



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

Years ended October 31, 2018 and 2017

**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

Report on the Financial Statements

We have audited the accompanying financial statements of the Two Rivers Water Reclamation Authority, County of Monmouth, New Jersey (the "Authority"), as of and for the years ended October 31, 2018 and 2017 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, 2018 and 2017, 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.

Change in Accounting Principle

As discussed in Note 2 to the basic financial statements, in 2018, the Authority adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which represents a change in accounting principle. Our opinion is not modified with respect to this matter.

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, schedule of the Authority's contributions - PERS, schedule of the Authority's proportionate share of the net OPEB liability – PERS and schedule of the Authority's OPEB 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 audits were 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, cash equivalents and investments – restricted accounts, comparative schedule of operating revenues and expenses 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 roster of officials, insurance coverage and the general comments and recommendations sections of the report have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 19, 2019, 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

July 19, 2019
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 discussion and analysis of the Authority's financial condition and activities for the years ended October 31, 2018 and 2017.

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 Supplementary 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 proprietary 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 \$1,729,342 due to increases in customer charges and other receivables offset by decreases in restricted cash and cash equivalents, deferred outflows of resources and net capital assets. Total liabilities and deferred inflows of resources decreased by \$4,125,832 due mainly to decreases in bonds payable, the net pension liability and net OPEB liability offset by increases in the pension and OPEB related deferred inflows of resources. Assets and deferred outflows exceeded liabilities and deferred inflows by \$59,239,037. This compares to 2017 where assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$56,842,547.

The Authority’s Net Position of \$59,239,037 is comprised of the following:

Net investment in capital assets of \$59,698,267, as shown below, includes land, construction in progress and 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 \$1,275,124 from the prior year.

Capital Assets - Net	\$ 69,473,557
Less:	
Revenue Bonds Payable, Net of Unamortized Premium	(9,875,829)
Add:	
Unspent Revenue Bond Proceeds	<u>100,539</u>
Net Investment in Capital Assets	<u>\$ 59,698,267</u>

Net position of \$1,500,000 is restricted for the purpose of Renewal and Replacement.

Net position of \$190,000 is restricted for a Shrewsbury River Dredging Project.

Net position of \$100,000 is restricted for debt service reserve related to the 2016 revenue bonds.

Net position of \$400,000 is unrestricted - designated for future collection system improvements.

Net position of \$3,000,000 is unrestricted - designated for rate stabilization.

Unrestricted, undesignated net position (deficit) of \$(5,649,230) 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 \$1,121,366 mainly due to the change in net position, of \$2,396,490 offset by the increase in the net investment in capital assets of \$1,275,124.

	October 31,		
	<u>2018</u>	<u>2017</u>	<u>2016</u>
		<u>As restated</u>	<u>As restated</u>
Total current assets	\$ 6,477,051	\$ 5,230,098	\$ 3,378,569
Total restricted assets	16,153,480	16,984,214	19,295,637
Capital assets, net	69,473,557	70,968,826	72,384,829
Deferred outflows of resources	<u>2,276,481</u>	<u>2,926,773</u>	<u>2,941,948</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 94,380,569</u>	<u>\$ 96,109,911</u>	<u>\$ 98,000,983</u>
Total current liabilities payable from unrestricted assets	\$ 2,225,809	\$ 2,253,662	\$ 2,280,552
Total current liabilities payable from restricted assets	3,627,888	3,547,215	3,593,227
Unemployment claims reserve	82,151	82,151	82,151
Compensated absences payable	360,492	380,746	387,643
Net pension liability	7,680,727	8,868,046	10,212,174
Net OPEB liability	7,261,164	9,534,990	11,666,405
Long term obligations, net	6,444,108	9,880,613	13,209,315
Deferred inflows of resources	<u>7,459,193</u>	<u>4,719,941</u>	<u>735,011</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 35,141,532</u>	<u>\$ 39,267,364</u>	<u>\$ 42,166,478</u>
Total Net Position	<u>\$ 59,239,037</u>	<u>\$ 56,842,547</u>	<u>\$ 55,834,505</u>

Total current assets have increased because of increases in cash and cash equivalents, customer charges receivable and intergovernmental accounts receivable offset by a decrease in sewer billings receivable.

Total restricted assets have decreased because of the decreases in cash and cash equivalents in the construction accounts and the decrease in accrued interest receivable.

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 increased mainly due to increases in the current portion of revenue bonds payable offset by a decrease in accrued interest on bonds payable.

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

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

The net OPEB liability decreased and related deferred outflow and inflow of resources increased due to the requirements of GASB Statement No. 75.

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

Operating revenues from customer municipalities decreased by \$171,630 or 2.42% while operating revenues from participating municipalities increased by \$107,494 or 1.79%. Overall operating revenues increased by \$64,136 or 0.50% from 2017 levels.

Total operating expenses were lower in 2018 than 2017, 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 \$1,285,554 which is greater than 2017 operating income of \$703,510.

Total Net Position as of October 31, 2018 increased by \$2,396,490 as is depicted below.

	Year ended October 31,		
	<u>2018</u>	<u>2017</u> <u>As restated</u>	<u>2016</u> <u>As restated</u>
Total operating revenues	\$ <u>13,157,573</u>	\$ <u>13,093,437</u>	\$ <u>13,014,466</u>
Operating expenses	8,773,755	9,314,125	9,677,872
Depreciation	<u>3,098,264</u>	<u>3,075,802</u>	<u>2,973,416</u>
Total operating expenses	<u>11,872,019</u>	<u>12,389,927</u>	<u>12,651,288</u>
Operating income	1,285,554	703,510	363,178
Nonoperating revenues (expenses) - net	<u>1,110,936</u>	<u>304,532</u>	<u>38,426</u>
Change in net position	2,396,490	1,008,042	401,604
Total net position - beginning	<u>56,842,547</u>	<u>55,834,505</u>	<u>67,099,306</u>
Restatement - OPEB liability	_____	_____	<u>(11,666,405)</u>
Total net position - beginning	<u>56,842,547</u>	<u>55,834,505</u>	<u>55,432,901</u>
Total net position - ending	<u>\$ 59,239,037</u>	<u>\$ 56,842,547</u>	<u>\$ 55,834,505</u>

Comparative Statements of Cash Flows

The net increase in cash and cash equivalents was \$2,779,137. This compares to a net decrease in cash and cash equivalents in 2017 of \$3,680,000. The main reason for the 2018 increase was the redemption of investments securities exceeding purchases of investments by \$2,823,212.

Debt Administration

As of October 31, 2018, the Authority had \$25,178,212 of long-term liabilities. Of this amount, \$360,492 is for compensated absences, \$9,818,338 is for revenue bonds payable, \$57,491 which represents an unamortized bond premium, \$7,261,164 is for the net OPEB liability and \$7,680,727 relates to the net pension liability. As of October 31, 2017, the Authority had \$31,988,313 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. See Note 5 to the basic financial statements for additional information.

Capital Assets

As of October 31, 2018 and 2017, the Authority had \$69,473,557 and \$70,968,826, 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 2018 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 Treatment Plant – Salaries and Wages, where expenses were higher than budgeted, Treatment Plant – Employee Benefits, where premium rate increases came in less than budgeted, Treatment Plant – Electricity, where expenses were less than budgeted due to conservation, Treatment Plant – Sludge Removal where expenses were less than budgeted due to process changes, Treatment Plant – Contingency, where no charges were made to the \$40,000 appropriation and Lines and System Pumping Station – Salaries and Wages, where actual expenses were less than budgeted, Lines and System Pumping Station – Employee Benefits, where premium rate increases came in less than budgeted and Lines and Lines and System Pumping Station – Maintenance of Lines, where unforeseen line maintenance exceeding expected costs.

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
Michael A. MacStudy, Treasurer
William R. Baarck, P.E., Secretary
Richard N. Tocci, Assistant Treasurer
Scott Hartman, Assistant Treasurer
John Bonforte, Member
Gregory J. Christopher, Member
Eric R. Jaeger, Member
Theodore Giannechini, Member
Brian McPeak, 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 2018 budget of \$13.63 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, 2018 AND 2017

	October 31,	
	2018	2017
		As restated
Assets		
Current Assets:		
Cash and cash equivalents	\$ 4,861,338	\$ 4,189,675
Inventory	10,897	22,339
Customer charges receivable	405,121	1,772
Sewer billings receivable	813,623	966,412
Other accounts receivable	23,792	
Intergovernmental accounts receivable - federal	324,098	
Intergovernmental accounts receivable - other	38,182	49,900
Total current assets	6,477,051	5,230,098
Restricted assets:		
Revenue fund - Unemployment cash and cash equivalents	98,418	98,418
Escrow deposits:		
Cash and cash equivalents	163,054	123,199
Bond service account:		
Cash and cash equivalents	176	89
Bond reserve account:		
Cash and cash equivalents	100,003	100,003
General account:		
Cash and cash equivalents	3,892,955	1,216,724
Investments	10,257,090	13,080,302
Accrued interest receivable	10,086	95,437
Construction account:		
Cash and cash equivalents	109,753	730,075
Intergovernmental accounts receivable		29,645
Renewal and replacement account:		
Cash and cash equivalents	1,521,945	1,510,322
Total restricted assets	16,153,480	16,984,214
Non-current assets:		
Capital Assets - Non-depreciable	2,481,176	1,718,955
Capital Assets - Net of depreciation	66,992,381	69,249,871
Total capital assets, net	69,473,557	70,968,826
Total assets	92,104,088	93,183,138
Deferred outflows of resources		
Pension deferrals	2,272,644	2,925,139
OPEB deferrals	3,837	1,634
Total deferred outflows of resources	2,276,481	2,926,773
Total assets and deferred outflows of resources	\$ 94,380,569	\$ 96,109,911

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, 2018 AND 2017**

	October 31,	
	2018	2017
		As restated
Liabilities		
Current liabilities payable from unrestricted assets:		
Accounts payable	\$ 1,009,003	\$ 1,037,349
Accrued expenses	202,828	187,203
Customer overpayments	37,755	48,403
Unearned revenue	976,223	980,707
Total current liabilities payable from unrestricted assets	2,225,809	2,253,662
Current liabilities payable from restricted assets:		
Reserve for developers' deposits	120,002	121,504
Accrued interest on bonds payable	76,165	101,793
Revenue bonds payable - current portion	3,431,721	3,323,918
Total current liabilities payable from restricted assets	3,627,888	3,547,215
Non-current liabilities:		
Net pension liability	7,680,727	8,868,046
Net OPEB liability	7,261,164	9,534,990
Long-term revenue bonds payable, net	6,444,108	9,880,613
	21,385,999	28,283,649
Unemployment claims	82,151	82,151
Compensated absences payable	360,492	380,746
Total non-current liabilities	21,828,642	28,746,546
Total liabilities	27,682,339	34,547,423
Deferred inflows of resources		
Pension deferrals	2,927,707	2,327,645
OPEB deferrals	4,531,486	2,392,296
Total deferred inflows of resources	7,459,193	4,719,941
Net position		
Net investment in capital assets	59,698,267	58,423,143
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 (deficit)	(5,649,230)	(6,770,596)
Total net position	\$ 59,239,037	\$ 56,842,547

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, 2018 AND 2017**

Exhibit B

	October 31,	
	2018	2017 As restated
Operating revenues:		
Customer municipalities:		
Annual charges	\$ 7,264,172	\$ 7,092,542
Participating municipalities:		
Service charges	5,893,401	6,000,895
Total operating revenues	13,157,573	13,093,437
Operating expenses:		
Administration and general	1,928,025	2,345,471
Treatment plant and main pumping station	5,356,835	5,830,971
Lines and system pumping stations	1,488,895	1,058,569
Depreciation	3,098,264	3,075,802
Renewal and replacement	79,114	79,114
Total operating expenses	11,872,019	12,389,927
Operating income	1,285,554	703,510
Nonoperating revenues (expenses):		
Interest on bonds	(224,532)	(393,460)
Interest income	299,095	184,044
Federal Emergency Management Agency - Hurricane Sandy	490,959	65,323
Refund of prior year's revenue		(58,697)
Prior year's receivable cancelled		(29,751)
Major repairs and replacements		(54,075)
Connection fees	269,000	490,459
Miscellaneous income	276,414	100,689
Total nonoperating revenues (expenses)	1,110,936	304,532
Change in net position	2,396,490	1,008,042
Total net position-beginning	56,842,547	55,834,505
Total net position-ending	\$ 59,239,037	\$ 56,842,547

**TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED OCTOBER 31, 2018 AND 2017**

Exhibit C

	October 31,	
	2018	2017
		As restated
Cash flows from operating activities:		
Receipts from members and customers	\$ 12,891,881	\$ 13,864,033
Payments to employees	(3,208,520)	(3,189,303)
Payments to suppliers	<u>(5,682,161)</u>	<u>(5,689,360)</u>
Net cash provided by operating activities	<u>4,001,200</u>	<u>4,985,370</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(1,602,995)	(1,659,799)
Federal Emergency Management Agency - Hurricane Sandy	166,861	65,323
Repayment of revenue bonds payable	(3,323,917)	(3,215,042)
Receipt of prior years intergovernmental accounts receivable	29,645	-
Developer's escrow funds received (returned)	<u>(1,502)</u>	<u>66,822</u>
Net cash (used in) capital and related financing activities	<u>(4,731,908)</u>	<u>(4,742,696)</u>
Cash flows from investing activities:		
Interest received	384,446	150,011
Interest paid on revenue bonds	(254,945)	(464,798)
(Purchase) of investment securities	(10,257,090)	(13,080,302)
Redemption of investment securities	<u>13,080,302</u>	<u>8,881,267</u>
Net cash provided (used in) by investing activities	<u>2,952,713</u>	<u>(4,513,822)</u>
Cash flows from noncapital financing activities:		
Connection fees	269,000	490,459
Miscellaneous income	<u>288,132</u>	<u>100,689</u>
Net cash provided by noncapital financing activities	<u>557,132</u>	<u>591,148</u>
Net increase (decrease) in cash and cash equivalents	2,779,137	(3,680,000)
Cash and cash equivalents, beginning of year	<u>7,968,505</u>	<u>11,648,505</u>
Cash and cash equivalents, end of year	<u>\$ 10,747,642</u>	<u>\$ 7,968,505</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,285,554	\$ 703,510
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,098,264	3,075,802
Changes in assets, deferred outflows and inflows of resources and liabilities:		
(Increase) decrease in receivables and other assets:		
Unrestricted accounts	(262,910)	765,183
(Decrease) in current liabilities:		
Payable from unrestricted assets	(45,996)	(144,050)
(Decrease) increase in other liabilities and deferrals:		
Other liabilities	(20,254)	(6,897)
Accounts payable - pension	18,143	67,260
Net pension liability	(1,187,319)	(1,344,128)
Net OPEB liability	(2,273,826)	(2,131,415)
Deferred inflow - pension deferrals	600,062	1,592,634
Deferred inflow - OPEB deferrals	2,139,190	2,392,296
Deferred outflow - pension deferrals	652,495	16,809
Deferred outflow - OPEB deferrals	<u>(2,203)</u>	<u>(1,634)</u>
Net cash provided by operating activities	<u>\$ 4,001,200</u>	<u>\$ 4,985,370</u>
Reconciliation to Statement of Net Position:		
Unrestricted cash and cash equivalents	\$ 4,861,338	\$ 4,189,675
Restricted cash and cash equivalents	<u>5,886,304</u>	<u>3,778,830</u>
	<u>\$ 10,747,642</u>	<u>\$ 7,968,505</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, 2018 and 2017

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 in 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, 2018 and 2017

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, 2018 or 2017, respectively.

Inventories:

Inventories are valued at cost, which approximates market, using the first-in-first-out (FIFO) method. At October 31, 2018 and 2017, the value of the inventory, consisting of diesel fuel on hand, was \$10,897 and \$22,339, 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, 2018 and 2017

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 recorded at acquisition value at the date of acquisition. 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, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

D. Revenues, Operating Revenues and Expenses-(continued)

Revenues - Exchange and Non-exchange Transactions (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. Recently Implemented 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 Authority implemented GASB No. 75 during 2018, which resulted in additional financial statement and note disclosures, as well as additional administrative expense.

G. Recent Pronouncements

In March, 2017, GASB issued Statement No. 85, *Omnibus 2017*. This Statement establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2018 and 2017

1. Summary of Significant Accounting Policies (continued)

G. Recent Pronouncements-(continued)

benefits). The requirements of this Statement are effective for periods beginning after June 15, 2017. The Authority has adopted GASB Statement No. 85 during the year ended October 30, 2018.

GASB issued Statement No. 84, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018. Management has not yet determined the impact of the statement on the financial statements.

H. 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 / expenditure) until then. The Authority has two items that qualify for reporting in this category, deferred amounts related to pensions and OPEB.

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 two items that qualify for reporting in this category, deferred amounts related to pensions and OPEB.

I. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State Health Benefits Local Government Retired Employees Plan (SHBP) and additions to/deductions from SHBP's fiduciary net position have been determined on the same basis as they are reported by SHBP.

J. Subsequent Events

Management has reviewed and evaluated all events and transactions occurring from October 31, 2018 through the date of the financial statements were available for issuance, July 19, 2019, 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. On December 7, 2018 the Authority completed the purchase of property at 12 Highland Avenue, Monmouth Beach, NJ for a contract purchase price of \$475,000.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2018 and 2017

2. Change in Accounting Principle

Effective in the fiscal year ended October 31, 2018, the Authority implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

The Authority adjusted its October 31, 2016 net position as a result of retrospective adjustments for the implementation of accounting principles (GASB No. 75) as follows:

Balance, October 31, 2016 prior to restatement	\$ 67,500,910
Restatement for OPEB liability and related expense	<u>(11,666,405)</u>
Balance, October 31, 2016 as restated	<u>\$ 55,834,505</u>

The Authority adjusted its October 31, 2017 net position as a result of retrospective adjustments for the implementation of accounting principles (GASB No. 75) as follows:

Balance, October 31, 2017 prior to restatement	\$ 68,768,199
Restatement for OPEB liability and related expense	<u>(11,925,652)</u>
Balance, October 31, 2017 as restated	<u>\$ 56,842,547</u>

3. Deposits and Investments

Cash and Cash Equivalents:

Operating cash, in the form of checking and money market accounts, is held in the Authority's name by commercial banking institutions. At October 31, 2018, the carrying amount of the Authority's deposits was \$10,747,672 and the bank balance was \$10,922,509. Of the bank balance, \$413,054 was insured with Federal Deposit Insurance Corporation and the remainder was covered by GUDPA. At October 31, 2017, the carrying amount of the Authority's deposits was \$7,968,505 and the bank balance was \$7,937,388.

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

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2018 and 2017

3. Deposits and Investments – (continued)

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 United States Treasury Notes.

Credit Risk – As of October 31, 2018 the Authority’s investment in Bond Anticipation Notes were not rated by a nationally recognized bond rating agency. GASB 40 requires credit risk disclosure for all debt security investments except for obligations of the U.S. government.

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.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2018 and 2017

3. Deposits and Investments – (continued)

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, 2018 and 2017.

<u>Description of Investment</u>	<u>Interest Rates</u>	<u>Balance as of</u>
<u>General Fund</u>		<u>October 31, 2018</u>
Bond Anticipation Notes:		
County of Passaic, New Jersey	2.00%	\$ 579,664
Certificate of Deposit	Variable	222,452
U.S. Treasury Notes	Various	<u>9,454,974</u>
Grand Total		<u>\$ 10,257,090</u>

<u>Description of Investment</u>	<u>Interest Rates</u>	<u>Balance as of</u>
<u>General Fund</u>		<u>October 31, 2017</u>
Bond Anticipation Notes:		
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%	<u>850,000</u>
Total Bond Anticipation Notes		11,868,830
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, 2018 and 2017

3. Deposits and Investments – (continued)

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.

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*: 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. The U.S. Treasury Notes are rated by S&P of AA to Aa.
- *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.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2018 and 2017

3. Deposits and Investments – (continued)

The following table sets forth by level, within the fair value hierarchy, the Authority's assets at fair value as of October 31, 2018 and 2017:

<i>Assets at Fair Value</i>		
<u><i>as of October 31, 2018</i></u>		
	<i>Level 2</i>	<i>Total</i>
Held to maturity securities:		
US Treasury Notes	\$ 9,454,974	\$ 9,454,974
Bond Anticipation Note	579,664	579,664
Certificate of Deposit	222,452	222,452
Total	\$ 10,257,090	\$ 10,257,090
<i>Assets at Fair Value</i>		
<u><i>as of October 31, 2017</i></u>		
	<i>Level 2</i>	<i>Total</i>
Held to maturity securities:		
US Treasury Notes	\$ 989,180	\$ 989,180
Bond Anticipation Notes	11,868,830	11,868,830
Certificate of Deposit	222,292	222,292
Total	\$ 13,080,302	\$ 13,080,302

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2018 and 2017

4. Capital Assets

The following schedule is a summarization of the changes in capital assets for the years ended October 31, 2018 and 2017.

October 31, 2018	Beginning Balance	Additions	Deletions	Ending Balance	
Capital assets, not being depreciated:					
Construction In Progress	\$ 248,555	\$ 762,221	\$ -	\$ 1,010,776	
Land	1,470,400			1,470,400	
Total capital assets, not being depreciated	<u>1,718,955</u>	<u>762,221</u>	<u>-</u>	<u>2,481,176</u>	
Capital assets, being depreciated:					
Buildings and improvements	15,543,486			15,543,486	
Other improvements	73,048,966	20,047		73,069,013	
Sewer mains and interceptors	32,530,497	170,973		32,701,470	
Pump stations	7,891,499	3,002		7,894,501	
Other equipment	4,076,492	438,404		4,514,896	
Vehicles	1,154,009	208,348	(19,996)	1,342,361	
Total assets being depreciated	<u>134,244,949</u>	<u>840,774</u>	<u>(19,996)</u>	<u>135,065,727</u>	
Accumulated depreciation	<u>(64,995,078)</u>	<u>(3,098,264)</u>	<u>19,996</u>	<u>(68,073,346)</u>	
Total capital assets, being depreciated, net	<u>69,249,871</u>	<u>(2,257,490)</u>	<u>-</u>	<u>66,992,381</u>	
Net Capital Assets	<u>\$ 70,968,826</u>	<u>\$ (1,495,269)</u>	<u>\$ -</u>	<u>\$ 69,473,557</u>	
October 31, 2017	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
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>

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2018 and 2017

5. Long-term liabilities

During the year ended October 31, 2018, the following changes occurred in long-term liabilities.

	Beginning Balance <u>As restated</u>	<u>Increases</u>	<u>Decreases</u>	Ending Balance
Revenue bonds payable	\$ 13,142,256	\$ -	\$ 3,323,918	\$ 9,818,338
Unamortized premium	62,275	-	4,784	57,491
	<u>13,204,531</u>	<u>-</u>	<u>3,328,702</u>	<u>9,875,829</u>
Compensated absences	380,746	7,192	27,446	360,492
Sub-total	<u>13,585,277</u>	<u>7,192</u>	<u>3,356,148</u>	<u>10,236,321</u>
Net OPEB liability	9,534,990	-	2,273,826	7,261,164
Net pension liability	<u>8,868,046</u>	<u>-</u>	<u>1,187,319</u>	<u>7,680,727</u>
Total	<u>\$ 31,988,313</u>	<u>\$ 7,192</u>	<u>\$ 6,817,293</u>	<u>\$ 25,178,212</u>
Current Portion	<u>\$ 3,323,918</u>			<u>\$ 3,431,721</u>

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

	Beginning Balance	<u>Increases</u>	<u>Decreases</u>	Ending Balance <u>As restated</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 OPEB liability	-	9,534,990	-	9,534,990
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>\$9,574,613</u>	<u>\$4,610,474</u>	<u>\$31,988,313</u>
Current Portion	<u>\$ 3,215,042</u>			<u>\$ 3,323,918</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2018 and 2017

5. Long-term liabilities – (continued)

2000A Series Bonds - New Jersey Environmental Infrastructure Trust

On November 9, 2000, the Authority issued \$49,357,977 in Revenue Bonds through the New Jersey Environmental Infrastructure Trust (“NJEIT”). The “Fund” portion of the Bond Issue, \$22,642,977, was issued on an interest free basis. The remaining Bonds mature semi-annually from February 1, 2019 through August 1, 2020 at maturities ranging from \$30,895 to \$1,178,194. The Bonds were issued with an original issue premium of \$20,100.

In 2013, the Authority received notice from the NJEIT that \$725,717 was deobligated resulting in 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, 2019 through 2020 at amounts ranging from \$1,968,503 to \$2,070,815 and bear interest at a rate of 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 \$220,000 to \$320,000. Interest rates range from 2.125% to 2.5%.

Aggregate long-term debt outstanding is as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 3,426,937	\$ 285,510	\$ 3,712,447
2020	3,481,401	179,002	3,660,403
2021	230,000	67,094	297,094
2022	235,000	62,206	297,206
2023	240,000	56,919	296,919
2024-2028	1,300,000	200,894	1,500,894
2029-2031	<u>905,000</u>	<u>45,769</u>	<u>950,769</u>
	<u>\$ 9,818,338</u>	<u>\$ 897,394</u>	<u>\$ 10,715,732</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2018 and 2017

6. Compensated Absences

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

Authority employees are granted vacation and sick leave in varying amounts under the Authority’s personnel policies and according to negotiated contracts. In the event of retirement, according to contract, an employee is reimbursed for accumulated vacation and sick leave. The liability for vested compensated absences of the Authority amounted to \$360,492 and \$380,746 as of October 31, 2018 and 2017, 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.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2018 and 2017

7. Pension Plans – (continued)

The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

Funding Policy

The contribution policy is set by New Jersey State Statutes and contributions are required by active members and contributing members. Plan member and employer contributions may be amended by State of New Jersey legislation. Under the provisions of Chapter 78, P.L. 2011, employee contribution rates for PERS increased from 5.5% to 6.5% of employees' annual compensation. An additional increase was phased in during 2018 that brought 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, 2018, 2017 and 2016 were \$389,301, \$356,766 and \$306,321, 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, 2018 and 2017, the Authority reported a liability of \$7,680,727 and \$8,868,046, respectively, for its proportionate share of the net pension liability. The October 31, 2018 net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation at July 1, 2017, which was rolled forward to June 30, 2018. 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, 2018, the Authority's proportion was 0.0390092500 percent, which was an increase of 0.0009136552 from its proportion measured as of June 30, 2017 of 0.0380955948 percent. For the years ended October 31, 2018 and 2017, the Authority recognized full accrual pension expense of \$440,147 and \$638,896, respectively, in the financial statements.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2018 and 2017

7. Pension Plans – (continued)

At October 31, 2018 and 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

<u>October 31, 2018</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 1,265,657	\$ 2,455,888
Net difference between projected and actual earnings on pension plan investments	146,473	\$ 39,604
Changes in proportion	737,056	360,169
Difference between expected and actual experience		72,046
Authority contributions subsequent to the measurement date	<u>123,458</u>	
	<u>\$ 2,272,644</u>	<u>\$ 2,927,707</u>
<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>

\$123,458 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:

2019	\$ 65,897
2020	(11,577)
2021	(379,879)
2022	(328,446)
2023	<u>(124,516)</u>
	<u>\$ (778,521)</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2018 and 2017

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, 2018 measurement date was determined by an actuarial valuation as of July 1, 2017, which was rolled forward to June 30, 2018. 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, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014.

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, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2011 to June 30, 2014.

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.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2018 and 2017

7. Pension Plans – (continued)

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

Mortality Rates

Pre-retirement mortality rates were based on the RP-2000 Preretirement Mortality Table for male and female active participants. For State employees, mortality tables are set back 4 years for males and females. For local employees, mortality tables are set back 2 years for males and 7 years for females. In addition, the tables provide for future improvements in mortality from the base year of 2013 using a generational approach based on the plan actuary's modified 2014 projection scale. Post-retirement mortality rates were based on the RP-2000 Combined Healthy Male and Female Mortality Tables (set back one year for males and females) for service retirements and beneficiaries of former members. In addition, the tables for service retirements and beneficiaries of former members provide for future improvements in mortality from 2012 to 2013 using Projection Scale AA and using a generational approach based on the actuary's 2014 projection scale thereafter. Disability retirement rates used to value disabled retirees were based on the RP-2000 Disabled Mortality Table (set back three years for males and set forward one 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, 2018) 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 arithmetic real rates of return for each major asset class included in PERS's target asset allocation as of June 30, 2018 are summarized in the following table:

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2018 and 2017

7. Pension Plans - (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Risk Mitigation Strategies	5.00%	5.51%
Cash Equivalents	5.50%	1.00%
U.S. Treasuries	3.00%	1.87%
Investment Grade Credit	10.00%	3.78%
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 Estate	2.50%	11.83%
Equity Related Real Estate	6.25%	9.23%
U.S. Equity	30.00%	8.19%
Non-U.S. Developed Markets Equi	11.50%	9.00%
Emerging Markets Equity	6.50%	11.64%
Buyouts/Venture Capital	8.25%	13.08%
	<u>100.00%</u>	

Discount rate

The discount rate used to measure the total pension liability was 5.66% as of June 30, 2018. 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 3.87% as of June 30, 2018 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 at the current member contribution rates and that contributions from employers will be made based on the contribution rate in the most recent fiscal year. The State employer contributed 50% 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 current plan members through 2046. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2046 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, 2018 and 2017

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 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.

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, 2018 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 (4.66 percent) or 1-percentage-point higher (6.66 percent) than the current rate:

At 1% decrease (4.66%)	At current discount rate (5.66%)	At 1% increase (6.66%)
\$ 9,657,629	\$ 7,680,727	\$ 6,022,232

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:

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2018 and 2017

7. Pension Plans - (Continued)

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

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

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.

Additional Information

Collective balances of the local group at June 30, 2018 are as follows:

Deferred outflows of resources	\$	4,684,852,302
Deferred inflows of resources	\$	7,646,736,226
Net pension liability	\$	19,689,501,539
Authority's Proportion		0.03900925%

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 pension expense for the Local Group for the measurement period ended June 30, 2018 and June 30, 2017 were \$1,099,708,157 and \$1,679,030,145, respectively.

The average of the expected remaining service lives of all plan members is 5.63 and 5.48 years for 2018 and 2017, respectively.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2018 and 2017

8. Postemployment Benefits Other Than Pensions (OPEB)

Plan description and benefits provided

The Authority participates in the State Health Benefit Local Government Retired Employees Plan (Plan), a cost-sharing multiple-employer defined benefit other postemployment benefit (OPEB) plan administered by the State of New Jersey Division of Pension and Benefits. The Plan covers employees of local government employers that have adopted a resolution to participate in the Plan. The Plan provides medical and prescription drug coverage to retirees and their covered dependents. Rules governing the operation and administration of the program are found in Chapter 88, P.L. 1974 and Chapter 48, P.L. 1999. Additional information about the Plan is available from the State of New Jersey, Division of Pensions and Benefits Comprehensive Annual Financial Report, which can be found at <https://www.state.nj.us/treasury/pensions/financial-reports.shtml>.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At October 31, 2018 and 2017, the Authority reported a liability of \$7,261,164 and \$9,534,990, respectively for its proportionate share of the net OPEB liability. The net OPEB liability as of October 31, 2018 was determined by an actuarial valuation as of June 30, 2017 which was rolled forward to June 30, 2018. The net OPEB liability as of October 31, 2017 was determined by an actuarial valuation as of June 30, 2016 which was rolled forward to June 30, 2017. The Authority's proportion of the net OPEB liability was based on a projection of the Authority's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating local governments, actuarially determined. At October 31, 2018 and 2017, the Authority's proportion was 0.046348 and 0.046704 percent, respectively.

For the year ended October 31, 2018, the Authority recognized OPEB expense of \$(136,839). At October 31, 2018, the Authority reported deferred outflow of resources and deferred inflows of resources related to OPEB from the following sources:

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2018 and 2017

8. Postemployment Benefits Other Than Pensions (OPEB) – (Continued)

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions		\$ 1,841,889
Difference between expected and actual experience		1,474,275
Net difference between projected and actual earnings on OPEB plan investments	\$ 3,837	
Changes in proportion		<u>1,215,322</u>
	<u>\$ 3,837</u>	<u>\$ 4,531,486</u>

For the year ended October 31, 2017, the Authority recognized OPEB expense of \$259,247. At October 31, 2017, the Authority reported deferred outflow of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions		\$ 1,058,303
Net difference between projected and actual earnings on OPEB plan investments	\$ 1,634	
Changes in proportion		<u>1,333,993</u>
	<u>\$ 1,634</u>	<u>\$ 2,392,296</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended October 31:

2019	\$ (685,952)
2020	(685,952)
2021	(685,954)
2022	(686,361)
2023	(687,014)
2024	(687,014)
2025	(360,789)
2026	<u>(48,612)</u>
	<u>\$ (4,527,648)</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2018 and 2017

8. Postemployment Benefits Other Than Pensions (OPEB) – (Continued)

Discount Rate

The discount rate for June 30, 2018 and 2017 was 3.87% and 3.58%, respectively. This represents the municipal bond return rate as chosen by the State. The source is 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. As the long-term rate of return is less than the municipal bond rate, it is not considered in the calculation of the discount rate, rather the discount rate is set at the municipal bond rate.

Mortality Rates

Preretirement mortality rates were based on the RP-2014 Headcount-Weighted Healthy Employee Male/Female Mortality table for males or females, as appropriate, with adjustments for mortality improvements based on MP- 2017 scale. Postretirement mortality rates were based on the RP-2006 Headcount-Weighted Healthy Annuitant Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale. Disability mortality was based on the RP-2006 Headcount-Weighted Disabled Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale.

Health Care Trend Assumptions

For pre-Medicare preferred provider organization (PPO) medical benefits and health maintenance organization (HMO) medical benefits, the trend rate is initially 5.8% and decreases to a 5.0% long-term trend rate after eight years. For self-insured post-65 PPO and HMO medical benefits, the trend rate is 4.5%. For prescription drug benefits, the initial trend rate is 8.0% decreasing to a 5.0% long-term trend rate after seven years. The Medicare Advantage trend rate is 4.5% and will continue in all future years.

The following represents sensitivity of the Authority's proportionate share of the net OPEB liability associated with the Authority to changes in the discount rate and healthcare cost trend rate.

The following presents the Authority's proportionate share of the net OPEB liability associated with the Authority as of June 30, 2018 calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	At 1% Decrease (2.87%)	At Current Discount Rate (3.87%)	At 1% Increase (4.87%)
Authority's proportionate share of the net OPEB liability	\$ 8,519,265	\$ 7,261,164	\$ 6,256,226

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2018 and 2017

8. Postemployment Benefits Other Than Pensions (OPEB) – (Continued)

The following presents the Authority's proportionate share of the net OPEB liability associated with the Authority as of June 30, 2017 calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	At 1% Decrease (2.58%)	At Current Discount Rate (3.58%)	At 1% Increase (4.58%)
Authority's proportionate share of the net OPEB liability	\$ 11,246,805	\$ 9,534,990	\$ 8,176,694

The following presents the Authority's proportionate share of the net OPEB liability associated with the Authority as of June 30, 2018 calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	At 1% Decrease	At Current Healthcare Cost Trend	At 1% Increase
Authority's proportionate share of the net OPEB liability	\$ 6,056,975	\$ 7,261,164	\$ 8,819,563

The following presents the Authority's proportionate share of the net OPEB liability associated with the Authority as of June 30, 2017 calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	At 1% Decrease	At Current Healthcare Cost trend	At 1% Increase
Authority's proportionate share of the net OPEB liability	\$ 7,923,855	\$ 9,534,990	\$ 11,632,874

Actuarial assumptions and other inputs

The total OPEB liability in the June 30, 2018 actuarial valuation reported by the State in the State's most recently issued CAFR was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified.

Inflation rate	2.50%
Salary increases*	
Through 2026	1.65-8.98%
Thereafter	2.65-9.98% based on age

* Salary increases are based on the defined benefit plan that the member is enrolled in and his or her age.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2018 and 2017

9. 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.

10. 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.

11. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

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 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, 2018 and 2017

12. 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.

13. Restrictions on Net Position

Certain portions of net position have been restricted. Restrictions as of October 31, 2018 and 2017 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 Employee's Retirement System
Required Supplementary Information

Last Ten Fiscal Years

	Years Ended June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Authority's proportion of the net pension liability (asset) - Local Group	0.0390092500%	0.0380955948%	0.0344806309%	0.0367209865%	0.0355618788%	N/A	N/A	N/A	N/A	N/A
Authority's proportionate share of the net pension liability (asset)	\$ 7,680,727	\$ 8,868,048	\$ 10,212,174	\$ 8,243,126	\$ 6,658,156	N/A	N/A	N/A	N/A	N/A
Authority's 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
Authority's proportionate share of the net pension liability (asset) as a percentage of its employee payroll	282.52%	345.57%	418.97%	333.20%	260.69%	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%	48.10%	40.14%	47.93%	48.72%	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.

Notes to the Required Supplementary Information

Benefit Changes

There were none.

Changes of Assumptions

The discount rate changed from the measurement date of June 30, 2014 of 5.39% to 4.90% as of the measurement date of June 30, 2015.

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.

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

Last Ten Fiscal Years

	Years Ended June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 389,301	\$ 356,766	\$ 306,321	\$ 315,702	\$ 293,167	\$ 295,253	\$ 279,877	\$ 289,618	\$ 269,851	\$ 204,852
Contributions in relation to the contractually required contribution	(389,301)	(356,766)	(306,321)	(315,702)	(293,167)	(295,253)	(279,877)	(289,618)	(269,851)	(204,852)
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered-employee payroll	\$ 2,837,171	\$ 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
Contributions as a percentage of covered-employee payroll	13.72%	13.12%	11.94%	12.95%	11.85%	11.56%	10.74%	11.69%	11.01%	8.64%

Two Rivers Water Reclamation Authority
 Schedule of the Authority's Proportionate Share of the Net OPEB Liability
 State Health Benefit Local Government Retired Employees Plan
 Required Supplementary Information and Notes to Required Supplementary Information

Last Ten Fiscal Years

	Year Ended June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Authority's proportion of the net OPEB liability (asset)	0.4634800000%	0.0467040000%	0.0537190000%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Authority's proportionate share of the net OPEB liability (asset)	\$ 7,261,164	\$ 9,534,990	\$ 11,666,405	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Authority's covered employee payroll	\$ 2,837,171	\$ 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
Authority's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	255.93%	28.512%	21.997%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Plan fiduciary net OPEB as a percentage of the total OPEB liability - Local Group	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

N/A - Information not available

Notes to Required Supplementary Information

Changes of Benefit Terms

There were none.

Changes of Assumptions

The discount rate changed from 3.58% as of June 30, 2017 to 3.87% as of June 30, 2018.

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

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, governments should present information for those years for which information is available.

Two Rivers Water Reclamation Authority
 Schedule of Authority's OPEB Contributions
 State Health Benefit Local Government Retired Employees Plan
 Required Supplementary Information

Last Ten Fiscal Years

	Year Ended June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	-	-	-	-	-	-	-	-	-	-
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Authority's covered payroll	\$ 2,837,171	\$ 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
Contributions as a percentage of covered payroll	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

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, 2018**

Cash and Cash Equivalents, November 1, 2017	\$	4,189,675
Cash Receipts:		
Customer Municipalities Annual Charges		6,860,824
Monmouth Park		224,636
Participating Municipalities Service Charges		6,035,542
Other Income		355,574
Interest Income		38,884
Connection Fees		269,000
Transfers from Restricted Accounts		3,620,526
Federal Emergency Management Agency		<u>166,861</u>
Total Cash Available		<u>21,761,522</u>
Cash Disbursements:		
Vendors and Payroll		10,670,579
Transfers to Restricted Accounts		<u>6,229,605</u>
Total Cash Disbursements		<u>16,900,184</u>
Cash and Cash Equivalents, October 31, 2018	\$	<u><u>4,861,338</u></u>

**TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN
CASH, CASH EQUIVALENTS AND INVESTMENTS - RESTRICTED ACCOUNTS
YEAR ENDED OCTOBER 31, 2018**

	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, 2017	\$ 89	\$ 100,003	\$ 1,510,322	\$ 14,297,026	\$ 730,075	\$ 98,418	\$ 123,199	\$ 16,859,132
Cash Receipts:								
Interest on Investments	317	1,397	21,103	319,817	3,091		180	345,905
Sewer Connections					28,300			28,300
Transfers from Unrestricted Funds	255,418			5,974,187				6,229,605
Transfers from Restricted Funds	3,483,049				200,000			3,683,049
Developers' Deposits							53,904	53,904
Total Cash and Investments Available	3,738,873	101,400	1,531,425	20,591,030	961,466	98,418	177,283	27,199,895
Cash Disbursements:								
Payment of Bond Interest	334,635							334,635
Payment of Bond Principal	3,323,917							3,323,917
Transfers to Unrestricted Funds		1,397	9,480	2,757,936	851,713			3,620,526
Transfers to Restricted Funds				3,683,049				3,683,049
NJEIT - Administrative Fee	80,145							80,145
Developers' Escrow Payments							14,229	14,229
Total Cash Disbursements	3,738,697	1,397	9,480	6,440,985	851,713		14,229	11,056,501
Cash and Cash Equivalents and Investments, October 31, 2018	\$ <u>176</u>	\$ <u>100,003</u>	\$ <u>1,521,945</u>	\$ <u>14,150,045</u>	\$ <u>109,753</u>	\$ <u>98,418</u>	\$ <u>163,054</u>	\$ <u>16,143,394</u>
Balance Comprised of:								
Cash and Cash Equivalents	\$ 176	\$ 100,003	\$ 1,521,945	\$ 3,892,955	\$ 109,753	\$ 98,418	\$ 163,054	\$ 5,886,304
Investments				10,257,090				10,257,090
	\$ <u>176</u>	\$ <u>100,003</u>	\$ <u>1,521,945</u>	\$ <u>14,150,045</u>	\$ <u>109,753</u>	\$ <u>98,418</u>	\$ <u>163,054</u>	\$ <u>16,143,394</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
YEARS ENDED OCTOBER 31, 2018 AND 2017

	October 31, 2018				October 31, 2017		
	Adopted Budget	Final Budget	Realized	Variance Final to Actual	Final Budget	Realized	Variance Final to Actual
<u>Revenues</u>							
Revenue from Customer Municipalities and Government Facilities:	\$ 7,260,000	\$ 7,260,000			\$ 7,252,124		
Eatontown			\$ 2,055,150		\$ 1,984,285		
Tinton Falls			1,235,613		1,285,412		
Red Bank			1,620,485		1,603,596		
Rumson			1,645,591		1,524,455		
Sea Bright			468,913		505,022		
Township of Shrewsbury			238,420		189,772		
	<u>7,260,000</u>	<u>7,260,000</u>	<u>7,264,172</u>	<u>\$ 4,172</u>	<u>7,252,124</u>	<u>7,092,542</u>	<u>\$ (159,582)</u>
Service Charges:							
Individual Billings Member Towns	<u>5,860,200</u>	<u>5,860,200</u>	<u>5,893,401</u>	<u>33,201</u>	<u>5,800,600</u>	<u>6,000,895</u>	<u>200,295</u>
Interest on Investments	<u>60,000</u>	<u>60,000</u>	<u>299,095</u>	<u>239,095</u>	<u>50,000</u>	<u>184,044</u>	<u>134,044</u>
Other Fees:							
Connection Charges	425,500	425,500	269,000	(156,500)	333,000	490,459	157,459
Miscellaneous Income	<u>25,000</u>	<u>25,000</u>	<u>770,078</u>	<u>745,078</u>	<u>20,000</u>	<u>166,012</u>	<u>146,012</u>
	<u>450,500</u>	<u>450,500</u>	<u>1,039,078</u>	<u>588,578</u>	<u>353,000</u>	<u>656,471</u>	<u>303,471</u>
Total Revenues	<u>\$ 13,630,700</u>	<u>\$ 13,630,700</u>	<u>\$ 14,495,746</u>	<u>\$ 865,046</u>	<u>\$ 13,455,724</u>	<u>\$ 13,933,952</u>	<u>\$ 478,228</u>

	October 31, 2018				October 31, 2017		
	Adopted Budget	Final Budget	Paid or Charged	Variance Final to Actual	Final Budget	Paid or Charged	Variance Final to Actual
<u>Expenses</u>							
Administrative and General Expenses:							
Administrative Salaries and Wages	\$ 525,000	\$ 525,000	\$ 569,581	\$ (44,581)	\$ 510,000	\$ 530,545	\$ (20,545)
Employee Benefits	170,000	170,000	141,640	28,360	290,000	142,282	147,718
FICA and Medicare	100,000	100,000	36,004	63,996	42,000	26,860	15,140
Employee Medical Related			1,738	(1,738)	1,000	290	710
Pension PERS	310,000	310,000	440,147	(130,147)	320,000	640,131	(320,131)
OPEB Expense			(136,839)	136,839		259,247	(259,247)

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
YEARS ENDED OCTOBER 31, 2018 AND 2017

	October 31, 2018				October 31, 2017		
	Adopted Budget	Final Budget	Paid or Charged	Variance Final to Actual	Final Budget	Paid or Charged	Variance Final to Actual
<u>Expenses (Continued)</u>							
Billing Expenses:							
Computer Service	\$ 20,000	\$ 20,000	\$ 30,427	\$ (10,427)	\$ 12,000	\$ 41,583	\$ (29,583)
Billing Postage	20,000	20,000	36,471	(16,471)	15,000	12,134	2,866
Bank Fees	12,000	12,000	3,607	8,393	12,000	3,400	8,600
Office Expenses:							
Other Postage	2,000	2,000	3,272	(1,272)	2,000	4,374	(2,374)
Stationery and Supplies	14,000	14,000	20,742	(6,742)	14,000	19,428	(5,428)
Equipment Rental and Supplies	31,694	31,694	28,546	3,148	5,000	11,755	(6,755)
Printing	5,000	5,000	6,457	(1,457)	5,000	8,425	(3,425)
Equipment Service Contracts	15,000	15,000	1,726	13,274	20,000	4,752	15,248
Telephone	18,000	18,000	19,444	(1,444)	18,000	18,760	(760)
General Expenses:							
Conferences and Training	15,000	15,000	9,142	5,858	4,000	17,408	(13,408)
Commissioners Conference			350	(350)	2,000		2,000
Travel Expenses	3,000	3,000	2,509	491	3,000	9,657	(6,657)
Motor Vehicle Fees	6,000	6,000	5,844	156	9,000	5,198	3,802
Auto and Fire Liability Business Insurance	215,000	215,000	147,138	67,862	210,000	135,279	74,721
Worker's Compensation Insurance	110,000	110,000	89,324	20,676	100,000	87,865	12,135
Advertising Fees	10,000	10,000	6,640	3,360	5,000	11,188	(6,188)
NJEIT Administration & Agent Fees			80,145	(80,145)	81,000	80,145	855
Dues and Membership	10,000	10,000	8,666	1,334	10,000	15,933	(5,933)
Subscriptions	2,000	2,000	483	1,517	2,000	1,244	756
Gift Baskets	500	500	94	406	500	267	233
Meeting Expenses	3,000	3,000	1,381	1,619	4,000	1,272	2,728
Equipment Renewal and Replacement			3,935	(3,935)			
Leases of R.R. Property	110	110	113	(3)	110	110	
Long Branch Sewerage Authority	3,696	3,696	3,696		3,432	3,696	(264)
Professional Expenses:							
Legal Fees	80,000	80,000	106,208	(26,208)	100,000	66,484	33,516
Engineering Fees	150,000	150,000	156,593	(6,593)	150,000	96,259	53,741
Trustee Fees	10,000	10,000	8,500	1,500	10,000	8,500	1,500
Auditors Fees	42,000	42,000	61,125	(19,125)	37,000	42,000	(5,000)
Investment Management Fees	36,000	36,000	33,000	3,000	36,000	39,000	(3,000)
Pre-Employment Physical Fees	1,000	1,000	175	825	1,000		1,000
Total Administrative and General Expenses	1,940,000	1,940,000	1,928,024	11,976	2,034,042	2,345,471	(311,429)

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
YEARS ENDED OCTOBER 31, 2018 AND 2017

	October 31, 2018				October 31, 2017		
	Adopted Budget	Final Budget	Paid or Charged	Variance Final to Actual	Final Budget	Paid or Charged	Variance Final to Actual
<u>Expenses (Continued)</u>							
Treatment Plant and Main Pumping Expenses:							
Plant Salaries and Wages	\$ 2,000,000	\$ 2,000,000	\$ 2,312,764	\$ (312,764)	\$ 2,414,541	\$ 2,452,180	\$ (37,639)
Employee Benefits	1,000,000	1,000,000	740,060	259,940	600,000	724,520	(124,520)
FICA and Medicare	200,000	200,000	170,496	29,504	200,000	181,317	18,683
Other Treatment Plant Expenditures:							
Conferences and Training	15,000	15,000	15,457	(457)	15,000	23,347	(8,347)
Electricity	800,000	800,000	660,746	139,254	850,000	629,736	220,264
Fuel - Diesel	70,000	70,000	43,660	26,340	80,000	44,547	35,453
Natural Gas	90,000	90,000	53,754	36,246	90,000	80,174	9,826
Sodium Hypochlorite	90,000	90,000	74,544	15,456	90,000	67,451	22,549
Polymer	80,000	80,000	61,180	18,820	80,000	81,234	(1,234)
Hydrogen Peroxide	80,000	80,000	25,687	54,313	80,000	12,426	67,574
Non Bulk Chemicals	5,000	5,000	3,774	1,226	5,000	2,342	2,658
Fuel - Unleaded	25,000	25,000	9,387	15,613	35,000	6,009	28,991
Truck Maintenance	75,000	75,000	58,859	16,141	75,000	57,186	17,814
DEP and EPA Permits	60,000	60,000	44,731	15,269	60,000	56,301	3,699
Calibration Services	7,500	7,500	8,098	(598)	7,500	4,500	3,000
Water	80,000	80,000	76,919	3,081	100,000	58,892	41,108
Stationery Supplies			960	(960)		32	(32)
Maintenance Supplies	100,000	100,000	39,864	60,136	100,000	91,475	8,525
Equipment Service Contracts	75,000	75,000	68,852	6,148	75,000	50,405	24,595
Equipment Repair	125,000	125,000	148,075	(23,075)	125,000	169,777	(44,777)
Uniforms and Gloves	17,500	17,500	21,439	(3,939)	17,500	11,472	6,028
Equipment Replacement	75,000	75,000	178,311	(103,311)	75,000	89,788	(14,788)
Sludge Removal	1,100,000	1,100,000	907,096	192,904	850,000	936,980	(86,980)
Ash, Grit and Screenings	20,000	20,000	24,459	(4,459)	20,000	16,903	3,097
Laboratory Supplies	35,000	35,000	20,809	14,191	32,500	47,110	(14,610)
Outside Lab Fees	25,000	25,000	40,824	(15,824)	19,500	27,056	(7,556)
Municipal Services	35,000	35,000	33,586	1,414	30,000	32,928	(2,928)
Janitorial Supplies	10,000	10,000	11,634	(1,634)	10,000	12,506	(2,506)
Building and Ground Maintenance	75,000	75,000	75,908	(908)	75,000	36,640	38,360
Travel Expenses			376	(376)		345	(345)
Contingency	40,000	40,000		40,000	40,000		40,000
Plant Renewal and Replacement			71,838	(71,838)		5,381	(5,381)
New Equipment	100,000	100,000	95,460	4,540	100,000	115,017	(15,017)
Hurricane Damage			8,510	(8,510)		8,627	(8,627)
Total Treatment Plant and Main Pumping Expenses	6,510,000	6,510,000	6,108,117	401,883	6,351,541	6,134,604	216,937

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
YEARS ENDED OCTOBER 31, 2018 AND 2017

	October 31, 2018				October 31, 2017		
	Adopted Budget	Final Budget	Paid or Charged	Variance Final to Actual	Final Budget	Paid or Charged	Variance Final to Actual
<u>Expenses (Continued)</u>							
Lines and System Pumping Station:							
Line Salaries and Wages	\$ 440,000	\$ 440,000	\$ 321,546	\$ 118,454	\$ 283,250	\$ 215,146	\$ 68,104
Employee Benefits	200,000	200,000	127,006	72,994	110,000	110,513	(513)
FICA and Medicare	20,000	20,000	23,017	(3,017)	20,000	15,927	4,073
Other Lines Expenses:							
Stationery and Supplies			86	(86)		258	(258)
Conferences and Training	2,000	2,000	1,035	965	2,500	3,790	(1,290)
Electricity	100,000	100,000	95,523	4,477	100,000	84,342	15,658
Fuel - Unleaded Gasoline	15,000	15,000	12,523	2,477	15,000	15,110	(110)
Equipment Service Contracts	5,000	5,000	3,691	1,309	5,000	3,890	1,110
Truck Maintenance	15,000	15,000	9,021	5,979	15,000	11,066	3,934
Natural Gas	20,000	20,000	27,786	(7,786)	20,000	11,161	8,839
Hydrogen Peroxide	75,000	75,000	52,505	22,495	75,000	71,973	3,027
Nitrate Oxygen	30,000	30,000	16,155	13,845	30,000	9,446	20,554
Maintenance and Supplies	25,000	25,000	11,633	13,367	25,000	27,191	(2,191)
Uniforms and Gloves	3,500	3,500	787	2,713	3,500	1,461	2,039
Buildings and Grounds Maintenance	20,000	20,000	16,848	3,152	20,000	5,938	14,062
Chemicals	10,000	10,000	1,974	8,026	10,000	1,582	8,418
Bioxide 71	86,000	86,000	156,537	(70,537)	100,000	92,844	7,156
Maintenance of Lines	250,000	250,000	435,059	(185,059)	250,000	346,513	(96,513)
Water	2,500	2,500	3,089	(589)	2,500	2,950	(450)
Fuel-Diesel					7,500	7,500	
Meter Calibration	15,000	15,000	19,420	(4,420)	15,000	11,332	3,668
Communications Equipment	2,500	2,500	629	1,871	2,500	4,646	(2,146)
Equipment Repair	60,000	60,000	54,628	5,372	60,000	64,520	(4,520)
Equipment Replacement	75,000	75,000	80,331	(5,331)	75,000	3,613	71,387
Contingency	102,858	102,858	5,445	97,413	20,000	7,455	12,545
New Equipment	25,000	25,000	12,621	12,379	25,000	3,564	21,436
Total Lines and System Pumping Station Expenditures	1,599,358	1,599,358	1,488,895	110,463	1,291,750	1,126,231	165,519
Total Operating Expenditures	10,049,358	10,049,358	9,525,036	524,322	9,677,333	9,606,306	71,027
Other Costs Funded by Revenues:							
Bond Principal	3,323,917	3,323,917	3,323,917		3,323,918	3,215,042	108,876
Interest on Bonds	257,425	257,425	229,316	28,109	454,473	398,244	56,229
Total Other Costs Funded by Revenues	3,581,342	3,581,342	3,553,233	28,109	3,778,391	3,613,286	165,105
Grand Totals	\$ 13,630,700	\$ 13,630,700	\$ 13,078,269	\$ 552,431	\$ 13,455,724	\$ 13,219,592	\$ 236,132

**TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
SCHEDULE OF LONG-TERM REVENUE BONDS PAYABLE
YEAR ENDED OCTOBER 31, 2018**

<u>Purpose</u>	<u>Date of Issue</u>	<u>Maturities</u>		<u>Interest Rate</u>	<u>Balance</u>		<u>Balance</u>
		<u>Date</u>	<u>Amount</u>		<u>October 31, 2017</u>	<u>Paid</u>	
\$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	8/1/2019	\$ 1,968,503	5.25%			
		8/1/2020	2,070,814	5.25%	\$ 5,910,365	\$ 1,871,046	\$ 4,039,319
\$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	2/1/2019	60,241	0%			
		8/1/2019	1,178,194	0%			
		2/1/2020	30,895	0%			
		8/1/2020	1,154,690	0%	3,661,891	1,237,871	2,424,020
\$3,770,000 Series 2016 Revenue Bonds - To provide funds for improvements and upgrades to the wastewater treatment system.	3/31/2016	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%					
					<u>3,570,000</u>	<u>215,000</u>	<u>3,355,000</u>
Grand Total					\$ <u>13,142,256</u>	\$ <u>3,323,917</u>	\$ <u>9,818,339</u>
Detail:							
Current portion					\$ 3,323,918		\$ 3,426,937
Long-term liability					<u>9,818,338</u>		<u>6,391,402</u>
					\$ <u>13,142,256</u>		\$ <u>9,818,339</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
ANALYSIS OF CAPITAL PROJECTS
YEAR ENDED OCTOBER 31, 2018

Schedule 5

<u>Asset Category</u>	<u>Project Description</u>	<u>Amount Capitalized</u>
Other Improvements	Door Replacement	\$ 18,450
Total Other Improvements		<u>18,450</u>
Vehicles	Roll off Truck	162,621
	Bed Liner	<u>3,189</u>
Total Vehicles		<u>165,810</u>
Mains, Intercepts	Little Silver Interceptor	270,740
	Little Silver Interceptor (Engineer Fees)	<u>27,500</u>
Total Mains, Intercepts		<u>298,240</u>
Other Equipment	Grit Chamber	3,293
	Clarifier parts	8,826
	Clarifier parts	2,970
	Fiber install	4,372
	Pump calibration	5,694
	RAS pit repairs	30,010
	Clarifier arms	29,232
	Effluent bldg heat	5,223
	Effluent bldg heat	2,078
	Yard hydrants	3,590
	Hypo pumps	10,268
	Non potable pump	12,585
	Various equipment	64,980
	Hayword Gorden waste pumps	31,938
	Groundwater lower pump	4,468
	Gear motor clarifier 4	3,598
	Sludge transfer pump	23,427
	Sludge transfer pump	533
	Paint clar 2	2,143
	Non potable motors	3,746
	CCTV System	27,500
	Aeration basin flow meter	19,813
	PLC Panels	7,576
	PLC Panels	216
	Gasmeter	8,000
	Gasmeter	327
	Kaeser blower package	20,968
	Roll off container	<u>20,900</u>
Total Other Equipment		<u>358,274</u>
Construction in Progress		
Aeration		2,938
Station 13 Bypass		3,722
Bus Duct Failure		114,220
PS 12		16,686
MPS Drive Replacement		160,919
Electrical Testing		123,363
Orege System		254,350
Blower PLC Repair		<u>86,023</u>
Total Construction in Progress		<u>762,221</u>
Total		<u>\$ 1,602,995</u>
Detail:		
Additions to Construction in Progress		\$ 762,221
Current year's acquisitions		<u>840,774</u>
		<u>\$ 1,602,995</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 ("Authority") as of and for the year ended October 31, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 19, 2019.

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 2018-001 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.

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

July 19, 2019
Livingston, New Jersey

**SCHEDULE OF FINDINGS AND RESPONSES
OCTOBER 31, 2018**

2018-001 Material Weakness in Internal Control over the Financial Statement Close Process

Finding:

Condition: Although the Authority has certain control policies and procedures in place that are intended to provide management with 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 due to 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 it records at October 31, 2018.

Criteria: Authority's control process and procedures.

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

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

Authority Response: The Authority has taken steps toward ensuring that its financial statement close process and procedures are strictly adhered to. An accounting firm has been engaged to assist in this process.

OTHER INFORMATION

OFFICIALS IN OFFICE AND SURETY BOND/INSURANCE COVERAGE

TWO RIVERS WATER RECLAMATION AUTHORITY

ROSTER OF OFFICIALS

YEAR ENDED OCTOBER 31, 2018

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
Michael A. MacStudy	Treasurer	A, B
William R. Baarck, P.E.	Secretary	A
Richard N. Tocci	Assistant Treasurer	A
Scott Hartman	Assistant Secretary	A
John Bonforte	Member	A
Gregory J. Christopher	Member	A
Theodore Giannechini	Member	A
Eric R. Jaeger	Member	A
Brian McPeak	Member	A
David Twigg	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, 2018

UNAUDITED

A blanket policy issued by the New Jersey Utility Authorities Joint Insurance Fund for a one-year period expiring on January 1, 2019, 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

GENERAL COMMENTS
OCTOBER 31, 2018

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 2018 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, 2018 covering all unpaid charges on that date.

A test verification of delinquent charges outstanding at October 31, 2018 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.

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, 2018 and 2017.

Vouchers were examined on a test basis.

A test was made of the employees' compensation and payroll deductions for the year ended October 31, 2018 and for those employees tested, no exceptions were noted except as follows:

Finding 2018-001:

Condition: The Authority's financial statement close process and procedures were not strictly adhered to.

Criteria: Authority's control process and procedures.

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

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

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

Expenditures – (Continued)

Finding 2018-002:

Condition: Purchase orders were dated after invoice dates in several instances, indicating confirming orders.

Criteria: An encumbrance system is required by New Jersey regulation.

Cause: The Authority sometimes had immediate needs for items which precluded following the purchase order and encumbrance procedures.

Recommendation: It is recommended the Authority encumber funds and issue purchase orders prior to acquiring goods and services.

Authority Response: The Authority will reinforce to all employees that every purchase needs to be approved and a purchase order issued before acquisition of the goods or services occurs.

Finding 2018-003:

Condition: Schedule of compensated absences that was presented was inaccurate.

Criteria: Key element of internal control over compensated absences.

Cause: Inadequate oversight and change in systems.

Recommendation: That the schedule of compensated absences presented for audit, be accurate.

Authority Response: The Authority will ensure the schedule of compensated absences will be prepared accurately and subjected to managerial review.

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 2017 audit recommendations. 2018 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:

- *2018-001 The Authority's financial statement close process and procedures be strictly adhered to.

- 2018-002 The Authority encumber funds and issue purchase orders prior to acquiring goods and services.

- 2018-003 The schedule of compensated absences presented for audit, be accurate.

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 2018-001, which is a material weakness in internal control.