewsbury River	190,000	190,000
Unrestricted:		
Designated for:		
Collection system improvements	400,000	400,000
Rate stabilization	3,000,000	3,000,000
Undesignated	5,155,056	4,953,211
Total net position	\$ 68,768,199	\$ 67,500,910

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 NET POSITION
YEARS ENDED OCTOBER 31, 2017 AND 2016**

Exhibit B

	October 31,	
	2017	2016
Operating revenues:		
Customer municipalities:		
Annual charges	\$ 7,092,542	\$ 7,203,166
Participating municipalities:		
Service charges	6,000,895	5,811,300
Total operating revenues	13,093,437	13,014,466
Operating expenses:		
Administration and general	2,086,224	2,361,528
Treatment plant and main pumping station	5,830,971	5,584,440
Lines and system pumping stations	1,058,569	1,540,574
Depreciation	3,075,802	2,973,416
Renewal and replacement	79,114	191,330
Total operating expenses	12,130,680	12,651,288
Operating income	962,757	363,178
Nonoperating revenues (expenses):		
Interest on bonds	(393,460)	(467,556)
Interest income	184,044	76,656
Federal Emergency Management Agency - Hurricane Sandy	65,323	331,111
Refund of prior year's revenue	(58,697)	
Prior year's receivable cancelled	(29,751)	
Major repairs and replacements	(54,075)	
Connection fees	490,459	229,257
Miscellaneous income	100,689	17,891
Total nonoperating revenues (expenses)	304,532	38,426
Change in net position	1,267,289	401,604
Total net position-beginning	67,500,910	67,099,306
Total net position-ending	\$ 68,768,199	\$ 67,500,910

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, 2017 AND 2016**

EXHIBIT C

	October 31,	
	2017	2016
Cash flows from operating activities:		
Receipts from members and customers	\$ 13,864,033	\$ 11,174,748
Payments to employees	(3,189,303)	(3,146,460)
Payments to suppliers	<u>(5,689,360)</u>	<u>(5,631,697)</u>
Net cash provided by operating activities	<u>4,985,370</u>	<u>2,396,591</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(1,659,799)	(3,471,434)
Federal Emergency Management Agency - Hurricane Sandy	65,323	71,980
Repayment of revenue bonds payable	(3,215,042)	(2,931,595)
Costs of issuance	-	(148,933)
Premium on 2016 revenue bonds	-	64,238
Bond Proceeds - 2016 revenue bonds	-	3,770,000
Developer's escrow funds received (returned)	<u>66,822</u>	<u>(64,005)</u>
Net cash (used in) capital and related financing activities	<u>(4,742,696)</u>	<u>(2,709,749)</u>
Cash flows from investing activities:		
Interest received	150,011	43,870
Interest paid on revenue bonds	(464,798)	(433,816)
(Purchase) of investment securities	(13,080,302)	(8,881,267)
Redemption of investment securities	<u>8,881,267</u>	<u>3,956,495</u>
Net cash (used in) provided by investing activities	<u>(4,513,822)</u>	<u>(5,314,718)</u>
Cash flows from noncapital financing activities:		
Connection fees	490,459	229,257
Miscellaneous income	<u>100,689</u>	<u>17,891</u>
Net cash provided by noncapital financing activities	<u>591,148</u>	<u>247,148</u>
Net (decrease) increase in cash and cash equivalents	(3,680,000)	(5,380,728)
Cash and cash equivalents, beginning of year	<u>11,648,505</u>	<u>17,029,233</u>
Cash and cash equivalents, end of year	<u>\$ 7,968,505</u>	<u>\$ 11,648,505</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 962,757	\$ 363,178
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,075,802	2,973,416
Changes in assets, deferred outflows and inflows of resources and liabilities:		
Decrease in receivables and other assets:		
Unrestricted accounts	765,183	1,774,002
(Decrease) in current liabilities:		
Payable from unrestricted assets	(144,050)	(3,255,890)
(Decrease) increase in other liabilities and deferrals:		
Other liabilities	(6,897)	31,004
Accounts payable - pension	67,260	(12,508)
Net pension liability	(1,344,128)	1,969,048
Deferred inflow - pension deferrals	1,592,634	125,039
Deferred outflow - pension deferrals	<u>16,809</u>	<u>(1,570,698)</u>
Net cash provided by operating activities	<u>\$ 4,985,370</u>	<u>\$ 2,396,591</u>
Reconciliation to Statement of Net Position:		
Unrestricted cash and cash equivalents	\$ 4,189,675	\$ 1,354,935
Restricted cash and cash equivalents	<u>3,778,830</u>	<u>10,293,570</u>
	<u>\$ 7,968,505</u>	<u>\$ 11,648,505</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, 2017 and 2016

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 and deferred inflows of resources, whether current or non-current, associated with their activity are included on the Comparative Statement of Net Position. Their reported fund equity (net position) is segregated into net investment in capital assets 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

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2017 and 2016

1. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation, Basis of Accounting (continued):

as an offset to capital assets-net of depreciation. Depreciation has been provided over the estimated useful lives using the straight-line method.

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 value.

Investments:

Investments include a Certificate of Deposit and municipally issued Bond Anticipation Notes. Investments are carried at fair value and have a maturity date of more than three months.

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. No allowances were deemed necessary or established at October 31, 2017 or 2016, respectively.

Inventories:

Inventories are valued at cost, which approximates market, using the first-in-first-out (FIFO) method. At October 31, 2017 and 2016, the value of the inventory, consisting of diesel fuel on hand, was \$22,339 and \$18,324, respectively.

Capital Assets:

Capital assets, which include land, property, plant, equipment and construction in progress, are reported in the financial statements. The Authority has established a formal system of accounting for

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2017 and 2016

1. Summary of Significant Accounting Policies (continued)

C. Assets, Liabilities and Net Position-(continued)

Capital Assets (continued):

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.

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 - net investment in capital assets 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 is 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.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2017 and 2016

1. Summary of Significant Accounting Policies (continued)

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. These operating 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.

Nonoperating Revenues and Expenses:

Nonoperating revenues are those revenues that are generated indirectly from the primary activity of the Authority. These nonoperating revenues are from connection fees, interest income and other miscellaneous sources. Nonoperating expenses are costs incurred that are not directly related to the current year's primary activity of the Authority such as refunds of prior year's revenues.

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. Recent Pronouncements

GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions ("GASB No. 75"). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local government employers about financial support for OPEB that is provided by other entities. The Statement will become effective for the Authority in the 2018 fiscal year. Management has not yet determined the impact of this Statement on the financial statements.

G. Deferred Outflows / Inflows of 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 /

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2017 and 2016

1. Summary of Significant Accounting Policies (continued)

G. Deferred Outflows / Inflows of Resources (continued)

expenditure) until then. Currently, the Authority has one item that qualifies for reporting in this category, deferred amounts related to pensions.

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. The Authority has one item that qualifies for reporting in this category, deferred amounts related to pensions.

H. Subsequent Events

Management has reviewed and evaluated all events and transactions occurring from October 31, 2017 through the date of the financial statement issuance, May 11, 2018, for possible disclosure and recognition in the accompanying financial statements. Other than the following, no items have come to the attention of the Authority which would require disclosure or recognition. In December, 2017 the Authority entered into a contract to purchase the property at 12 Highland Avenue, Monmouth Beach, NJ for a total purchase price of \$475,000. As of the date of this report, the closing on this transaction has not yet occurred and is scheduled for December, 2018.

2. 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, 2017, the carrying amount of the Authority's deposits was \$7,968,505 and the bank balance was \$7,937,361. Of the bank balance, \$373,199 was insured with Federal Deposit Insurance Corporation and the remainder was covered by GUDPA. At October 31, 2016, the carrying amount of the Authority's deposits was \$11,648,505 and the bank balance was \$11,659,060.

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,

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2017 and 2016

2. Deposits and Investments – (continued)

Cash and Cash Equivalents: (continued)

or collateralized with securities held by the financial institution's trust department or agent but not in the Authority's name.

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 Certificate of Deposit, Bond Anticipation Notes and Special Emergency Notes and a United States Treasury Note.

Credit Risk – As of October 31, 2017 the Authority's various investments in Bond Anticipation Notes and Special Emergency Notes were not rated by a nationally recognized bond rating agency.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2017 and 2016

2. Deposits and Investments – (continued)

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, Certificates of Deposit and United States Treasury Notes.

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, 2017 and 2016.

Description of Investment General Fund	Interest Rates	Balance as of October 31, 2017
<i>Bond Anticipation Notes:</i>		
Borough of Allenhurst	2.00%	\$ 715,815
Bergen County	1.75%	500,065
Borough of Avon-by-the-Sea	1.59%	1,011,750
Borough of Avon-by-the-Sea	1.38%	2,187,300
Hudson County Improvement Authority	1.75%	500,000
Borough of Cape May	1.82%	850,000
Township of Kingwood	1.62%	580,000
Borough of Hampton	1.90%	738,000
Borough of Manasquan	1.64%	682,000
Township of Delaware	1.64%	1,000,000
Township of Franklin	1.43%	1,656,000
Township of Neptune	1.23%	597,900
Township of Warren	1.55%	850,000
Total Bond Anticipation Notes		<u>11,868,830</u>
Certificate of Deposit	Variable	222,292
U.S. Treasury Note	1.35%	<u>989,180</u>
Grand Total		<u>\$ 13,080,302</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2017 and 2016

2. Deposits and Investments – (continued)

Description of Investment General Fund	Interest Rates	Balance as of October 31, 2016
Bond Anticipation Notes:		
Clark Township	2.00%	\$ 447,419
Borough of Glassboro	1.50%	494,983
Township of Hamilton	1.50%	699,780
Borough of Helmetta	2.00%	401,328
Hudson County Improvement Authority	1.50%	400,088
Borough of Mantoloking	2.00%	404,562
Borough of Glen Gardner	1.14%	682,362
Avon-by-the-Sea	0.92%	386,653
Borough of Phillipsburg	2.00%	336,631
Avon-by-the-Sea	1.14%	2,017,800
Township of Franklin	1.19%	948,100
Borough of Manasquan	1.00%	457,000
Avon-by-the-Sea	1.09%	264,500
Borough of Bradley Beach	1.25%	214,584
Borough of Mantoloking	2.00%	<u>503,325</u>
Total Bond Anticipation Notes		8,659,115
Certificate of Deposit	Variable	<u>222,152</u>
Grand Total		<u>\$ 8,881,267</u>

GASB 72 established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement.) The three levels of the fair value hierarchy under GASB 72 are:

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

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2017 and 2016

2. Deposits and Investments – (continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

- *Municipally issued Bond Anticipation Notes and Special Emergency Notes:* Valued at the acquisition price as these assets are not traded and held to maturity.
- *US Treasury Notes:* Valued at the closing price reported on the active market in which the security is traded.
- *Certificates of Deposit:* Valued at the acquisition price.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Authority's assets at fair value as of October 31, 2017 and 2016:

	<i>Assets at Fair Value</i>	
	<u>as of October 31, 2017</u>	
	<u>Level 2</u>	<u>Total</u>
Held to maturity securities:		
US Treasury Note	\$ 989,180	\$ 989,180
Bond Anticipation Notes	11,868,830	11,868,830
Certificate of Deposit	<u>222,292</u>	<u>222,292</u>
Total	<u>\$ 13,080,302</u>	<u>\$ 13,080,302</u>

	<i>Assets at Fair Value</i>	
	<u>as of October 31, 2016</u>	
	<u>Level 2</u>	<u>Total</u>
Held to maturity securities:		
Bond Anticipation Notes	\$ 8,659,115	\$ 8,659,115
US Treasury Notes	<u>222,152</u>	<u>222,152</u>
Total	<u>\$ 8,881,267</u>	<u>\$ 8,881,267</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2017 and 2016

4. Capital Assets

The following schedule is a summarization of the changes in capital assets for the years ended October 31, 2017 and 2016.

October 31, 2017	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:					
Construction In Progress	\$ 2,841,373	\$ 248,555	\$ -	\$(2,841,373)	\$ 248,555
Land	1,470,400				1,470,400
Total capital assets, not being depreciated	<u>4,311,773</u>	<u>248,555</u>	<u>-</u>	<u>(2,841,373)</u>	<u>1,718,955</u>
Capital assets, being depreciated:					
Buildings and improvements	15,543,486				15,543,486
Other improvements	69,147,195	1,060,398		2,841,373	73,048,966
Sewer mains and interceptors	32,530,497				32,530,497
Pump stations	7,838,522	52,977			7,891,499
Other equipment	3,863,243	225,471	(12,222)		4,076,492
Vehicles	1,255,851	72,398	(174,240)		1,154,009
Total assets being depreciated	<u>130,178,794</u>	<u>1,411,244</u>	<u>(186,462)</u>	<u>2,841,373</u>	<u>134,244,949</u>
Accumulated depreciation	<u>(62,105,738)</u>	<u>(3,075,802)</u>	<u>186,462</u>		<u>(64,995,078)</u>
Total capital assets, being depreciated, net	<u>68,073,056</u>	<u>(1,664,558)</u>	<u>-</u>	<u>2,841,373</u>	<u>69,249,871</u>
Net Capital Assets	<u>\$ 72,384,829</u>	<u>\$ (1,416,003)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70,968,826</u>

October 31, 2016	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:			
Construction In Progress	\$ -	\$ 2,841,373	\$ 2,841,373
Land	1,470,400		1,470,400
Total capital assets, not being depreciated	<u>1,470,400</u>	<u>2,841,373</u>	<u>4,311,773</u>
Capital assets, being depreciated:			
Buildings and improvements	15,543,486		15,543,486
Other improvements	69,091,002	56,193	69,147,195
Sewer mains and interceptors	32,530,497		32,530,497
Pump stations	7,369,088	469,434	7,838,522
Other equipment	3,592,585	270,658	3,863,243
Vehicles	1,244,182	11,669	1,255,851
Total assets being depreciated	<u>129,370,840</u>	<u>807,954</u>	<u>130,178,794</u>
Accumulated depreciation	<u>(59,132,322)</u>	<u>(2,973,416)</u>	<u>(62,105,738)</u>
Total capital assets, being depreciated, net	<u>70,238,518</u>	<u>(2,165,462)</u>	<u>68,073,056</u>
Net Capital Assets	<u>\$ 71,708,918</u>	<u>\$ 675,911</u>	<u>\$ 72,384,829</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2017 and 2016

5. Long-term liabilities

During the year ended October 31, 2017, the following changes occurred in long-term liabilities.

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Revenue bonds payable	\$ 16,357,298	\$ -	\$ 3,215,042	\$ 13,142,256
Unamortized premium	67,059	-	4,784	62,275
	<u>16,424,357</u>	<u>-</u>	<u>3,219,826</u>	<u>13,204,531</u>
Compensated absences	387,643	39,623	46,520	380,746
Sub-total	<u>16,812,000</u>	<u>39,623</u>	<u>3,266,346</u>	<u>13,585,277</u>
Net pension liability	<u>10,212,174</u>	<u>-</u>	<u>1,344,128</u>	<u>8,868,046</u>
 Total	 <u>\$27,024,174</u>	 <u>\$ 39,623</u>	 <u>\$4,610,474</u>	 <u>\$22,453,323</u>
 Current Portion	 <u>\$ 3,215,042</u>			 <u>\$ 3,323,918</u>

During the year ended October 31, 2016, the following changes occurred in long-term liabilities.

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Revenue bonds payable	\$ 15,518,893	\$3,770,000	\$2,931,595	\$16,357,298
Unamortized premium	6,030	64,238	3,209	67,059
	<u>15,524,923</u>	<u>3,834,238</u>	<u>2,934,804</u>	<u>16,424,357</u>
Compensated absences	356,639	49,599	18,595	387,643
Sub-total	<u>15,881,562</u>	<u>3,883,837</u>	<u>2,953,399</u>	<u>16,812,000</u>
Net pension liability	<u>8,243,126</u>	<u>1,969,048</u>		<u>10,212,174</u>
 Total	 <u>\$ 24,124,688</u>	 <u>\$5,852,885</u>	 <u>\$2,953,399</u>	 <u>\$27,024,174</u>
 Current Portion	 <u>\$ 2,931,595</u>			 <u>\$ 3,215,042</u>

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, 2018 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.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2017 and 2016

5. Long-term liabilities (continued)

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, 2018 through 2020 at amounts ranging from \$1,871,046 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.

2016 Revenue Bonds

On March 31, 2016, the Authority issued \$3,770,000 in Revenue Bonds. The Bonds mature annually on June 1 through 2031 with remaining principal amounts ranging from \$215,000 to \$320,000. Interest rates range from 2.125% to 2.5%.

Aggregate long-term debt outstanding is as follows:

Fiscal <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 3,323,918	\$ 386,899	\$ 3,710,817
2019	3,426,938	285,510	3,712,448
2020	3,481,400	269,963	3,751,363
2021	230,000	67,094	297,094
2022	235,000	62,206	297,206
2023-2027	1,265,000	229,356	1,494,356
2028-2031	<u>1,180,000</u>	<u>74,225</u>	<u>1,254,225</u>
	<u>\$ 13,142,256</u>	<u>\$ 1,375,253</u>	<u>\$ 11,471,721</u>

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

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2017 and 2016

6. Compensated Absences (continued)

compensated absences of the Authority amounted to \$380,746 and \$387,643 as of October 31, 2017 and 2016, 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 has been established by State statute; the Public Employees' Retirement System (PERS). This system 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.

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

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2017 and 2016

7. Pension Plans (continued)

Funding Policy (continued)

rates for PERS increased from 5.5% to 6.5% of employees' annual compensation. An additional increase is to be phased in through 2018 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 noncontributory death benefits, and post-retirement medical premiums.

The Authority's actuarially determined contributions to PERS for the years ended October 31, 2017, 2016 and 2015 were \$356,766, \$306,321 and \$293,167, respectively, equal to the required contributions for each year.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Public Employee's Retirement System (PERS)

At October 31, 2017 and 2016, the Authority reported a liability of \$8,868,046 and \$10,212,174, respectively, for its proportionate share of the net pension liability. The October 31, 2017 net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation at July 1, 2016, which was rolled forward to June 30, 2017. The Authority's proportion of the net pension liability was based on a projection of the Authority's long-term share of contributions to the pension plan relative to the projected contributions of all participating Authorities, actuarially determined. At June 30, 2017, the Authority's proportion was 0.0380955948 percent, which was an increase of 0.0036149639 from its proportion measured as of June 30, 2016 of 0.0344806309 percent. For the years ended October 31, 2017 and 2016, the Authority recognized full accrual pension expense of \$638,896 and \$826,583, respectively, in the financial statements.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2017 and 2016

7. Pension Plans – (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

At October 31, 2017 and 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

<u>October 31, 2017</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 1,786,606	\$ 1,780,056
Net difference between projected and actual earnings on pension plan investments	208,812	
Changes in proportion	750,414	547,589
Difference between expected and actual experience	60,385	
Authority contributions subsequent to the measurement date	<u>118,922</u>	
	<u>\$ 2,925,139</u>	<u>\$ 2,327,645</u>
<u>October 31, 2016</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflow of Resources</u>
Changes of assumptions	\$ 2,115,417	
Net difference between projected and actual earnings on pension plan investments	389,399	
Changes in proportion	145,110	\$ 735,011
Difference between expected and actual experience	189,915	
Authority contributions subsequent to the measurement date	<u>102,107</u>	
	<u>\$ 2,941,948</u>	<u>\$ 735,011</u>

\$118,922 is reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended October 31:

2018	\$ 204,634
2019	303,828
2020	226,354
2021	(141,948)
2022	<u>(114,296)</u>
	<u>\$ 478,572</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2017 and 2016

7. Pension Plans – (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

Actuarial Assumptions

The collective total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of July 1, 2016, which was rolled forward to June 30, 2017. This actuarial valuation used the following actuarial assumptions:

Inflation rate	2.25%
Salary increase through 2026	1.65 - 4.15%
	based on age
Thereafter	2.65 - 5.15%
	based on age
Investment rate of return	7.00%

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014. It is likely that future experience will not exactly conform to these assumptions. To the extent that actual experience deviates from these assumptions, the emerging liabilities may be higher or lower than anticipated. The more the experience deviates, the larger the impact on future financial statements.

Mortality Rates

Pre-retirement mortality rates were based on the RP-2000 Employee Preretirement Mortality Table for male and female active participants. Post-retirement mortality rates were based on the RP-200 Combined Healthy Male and Female Mortality Tables (setback 1 year for males and females) for service retirements and beneficiaries of former members and a one-year static projection based on mortality improvement Scale AA. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (setback 3 years for males and setback 1 year for females).

Long-Term Rate of Return

In accordance with State statute, the long-term expected rate of return on plan investments (7.00% at June 30, 2017) is determined by the State Treasurer, after consultation with the Directors of the Division of Investments and Division of Pensions and Benefits, the board of trustees and the actuaries. The long-term expected rate of return was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2017 and 2016

7. Pension Plans – (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Absolute return/risk mitigation	5.00%	5.51%
Cash equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment grade credit	10.00%	3.78%
Public high yield	2.50%	6.82%
Global diversified credit	5.00%	7.10%
Credit oriented hedge funds	1.00%	6.60%
Debt related private equity	2.00%	10.63%
Debt related real estate	1.00%	6.61%
Private real asset	2.50%	11.83%
Equity related real estate	6.25%	9.23%
U.S.equity	30.00%	8.19%
Non-U.S. developed markets equ	11.50%	9.00%
Emerging markets equity	6.50%	11.64%
Buyouts/venture capital	8.25%	13.08%

Discount rate

The discount rate used to measure the total pension liability was 5.00% as of June 30, 2017. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.00%, and a municipal bond rate of 3.58% as of June 30, 2017 based on the Bond Buyer GO 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 40% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions.

Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of the current plan members through 2040. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2040 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2017 and 2016

7. Pension Plans - (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

The discount rate used to measure the total pension liability was 3.980% as of June 30, 2016. This single blended discount rate was based on the long-term expected rate of return on pension plan investments of 7.65%, and a municipal bond rate of 2.85% as of June 30, 2016 based on the Bond Buyer GO 20-Bond Municipal Bond Index which includes tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 30% of the actuarially determined contributions and the local employers contributed 100% of their actuarially determined contributions.

Based on those assumptions, the plan's fiduciary net position was projected to be available to make projected future benefit payments of the current plan members through 2034. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2034 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

Sensitivity of the Authority's proportionate share of the net pension liability to changes in the discount rate

The following presents the Authority's proportionate share of the net pension liability as of October 31, 2017 calculated using the discount rate as disclosed above as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (4.00 percent) or 1-percentage-point higher (6.00 percent) than the current rate:

At 1% decrease (4.00%)	At current discount rate (5.00%)	At 1% increase (6.00%)
\$ 11,001,413	\$ 8,868,046	\$ 7,090,687

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2017 and 2016

7. Pension Plans - (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

The following presents the Authority's proportionate share of the net pension liability as of October 31, 2016 calculated using the discount rate as disclosed above as well as what the Authority's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.98 percent) or 1-percentage-point higher (4.98 percent) than the current rate:

At 1% decrease (2.98%)	At current discount rate (3.98%)	At 1% increase (4.98%)
\$ 12,513,827	\$ 10,212,174	\$ 8,311,960

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report for the State of New Jersey Public Employees Retirement System. **7. Pension**

Additional Information

Collective balances of the local group at June 30, 2017 are as follows:

Deferred outflows of resources	\$	6,424,455,842
Deferred inflows of resources	\$	5,700,625,981
Net pension liability	\$	23,278,401,588
Authority's Proportion		0.0380955948

Collective balances of the local group at June 30, 2016 are as follows:

Deferred outflows of resources	\$	8,685,338,380
Deferred inflows of resources	\$	870,133,595
Net pension liability	\$	29,617,131,759
Authority's Proportion		0.0344806309

The average of the expected remaining service lives of all plan members is 5.48 and 5.57 years for 2017 and 2016, respectively.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2017 and 2016

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.

9. Deferred Compensation

The Authority offers its employees a 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.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2017 and 2016

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's attorney has indicated the Authority is not involved in any litigation.

12. Restrictions on Net Position

Certain portions of net position have been restricted. Restrictions include net position restricted for dredging project, \$190,000, for renewal and replacement, \$1,500,000 and for debt service, \$100,000.

REQUIRED SUPPLEMENTARY INFORMATION AND NOTE TO REQUIRED
SUPPLEMENTARY INFORMATION – PART II

Two Rivers Water Reclamation Authority
 Schedule of the Authority's Proportionate Share of the Net Pension Liability
 Public Employees Retirement System
 Required Supplementary Information
 Last Ten Fiscal Years

	Years Ended June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Authority's proportion of the net pension liability (asset) - Local Group	0.0380955948%	0.0344806309%	0.0367209865%	0.0355618788%	N/A	N/A	N/A	N/A	N/A	N/A
Authority's proportionate share of the net pension liability (asset)	\$ 8,868,048	\$ 10,212,174	\$ 8,243,126	\$ 6,658,156	N/A	N/A	N/A	N/A	N/A	N/A
Authority's covered-employee payroll	\$ 2,566,205	\$ 2,437,471	\$ 2,473,891	\$ 2,554,024	\$ 2,604,899	\$ 2,478,088	\$ 2,451,889	\$ 2,372,204	\$ 2,286,104	\$ 2,191,870
Authority's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	345.57%	418.97%	333.20%	260.69%	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability - Local Group	48.10%	40.14%	47.93%	48.72%	N/A	N/A	N/A	N/A	N/A	N/A

* The amounts presented for each fiscal year were determined as of the previous fiscal year-end.

N/A This information is not available.

Two Rivers Water Reclamation Authority
Schedule of the Authority's Contributions
Public Employee's Retirement System
Required Supplementary Information

Last Ten Fiscal Years

	Years Ended June 30,									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Contractually required contribution	\$ 356,766	\$ 306,321	\$ 315,702	\$ 293,167	\$ 295,253	\$ 279,877	\$ 289,618	\$ 269,851	\$ 204,852	\$ 182,100
Contributions in relation to the contractually required contribution	(356,766)	(306,321)	(315,702)	(293,167)	(295,253)	(279,877)	(289,618)	(269,851)	(204,852)	(182,100)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered-employee payroll	\$ 2,718,659	\$ 2,566,205	\$ 2,437,471	\$ 2,473,891	\$ 2,554,024	\$ 2,604,899	\$ 2,478,008	\$ 2,451,889	\$ 2,372,204	\$ 2,286,104
Contributions as a percentage of covered-employee payroll	13.12%	11.94%	12.95%	11.85%	11.56%	10.74%	11.69%	11.01%	8.64%	7.97%

TWO RIVERS WATER RECLAMATION AUTHORITY

Notes to Required Supplementary Information

Years ended October 31, 2017 and 2016

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Benefit Changes

There were none.

Changes of Assumptions

The discount rate changed from the measurement date of June 30, 2015 of 4.90% to 3.98% as of the measurement date of June 30, 2016.

The discount rate changed from the measurement date of June 30, 2016 of 3.98% to 5.00% as of the measurement date of June 30, 2017.

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, 2017**

Cash and Cash Equivalents, November 1, 2016	\$	1,354,935
Cash Receipts:		
Customer Municipalities Annual Charges		7,379,878
Monmouth Park		222,838
Participating Municipalities Service Charges		6,210,443
Other Income		100,689
Interest Income		11,531
Connection Fees		490,459
Transfers from Restricted Accounts		3,164,542
Federal Emergency Management Agency		<u>65,323</u>
Total Cash Available		<u>19,000,638</u>
Cash Disbursements:		
Vendors and Payroll		9,770,651
Transfers to Restricted Accounts		<u>5,040,312</u>
Total Cash Disbursements		<u>14,810,963</u>
Cash and Cash Equivalents, October 31, 2017	\$	<u><u>4,189,675</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, 2017**

	Accounts Required by Revenue Bond Agreement						Other Accounts		Total
	Bond Service	Bond Reserve	Renewal and Replacement	General	Construction	Unemployment Reserve	Escrow Deposits		
Cash and Cash Equivalents and Investments, November 1, 2016	\$ 49	\$ 100,003	\$ 1,501,974	\$ 1,572,700	\$ 1,692,316	\$ 98,418	\$ 56,377	\$ 19,174,837	
Cash Receipts:									
Interest on Investments	92	554	8,348	124,784	6,205		106	140,089	
Sewer Connections					82,516			82,516	
Transfers from Unrestricted Funds	242,684			4,797,628				5,040,312	
Transfers from Restricted Funds	3,494,406				126,575			3,620,981	
Developers' Deposits							71,000	71,000	
Total Cash and Investments Available	3,737,231	100,557	1,510,322	20,648,112	1,907,612	98,418	127,483	28,129,735	
Cash Disbursements:									
Payment of Bond Interest	441,955							441,955	
Payment of Bond Principal	3,215,042	554		2,730,105	433,883			3,215,042	
Transfers to Unrestricted Funds				3,620,981				3,164,542	
Transfers to Restricted Funds					743,654			3,620,981	
Payments to Contractors								743,654	
NJEIT - Administrative Fee	80,145							80,145	
Developers' Escrow Payments							4,284	4,284	
Total Cash Disbursements	3,737,142	554		6,351,086	1,177,537		4,284	11,270,603	
Cash and Cash Equivalents and Investments, October 31, 2017	\$ 89	\$ 100,003	\$ 1,510,322	\$ 14,297,026	\$ 730,075	\$ 98,418	\$ 123,199	\$ 16,859,132	
Balance Comprised of:									
Cash and Cash Equivalents	89	100,003	1,510,322	1,216,724	730,075	98,418	123,199	3,778,830	
Investments				13,080,302				13,080,302	
	89	100,003	1,510,322	14,297,026	730,075	98,418	123,199	16,859,132	

**TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
YEARS ENDED OCTOBER 31, 2017 AND 2016**

	October 31, 2017			October 31, 2016		
	Adopted Budget	Final Budget	Variance Final to Actual	Final Budget	Realized	Variance Final to Actual
Revenues						
Revenue from Customer Municipalities and Government Facilities:						
Entontown	\$ 7,252,124	\$ 7,252,124	\$ 1,984,285	\$ 7,224,631	\$ 1,791,770	\$ (21,465)
Tinton Falls			1,285,412		1,287,881	
Red Bank			1,603,596		1,602,434	
Rumson			1,524,455		1,592,610	
Sea Bright			505,022		403,823	
Township of Shrewsbury			189,772		165,157	
Fort Monmouth					359,491	
	<u>7,252,124</u>	<u>7,252,124</u>	<u>7,092,542</u>	<u>7,224,631</u>	<u>7,203,166</u>	<u>(21,465)</u>
Service Charges:						
Individual Billings Member Towns	<u>5,800,600</u>	<u>5,800,600</u>	<u>6,000,895</u>	<u>5,827,480</u>	<u>5,811,300</u>	<u>(16,180)</u>
Interest on Investments	<u>50,000</u>	<u>50,000</u>	<u>184,044</u>	<u>45,000</u>	<u>76,656</u>	<u>31,656</u>
Other Fees:						
Connection Charges	<u>333,000</u>	<u>333,000</u>	<u>490,459</u>	<u>354,920</u>	<u>229,257</u>	<u>(125,663)</u>
Miscellaneous Income	<u>20,000</u>	<u>20,000</u>	<u>166,012</u>	<u>20,000</u>	<u>349,002</u>	<u>329,002</u>
	<u>353,000</u>	<u>353,000</u>	<u>656,471</u>	<u>374,920</u>	<u>578,259</u>	<u>203,339</u>
Total Revenues	<u>\$ 13,455,724</u>	<u>\$ 13,455,724</u>	<u>\$ 13,933,952</u>	<u>\$ 13,472,031</u>	<u>\$ 13,669,381</u>	<u>\$ 197,350</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
YEARS ENDED OCTOBER 31, 2017 AND 2016

	October 31, 2017				October 31, 2016			
	Adopted	Final	Expended	Variance	Final	Expended	Variance	
	Budget	Budget	Budget	Final to Actual	Budget	Budget	Final to Actual	
Expenses								
Administrative and General Expenses:								
Administrative Salaries and Wages	\$ 510,000	\$ 510,000	\$ 530,545	\$ (20,545)	\$ 510,000	\$ 552,890	\$ (42,890)	
Employee Benefits	290,000	290,000	142,282	147,718	158,931	148,927	10,004	
FICA and Medicare	42,000	42,000	26,860	15,140	38,905	36,863	2,042	
Employee Medical Related	1,000	1,000	290	710	1,000	822	178	
Pension PERS	320,000	320,000	640,131	(320,131)	329,000	826,583	(497,583)	
Computer Service	12,000	12,000	41,583	(29,583)	12,000	28,994	(16,994)	
Billing Postage	15,000	15,000	12,134	2,866	10,000	23,093	(13,093)	
Bank Fees	12,000	12,000	3,400	8,600	12,000	3,400	8,600	
Office Expenses:								
Other Postage	2,000	2,000	4,374	(2,374)	2,000	2,506	(506)	
Stationery and Supplies	14,000	14,000	19,428	(5,428)	14,000	21,295	(7,295)	
Equipment Rental and Supplies	5,000	5,000	11,755	(6,755)	15,000	15,072	(72)	
Printing	5,000	5,000	8,425	(3,425)	5,000	4,043	957	
Equipment Service Contracts	20,000	20,000	4,752	15,248	20,000	1,940	18,060	
Telephone	18,000	18,000	18,760	(760)	16,000	25,266	(9,266)	
General Expenses:								
Conferences and Training	4,000	4,000	17,408	(13,408)	4,300	8,611	(4,311)	
Commissioners Conference	2,000	2,000		2,000	2,000	4,025	(2,025)	
Travel Expenses	3,000	3,000	9,657	(6,657)	3,000	3,235	(235)	
Motor Vehicle Fees	9,000	9,000	5,198	3,802	9,000	5,135	3,865	
Auto and Fire Liability Business Insurance	210,000	210,000	135,279	74,721	140,000	130,436	9,564	
Worker's Compensation Insurance	100,000	100,000	87,865	12,135	180,000	92,342	87,658	
Advertising Fees	5,000	5,000	11,188	(6,188)	15,000	3,172	11,828	
NJEIT Administration & Agent Fees	81,000	81,000	80,145	855	81,000	80,145	855	
Dues and Membership	10,000	10,000	15,933	(5,933)	12,000	8,821	3,179	
Subscriptions	2,000	2,000	1,244	756	2,000	620	1,380	
Gift Baskets	500	500	267	233	500	628	(128)	
Meeting Expenses	4,000	4,000	1,272	2,728	5,000	1,909	3,091	
Leases of R.R. Property	110	110	110		110	109	1	
Long Branch Sewerage Authority	3,432	3,432	3,696	(264)	3,432	3,432		
Professional Expenses:								
Legal Fees	100,000	100,000	66,484	33,516	140,000	58,090	81,910	
Engineering Fees	150,000	150,000	96,259	53,741	150,000	189,287	(39,287)	
Trustee Fees	10,000	10,000	8,500	1,500	3,500	3,500		
Auditors Fees	37,000	37,000	42,000	(5,000)	37,000	43,547	(6,547)	

**TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
YEARS ENDED OCTOBER 31, 2017 AND 2016**

	October 31, 2017			October 31, 2016		
	Adopted Budget	Final Budget	Variance Final to Actual	Final Budget	Expended	Variance Final to Actual
Expenses (Continued)						
Administrative and General Expenses (Continued):						
Professional Expenses (Continued):						
Investment Management Fees	\$ 36,000	\$ 36,000	\$ (3,000)	\$ 36,000	\$ 36,000	\$ 710
Pre-Employment Physical Fees	1,000	1,000	1,000	1,000	290	\$
Total Administrative and General Expenses	2,034,042	2,034,042	(52,182)	1,968,678	2,361,528	(392,850)
Treatment Plant and Main Pumping Expenses:						
Plant Salaries and Wages	2,414,541	2,414,541	(37,639)	2,385,585	2,367,365	18,220
Employee Benefits	600,000	600,000	(124,520)	743,418	731,317	12,101
FICA and Medicare	200,000	200,000	18,683	181,982	182,534	(552)
Other Treatment Plant Expenditures:						
Conferences and Training	15,000	15,000	(8,347)	15,000	14,166	834
Electricity	850,000	850,000	220,264	765,159	602,980	162,179
Fuel - Diesel	80,000	80,000	35,453	80,000	34,591	45,409
Natural Gas	90,000	90,000	9,826	90,000	33,393	56,607
Sodium Hypochlorite	90,000	90,000	22,549	90,000	70,884	19,116
Polymer	80,000	80,000	(1,234)	80,000	40,464	39,536
Hydrogen Peroxide	80,000	80,000	67,574	80,000	18,722	61,278
Non Bulk Chemicals	5,000	5,000	2,658	5,000		5,000
Fuel - Unleaded	35,000	35,000	28,991	35,000	9,020	25,980
Truck Maintenance	75,000	75,000	17,814	75,000	62,264	12,736
DEP and EPA Permits	60,000	60,000	3,699	60,000	59,575	425
Calibration Services	7,500	7,500	3,000	7,500	1,507	5,993
Water	100,000	100,000	41,108	100,000	52,690	47,310
Stationery Supplies			(32)		165	(165)
Maintenance Supplies	100,000	100,000	8,525	100,000	70,297	29,703
Equipment Service Contracts	75,000	75,000	24,595	75,000	47,994	27,006
Equipment Repair	125,000	125,000	(44,777)	125,000	29,805	95,195

**TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
YEARS ENDED OCTOBER 31, 2017 AND 2016**

	October 31, 2017			October 31, 2016			Variance Final to Actual
	Adopted Budget	Final Budget	Expended	Final Budget	Expended	Variance Final to Actual	
<u>Expenses (Continued)</u>							
Treatment Plant and Main Pumping Expenses (Continued):							
Other Treatment Plant Expenses (Continued):							
Uniforms and Gloves	\$ 17,500	\$ 17,500	\$ 11,472	\$ 15,000	\$ 14,647	\$ 353	
Equipment Replacement	75,000	75,000	89,788	65,000	73,706	(8,706)	
Sludge Removal	850,000	850,000	936,980	850,000	978,172	(128,172)	
Ash, Grit and Screenings	20,000	20,000	16,903	20,000	13,249	6,751	
Laboratory Supplies	32,500	32,500	47,110	32,500	33,149	(649)	
Outside Lab Fees	19,500	19,500	27,056	19,500	23,754	(4,254)	
Municipal Services	30,000	30,000	32,928	30,000	32,282	(2,282)	
Janitorial Supplies	10,000	10,000	12,506	10,000	11,136	(1,136)	
Building and Ground Maintenance	75,000	75,000	36,640	75,000	90,939	(15,939)	
Travel Expenses	40,000	40,000	345	40,000	191	(191)	
Contingency							
Plant Renewal and Replacement	100,000	100,000	5,381	75,000	3,836	(3,836)	
New Equipment			115,017		124,324	(49,324)	
Hurricane Damage			8,627		90,975	(90,975)	
Total Treatment Plant and Main Pumping Expenses	6,351,541	6,351,541	6,134,604	6,325,644	5,920,093	405,551	
Lines and System Pumping Station:							
Line Salaries and Wages	283,250	283,250	215,146	185,000	271,699	(86,699)	
Employee Benefits	110,000	110,000	110,513	57,651	111,819	(54,168)	
FICA and Medicare	20,000	20,000	15,927	14,113	18,746	(4,633)	
Other Lines Expenses:							
Stationery and Supplies	2,500	2,500	258	2,500	111	(1,111)	
Conferences and Training	100,000	100,000	3,790	100,000	3,707	(1,207)	
Electricity	15,000	15,000	84,342	100,000	84,930	15,070	
Fuel - Unleaded Gasoline	5,000	5,000	15,110	15,000	15,183	(183)	
Equipment Service Contracts	15,000	15,000	11,066	5,000	5,000	5,000	
Truck Maintenance	20,000	20,000	11,161	10,000	9,563	437	
Natural Gas	75,000	75,000	71,973	20,000	10,036	10,036	
Hydrogen Peroxide	30,000	30,000	9,446	80,000	68,959	11,041	
Nitrate Oxygen	25,000	25,000	27,191	30,000	32,678	(2,678)	
Maintenance and Supplies	3,500	3,500	1,461	35,000	27,166	7,834	
Uniforms and Gloves				3,500	2,305	1,195	

**TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
YEARS ENDED OCTOBER 31, 2017 AND 2016**

	October 31, 2017			October 31, 2016			
	Adopted Budget	Final Budget	Expended	Variance Final to Actual	Final Budget	Expended	Variance Final to Actual
Expenses (Continued)							
Lines and System Pumping Station (Continued):							
Other Lines Expenses (Continued):							
Buildings and Grounds Maintenance	\$ 20,000	\$ 20,000	\$ 5,938	\$ 14,062	\$ 20,000	\$ 9,485	\$ 10,515
Chemicals	10,000	10,000	1,582	8,418	5,000	8,067	(3,067)
Bioxide 71	100,000	100,000	92,844	7,156	80,000	127,866	(47,866)
Maintenance of Lines	250,000	250,000	346,513	(96,513)	250,000	345,851	(95,851)
Water	2,500	2,500	2,950	(450)	2,500	2,360	140
Fuel-Diesel	7,500	7,500	7,500	7,500	7,500	7,375	125
Meter Calibration	15,000	15,000	11,332	3,668	15,000	9,791	5,209
Communications Equipment	2,500	2,500	4,646	(2,146)	2,500	572	1,928
Equipment Repair	60,000	60,000	64,520	(4,520)	60,000	141,225	(81,225)
Equipment Replacement	75,000	75,000	3,613	71,387	75,000	23,053	51,947
Contingency	20,000	20,000	7,455	12,545	20,000	371,125	(351,125)
New Equipment	25,000	25,000	3,564	21,436	25,000	5,483	19,517
Total Lines and System Pumping Station Expenditures	1,291,750	1,291,750	1,126,231	165,519	1,120,264	1,701,833	(581,569)
Total Operating Expenditures	9,677,333	9,677,333	9,347,059	330,274	9,414,586	9,983,454	(568,868)
Other Costs Funded by Revenues:							
Bond Principal	3,323,918	3,323,918	3,215,042	108,876	3,015,042	2,931,595	83,447
Interest on Bonds	454,473	454,473	398,244	56,229	462,402	470,765	(8,363)
Renewal and Replacement					580,000	502,375	77,625
Total Other Costs Funded by Revenues	3,778,391	3,778,391	3,613,286	165,105	4,057,444	3,904,735	152,709
Grand Totals	\$ 13,455,724	\$ 13,455,724	\$ 12,960,345	\$ 495,379	\$ 13,472,030	\$ 13,888,189	\$ (416,159)

**TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
SCHEDULE OF LONG-TERM REVENUE BONDS PAYABLE
YEAR ENDED OCTOBER 31, 2017**

Purpose	Date of Issue	Maturities		Interest Rate	Balance October 31, 2016	Paid	Balance October 31, 2017
		Date	Amount				
\$26,715,000 (Series 2000 NJEIT) Trust Loan - To provide funds for the Treatment Plant Expansion and Upgrade Project and costs of issuance.	11/9/2000	8/1/2018	\$ 1,871,046	5.25%	\$ 7,688,233	\$ 1,777,868	\$ 5,910,365
		8/1/2019	1,968,503	5.25%			
		8/1/2020	2,070,815	5.25%			
\$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	2/1/2018	88,109	0%	4,899,065	1,237,174	3,661,891
		8/1/2018	1,149,762	0%			
		2/1/2019	60,241	0%			
		8/1/2019	1,178,194	0%			
		2/1/2020	30,895	0%			
		8/1/2020	1,154,691	0%			
\$3,770,000 Series 2016 Revenue Bonds - To provide funds for improvements and upgrades to the wastewater treatment system.	3/31/2016	6/1/2018	215,000	2.125%	3,770,000	200,000	3,570,000
		6/1/2019	220,000	2.125%			
		6/1/2020	225,000	2.125%			
		6/1/2021	230,000	2.125%			
		6/1/2022	235,000	2.250%			
		6/1/2023	240,000	2.250%			
		6/1/2024	245,000	2.250%			
		6/1/2025	250,000	2.250%			
		6/1/2026	260,000	2.250%			
		6/1/2027	270,000	2.250%			
		6/1/2028	275,000	2.250%			
		6/1/2029	285,000	2.375%			
		6/1/2030	300,000	2.500%			
6/1/2031	320,000	2.500%					
Grand Total					\$ 16,357,298	\$ 3,215,042	\$ 13,142,256
Detail:							
Current portion					\$ 3,215,042		\$ 3,323,918
Long-term liability					13,142,256		9,818,338
					\$ 16,357,298		\$ 13,142,256

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
ANALYSIS OF CAPITAL PROJECTS
YEAR ENDED OCTOBER 31, 2017

Schedule 5

<u>Asset Category</u>	<u>Project Description</u>	<u>Amount Capitalized</u>
Other Improvements	Aeration Basin Contract 159B	\$ 572,555
	Belt Filter Press #1	189,094
	Biofilter 1 & 2	284,311
	Firehouse Apron	<u>14,438</u>
Total Other Improvements		<u>1,060,398</u>
Pump Stations	Control rebuild #11, #9	5,135
	Pump station doors	3,315
	PS 12 pump repair	27,282
	PS 8 pump repair	3,800
	St 12 power cord replacement	11,400
	St 19 new pump	<u>2,045</u>
Total Pump Stations		<u>52,977</u>
Vehicles	Unit #11 Replacement	27,969
	Replace Truck #17	<u>44,429</u>
Total Vehicles		<u>72,398</u>
Other Equipment	Generators	18,750
	Blower Bldg #1	34,265
	Bio filter condensate pump	5,363
	Dyna Blend rebuild Poly system	22,500
	Grit chamber repairs	2,478
	Filter Bldg Bridge gearbox	5,880
	Blower	5,415
	Blower 2 rebuild	25,740
	RTU repairs	4,716
	Hoods in dewatering	2,205
	Hypo feed system gasmaster	8,210
	Return pits	6,314
	Flanged 90's RAS pit	2,328
	Supernatent pump replacement	10,624
	Yard hydrants	4,646
	Supernatent pump replacement	10,624
	Supernatent pump replacement	10,624
	DBISala Davit mast	2,697
	DBISala 50' SRL	3,225
	Mixing valve for press	6,008
	Ohaus mb120	3,352
	Nheat exchanger blower 2	2,120
	Lab exhaust hood	3,158
	Loading dock meter replacement	4,408
	Scada report	4,000
	Campbell	3,636
	Jem	2,043
	Grainger	2,407
	TV truck camera repair	<u>7,734</u>
Total Other Equipment		<u>225,470</u>
Construction in Progress	Pump Station 12	<u>248,555</u>
Total Construction in Progress		<u>248,555</u>
Total		<u>\$ 1,659,799</u>
Detail:		
Additions to Construction in Progress		\$ 248,555
Current year's acquisitions		<u>1,411,244</u>
		<u>\$ 1,659,799</u>

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

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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey ("Division") 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, 2017, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated May 11, 2018.

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 opinion 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.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as finding 2017-001 that we consider to be a material weakness.

Compliance and Other Matters

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

Authority's Response to Finding

The Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Wiss & Company

WISS & COMPANY, LLP

May 11, 2018
Livingston, New Jersey

OTHER INFORMATION

OFFICIALS IN OFFICE AND SURETY BOND/INSURANCE COVERAGE

TWO RIVERS WATER RECLAMATION AUTHORITY

ROSTER OF OFFICIALS

YEAR ENDED OCTOBER 31, 2017

UNAUDITED

<u>Name</u>	<u>Title</u>	<u>Surety Bond</u>
Barry J. Berdahl, Ph. D	Chairman	A, B
Thomas B. Barham	Vice Chairman	A, B
William R. Baarck, P.E.	Secretary	A
Richard N. Tocci	Assistant Treasurer	A
Arno H. Weber (Deceased 10/26/2017)	Assistant Secretary	A
John Bonforte	Member	A
Gregory J. Christopher	Member	A
Scott Hartman	Member	A
Brian McPeak	Member	A
David Twigg	Member	A
William E. Leonard	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

YEAR ENDED OCTOBER 31, 2017

UNAUDITED

A blanket policy issued by the New Jersey Utility Authorities Joint Insurance Fund for a one-year period expiring on January 1, 2018, 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	10,000,000
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 / Administration Building	500,000
Flood / Administration Building Contents	500,000
Flood / Locations Outside 100 Year Floodplain	10,000,000
Flood / Locations Inside 100 Year Floodplain	No Coverage

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.

OTHER INFORMATION
GENERAL COMMENTS AND RECOMMENDATIONS
AND
SCHEDULE OF FINDINGS AND RESPONSES

**GENERAL COMMENTS
OCTOBER 31, 2017**

Cash Balances

The cash and cash equivalent balances were agreed to 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 2017 bid threshold was \$40,000.

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 testing 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, 2017 covering all unpaid charges on that date.

A test verification of delinquent charges outstanding at October 31, 2017 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.

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.

GENERAL COMMENTS (CONTINUED)
OCTOBER 31, 2017

Expenditures – (Continued)

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, on a test basis, 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 on a test basis.

Expenditures

In accordance with the Bond Resolution, Section 610, the Authority adopted annual operating budgets for the fiscal years ending October 31, 2017 and 2016.

Vouchers were examined on a test basis.

An test was made of the employees' compensation and payroll deductions for the year ended October 31, 2017 and for those employees tested, no exceptions were noted except as follows:

Finding:

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

Criteria: Chapter 78, P.L. 2011.

Cause: The Authority made computational errors.

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

Authority Response: The Authority estimates the value of this difference as being immaterial and is now clear on the statutory requirements.

GENERAL COMMENTS (CONTINUED)
OCTOBER 31, 2017

Expenditures – (Continued)

Finding:

Condition: Payment to an employee for opting out of Authority provided health and dental insurance coverages was in excess of the statutory maximum.

Criteria: Chapter 78, P.L. 2011.

Cause: The Authority was unaware the statutory \$5,000 maximum payment amount was in effect.

Recommendation: That payments to employees opting out of medical and or dental insurance be compliant with the requirements of Chapter 78, P.L. 2011.

Authority Response: The Authority made payments to four employees that opted out of health and or dental insurance coverages. Only one of the four was in excess of statutory maximums.

Finding:

Condition: Termination payments to two employees for their vested accumulated sick and vacation leave were computed accurately but not approved by the Board of Commissioners.

Criteria: Key element of internal control over compensated absences.

Cause: The Authority was unaware that termination payments that exceed \$5,000 need Board of Commissioners approval prior to payment.

Recommendation: That payments to employees receiving greater than \$5,000 for termination benefits be approved by resolution of the Board of Commissioners prior to payment.

Authority Response: The Authority will ensure that all termination payments for vested accumulated sick and vacation leave have Board of Commissioners approval.

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.

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 2016 audit recommendations. 2017 recommendations reflected on the next page 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:

*2017-001 The Authority's financial statement close process and procedures be strictly adhered to.

*2017-002 Payroll deductions for employees' contributions for health insurance be compliant with the requirements of Chapter 78, P.L. 2011.

2017-003 Payments to employees opting out of medical and or dental insurance be compliant with the requirements of Chapter 78, P.L. 2011.

2017-004 Payments to employees receiving greater than \$5,000 for termination benefits be approved by resolution of the Board of Commissioners prior to payment.

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, except for recommendation 2017-001, which is a material weakness in internal control.

**SCHEDULE OF FINDINGS AND RESPONSES
OCTOBER 31, 2017**

2017-001 Material Weakness in Internal Control over the Financial Close Process

Finding:

Condition: Although the Authority has certain control policies or procedures in place that are intended to provide management of reasonable assurance of meeting the control objective of an effective financial statement close process that results in a set of accurate underlying accounting records, they are ineffective because of the absence of adequate monitoring procedures intended to evaluate the degree of compliance or noncompliance with such control policies or procedures.

Context: The Authority proposed numerous adjusting entries after it had closed its records at October 31, 2017.

Criteria: Authority's control process and procedures.

Cause: Lack of detailed monitoring and review of closed balances prior to submission for audit.

Authority Response: The Authority has taken steps toward ensuring that its financial statement close process and procedures are strictly adhered to.

Recommendation: That the financial statement close process and procedures be strictly adhered to.