



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

Years ended October 31, 2019 and 2018

and

Independent Auditors' Report

TWO RIVERS WATER RECLAMATION AUTHORITY

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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, 2019 and 2018 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, 2019 and 2018, and the respective changes in financial position, and cash flows, thereof, for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of the Authority's proportionate share of the net pension liability – PERS, schedule of the Authority's pension contributions - PERS, schedule of the Authority's proportionate share of the net OPEB liability – State Health Benefits Local Government Retired Employees Plan and schedule of the Authority's OPEB contributions – State Health Benefits Local Government Retired Employees Plan 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 9, 2020, 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, LLP

July 9, 2020
Florham Park, 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, 2019 and 2018.

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 \$1,493,768 due to decreases in customer charges and other receivables, deferred outflows of resources and net capital assets. Total liabilities and deferred inflows of resources decreased by \$4,175,739 due mainly to decreases in bonds payable, the net pension liability and net OPEB liability offset by increases in accounts payable. Assets and deferred outflows exceeded liabilities and deferred inflows by \$61,921,008. This compares to 2018 where assets and deferred outflows of resources exceeded liabilities and deferred inflows by \$59,239,037.

The Authority’s Net Position of \$61,921,008 is comprised of the following:

Net investment in capital assets of \$62,442,864, 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 \$2,744,597 from the prior year.

Capital Assets - Net	\$	68,886,971
Less:		
Revenue Bonds Payable, Net of Unamortized Premium		<u>(6,444,107)</u>
Net Investment in Capital Assets	\$	<u>62,442,864</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 \$(5,711,856) 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 decreased by \$62,626 mainly due to the change in net position, of \$2,681,971 offset by the increase in the net investment in capital assets of \$2,744,597.

	October 31,		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total current assets	\$ 5,686,054	\$ 6,477,051	\$ 5,230,098
Total restricted assets	16,582,348	16,153,480	16,984,214
Capital assets, net	68,886,971	69,473,557	70,968,826
Deferred outflows of resources	<u>1,731,428</u>	<u>2,276,481</u>	<u>2,926,773</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 92,886,801</u>	<u>\$ 94,380,569</u>	<u>\$ 96,109,911</u>
Total current liabilities payable from unrestricted assets	\$ 2,587,337	\$ 2,225,809	\$ 2,253,662
Total current liabilities payable from restricted assets	3,640,581	3,627,888	3,547,215
Unemployment claims reserve	64,055	82,151	82,151
Compensated absences payable	334,288	360,492	380,746
Net pension liability	7,249,792	7,680,727	8,868,046
Net OPEB liability	5,935,347	7,261,164	9,534,990
Long term obligations, net	2,957,925	6,444,108	9,880,613
Deferred inflows of resources	<u>8,196,468</u>	<u>7,459,193</u>	<u>4,719,941</u>
Total Liabilities and Deferred Inflows of Resources	<u>\$ 30,965,793</u>	<u>\$ 35,141,532</u>	<u>\$ 39,267,364</u>
Total Net Position	<u>\$ 61,921,008</u>	<u>\$ 59,239,037</u>	<u>\$ 56,842,547</u>

Total current assets have decreased because of decreases in cash and cash equivalents, customer charges receivable and intergovernmental accounts receivable offset by an increase in sewer billings receivable.

Total restricted assets have increased because of the increases in cash and cash equivalents and investments.

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

Total current liabilities payable from unrestricted assets have increased because of an increase in accounts payable.

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

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

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

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

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

Operating revenues from customer municipalities decreased by \$286,898 or 3.95% while operating revenues from participating municipalities increased by \$251,321 or 4.26%. Total operating revenues decreased by \$35,377 or 0.27% from 2018 levels.

Total operating expenses were lower in 2019 than 2018, 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 \$1,823,087 which is greater than 2018 operating income of \$1,285,554.

Total Net Position as of October 31, 2019 increased by \$2,681,971 as is depicted below.

	Year ended October 31,		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total operating revenues	\$ <u>13,121,996</u>	\$ <u>13,157,573</u>	\$ <u>13,093,437</u>
Operating expenses	8,156,185	8,773,755	9,314,125
Depreciation	<u>3,142,724</u>	<u>3,098,264</u>	<u>3,075,802</u>
Total operating expenses	<u>11,298,909</u>	<u>11,872,019</u>	<u>12,389,927</u>
Operating income	1,823,087	1,285,554	703,510
Nonoperating revenues (expenses) - net	<u>858,884</u>	<u>1,110,936</u>	<u>304,532</u>
Change in net position	2,681,971	2,396,490	1,008,042
Total net position - beginning	<u>59,239,037</u>	<u>56,842,547</u>	<u>55,834,505</u>
Total net position - ending	<u>\$ <u>61,921,008</u></u>	<u>\$ <u>59,239,037</u></u>	<u>\$ <u>56,842,547</u></u>

Comparative Statements of Cash Flows

The net decrease in cash and cash equivalents was \$1,605,972. This compares to a net increase in cash and cash equivalents in 2018 of \$2,779,137. The main reason for the 2019 decrease was the purchases of investments securities exceeding redemptions by \$1,888,733.

Debt Administration

As of October 31, 2019, the Authority had \$21,720,287 of long-term liabilities. Of this amount, \$334,288 is for compensated absences, \$6,391,401 is for revenue bonds payable, \$52,707 which represents an unamortized bond premium, \$5,935,347 is for the net OPEB liability and \$7,249,792 relates to the net pension liability. As of October 31, 2018, the Authority had \$25,178,212 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 Infrastructure Bonds 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 in previous years. 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, 2019 and 2018, the Authority had \$68,886,971 and \$69,473,557, 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 2019 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 Plan – Equipment Replacement where expected equipment replacements were not necessary, Treatment Plant – Sludge Removal where expenses were less than budgeted due to process changes, 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, Lines and System Pumping Station – Maintenance of Lines, where unforeseen line maintenance exceeding expected costs and Lines and System Pumping Station – Equipment Repair – where unforeseen repair exceeded 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
Brian Rice, Secretary
Richard N. Tocci, Assistant Treasurer
Scott Hartman, Assistant Treasurer
John Bonforte, Member
Gregory J. Christopher, Member
Eric R. Jaeger, Member
Jason N. Sena, 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 2019 budget of \$13.91 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, Florham Park, 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, 2019 AND 2018

	October 31,	
	2019	2018
Assets		
Current Assets:		
Cash and cash equivalents	\$ 4,712,777	\$ 4,861,338
Inventory	16,684	10,897
Customer charges receivable		405,121
Sewer billings receivable	955,644	813,623
Other accounts receivable	949	23,792
Intergovernmental accounts receivable - federal		324,098
Intergovernmental accounts receivable - other		38,182
	<u>5,686,054</u>	<u>6,477,051</u>
Restricted assets:		
Revenue fund - Unemployment cash and cash equivalents	98,418	98,418
Escrow deposits:		
Cash and cash equivalents	148,404	163,054
Bond service account:		
Cash and cash equivalents	230	176
Bond reserve account:		
Cash and cash equivalents	100,003	100,003
General account:		
Cash and cash equivalents	2,330,673	3,892,955
Investments	12,145,823	10,257,090
Accrued interest receivable	7,632	10,086
Construction account:		
Cash and cash equivalents	452,356	109,753
Renewal and replacement account:		
Cash and cash equivalents	1,298,809	1,521,945
	<u>16,582,348</u>	<u>16,153,480</u>
Non-current assets:		
Capital Assets - Non-depreciable	3,408,355	2,481,176
Capital Assets - Net of depreciation	65,478,616	66,992,381
	<u>68,886,971</u>	<u>69,473,557</u>
Total capital assets, net		
	<u>68,886,971</u>	<u>69,473,557</u>
Total assets	<u>91,155,373</u>	<u>92,104,088</u>
Deferred outflows of resources		
Pension deferrals	1,726,539	2,272,644
OPEB deferrals	4,889	3,837
	<u>1,731,428</u>	<u>2,276,481</u>
Total deferred outflows of resources		
	<u>1,731,428</u>	<u>2,276,481</u>
Total assets and deferred outflows of resources	<u>\$ 92,886,801</u>	<u>\$ 94,380,569</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE STATEMENT OF NET POSITION
OCTOBER 31, 2019 AND 2018

	October 31,	
	2019	2018
Liabilities		
Current liabilities payable from unrestricted assets:		
Accounts payable	\$ 1,313,374	\$ 1,009,003
Accrued expenses	225,038	202,828
Customer overpayments	55,421	37,755
Unearned revenue	993,504	976,223
Total current liabilities payable from unrestricted assets	2,587,337	2,225,809
Current liabilities payable from restricted assets:		
Reserve for developers' deposits	105,156	120,002
Accrued interest on bonds payable	49,243	76,165
Revenue bonds payable - current portion	3,486,182	3,431,721
Total current liabilities payable from restricted assets	3,640,581	3,627,888
Non-current liabilities:		
Net pension liability	7,249,792	7,680,727
Net OPEB liability	5,935,347	7,261,164
Long-term revenue bonds payable, net	2,957,925	6,444,108
	16,143,064	21,385,999
Unemployment claims reserve	64,055	82,151
Compensated absences payable	334,288	360,492
Total non-current liabilities	16,541,407	21,828,642
Total liabilities	22,769,325	27,682,339
Deferred inflows of resources		
Pension deferrals	2,835,594	2,927,707
OPEB deferrals	5,360,874	4,531,486
Total deferred inflows of resources	8,196,468	7,459,193
Net position		
Net investment in capital assets	62,442,864	59,698,267
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)	(5,711,856)	(5,649,230)
Total net position	\$ 61,921,008	\$ 59,239,037

**TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION
YEARS ENDED OCTOBER 31, 2019 AND 2018**

Exhibit B

	October 31,	
	<u>2019</u>	<u>2018</u>
Operating revenues:		
Customer municipalities:		
Annual charges	\$ 6,977,274	\$ 7,264,172
Participating municipalities:		
Service charges	6,144,722	5,893,401
Total operating revenues	13,121,996	13,157,573
Operating expenses:		
Administration and general	1,512,123	1,928,025
Treatment plant and main pumping station	5,510,389	5,356,835
Lines and system pumping stations	1,117,622	1,488,895
Depreciation	3,142,724	3,098,264
Renewal and replacement	16,051	
Total operating expenses	11,298,909	11,872,019
Operating income	1,823,087	1,285,554
Nonoperating revenues (expenses):		
Interest on bonds	(199,489)	(224,532)
Interest income	494,327	299,095
Federal Emergency Management Agency - Hurricane Sandy		490,959
Connection fees	487,100	269,000
Miscellaneous income	76,946	276,414
Total nonoperating revenues (expenses)	858,884	1,110,936
Change in net position	2,681,971	2,396,490
Total net position-beginning	59,239,037	56,842,547
Total net position-ending	\$ 61,921,008	\$ 59,239,037

See accompanying notes to the basic financial statements.

**TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED OCTOBER 31, 2019 AND 2018**

Exhibit C

	October 31,	
	2019	2018
Cash flows from operating activities:		
Receipts from members and customers	\$ 13,432,959	\$ 12,891,881
Payments to employees	(3,397,782)	(3,208,520)
Payments to suppliers	(4,962,029)	(5,682,161)
Net cash provided by operating activities	5,073,148	4,001,200
Cash flows from capital and related financing activities:		
Purchase of capital assets	(2,556,138)	(1,602,995)
Federal Emergency Management Agency - Hurricane Sandy	324,098	166,861
Repayment of revenue bonds payable	(3,426,938)	(3,323,917)
Receipt of intergovernmental accounts receivable	38,182	29,645
Developer's escrow funds received (returned)	(14,846)	(1,502)
Net cash (used in) capital and related financing activities	(5,635,642)	(4,731,908)
Cash flows from investing activities:		
Interest received	496,781	384,446
Interest paid on revenue bonds	(229,733)	(254,945)
(Purchase) of investment securities	(12,145,823)	(10,257,090)
Redemption of investment securities	10,257,090	13,080,302
Net cash (used in) provided by investing activities	(1,621,685)	2,952,713
Cash flows from noncapital financing activities:		
Connection fees	487,100	269,000
Miscellaneous income	91,107	288,132
Net cash provided by noncapital financing activities	578,207	557,132
Net (decrease) increase in cash and cash equivalents	(1,605,972)	2,779,137
Cash and cash equivalents, beginning of year	10,747,642	7,968,505
Cash and cash equivalents, end of year	\$ 9,141,670	\$ 10,747,642
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,823,087	\$ 1,285,554
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3,142,724	3,098,264
Changes in assets, deferred outflows and inflows of resources and liabilities:		
Decrease (increase) in receivables and other assets:		
Unrestricted accounts	257,313	(262,910)
Increase (decrease) in current liabilities:		
Payable from unrestricted assets	322,652	(45,996)
(Decrease) increase in other liabilities and deferrals:		
Other liabilities	(26,204)	(20,254)
Accounts payable - pension	28,000	18,143
Net pension liability	(430,935)	(1,187,319)
Net OPEB liability	(1,325,817)	(2,273,826)
Deferred inflow - pension deferrals	(92,113)	600,062
Deferred inflow - OPEB deferrals	829,388	2,139,190
Deferred outflow - pension deferrals	546,105	652,495
Deferred outflow - OPEB deferrals	(1,052)	(2,203)
Net cash provided by operating activities	\$ 5,073,148	\$ 4,001,200
Reconciliation to Statement of Net Position:		
Unrestricted cash and cash equivalents	\$ 4,712,777	\$ 4,861,338
Restricted cash and cash equivalents	4,428,893	5,886,304
	\$ 9,141,670	\$ 10,747,642

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, 2019 and 2018

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, 2019 and 2018

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, an New Jersey Authority issued Bond Anticipation Note, and United States Treasury Bills. 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, 2019 or 2018, respectively.

Inventories:

Inventories are valued at cost, which approximates market, using the first-in-first-out (FIFO) method. At October 31, 2019 and 2018, the value of the inventory, not held for resale, consisting of diesel fuel on hand, was \$16,684 and \$10,897, respectively.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

1. Summary of Significant Accounting Policies - (Continued)

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

Capital Assets - (Continued):

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 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 and cash received in the current fiscal year which benefits the subsequent fiscal year.

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.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

1. Summary of Significant Accounting Policies - (Continued)

D. Revenues, Operating Revenues and Expenses:

Revenues - Exchange and Non-exchange Transactions:

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

Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Operating Revenues and Expenses:

Operating revenues are those revenues that are generated directly from the primary activity of the Authority. These operating revenues are for the collection and treatment of wastewater. 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 interest on revenue bonds outstanding.

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.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

1. Summary of Significant Accounting Policies - (Continued)

F. Recently Implemented Pronouncements - (Continued)

GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in April 2018. This Statement defines debt for purposes of disclosure in notes to financial statements and establishes additional financial statement note disclosure requirements related to debt obligations of governments. The requirements of this Statement are effective for periods beginning after June 15, 2018. Management has adopted this statement in the 2019 fiscal year and it was determined that it did not have an impact on its financial statements or disclosures.

G. Recent Pronouncements

The 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, 2019. Management has not yet determined the impact of this Statement on the financial statements.

The GASB issued Statement No. 87, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019. Management has not yet determined the impact of this 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.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

1. Summary of Significant Accounting Policies - (Continued)

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, 2019 through the date of the financial statements were available for issuance, July 9, 2020, 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 November 18, 2019 the Authority authorized the issuance of not to exceed \$75,000,000 Revenue Bonds (Junior Lien) through the New Jersey Infrastructure Bank (NJIB) financing program. On April 2, 2020 the Authority issued \$75,000,000 in Interim Notes through the NJIB.

Subsequent to October 31, 2019, the COVID-19 (coronavirus) pandemic has resulted in substantial economic volatility on a global scale. As a result, the Authority's economically sensitive revenues (i.e. customer charges, interest earnings and connection fees) might be negatively impacted. Collection rates on sewer billings might be slowed as unemployment rates are expected to spike. Meanwhile, the Authority's expenditures for operations, health service functions and pension benefits (due to stock market declines) would all be expected to increase. Credit markets may tighten and interest rates could fluctuate. None of these factors were taken into consideration in the development of the 2020 adopted budget. Federal and or State assistance to mitigate this volatility have not yet been established or confirmed. Given the uncertainty around the extent and timing of the potential future spread or mitigation of the coronavirus and around the imposition or relaxation of protective measures, management cannot reasonably estimate the actual impact on the Authority's financial position at this time

2. Deposits and Investments

Cash and Cash Equivalents:

Operating cash, in the form of checking and money market accounts, is held in the Authority's name by commercial banking institutions. At October 31, 2019, the carrying amount of the Authority's deposits was \$9,141,670 and the bank balance was \$7,832,798. Of the bank balance, \$398,404 was insured with Federal Deposit Insurance Corporation and the remainder was covered by GUDPA. At October 31, 2018, the carrying amount of the Authority's deposits was \$10,747,672 and the bank balance was \$10,922,509.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

2. Deposits and Investments - (Continued)

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.

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 Bills.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

2. Deposits and Investments - (Continued)

Credit Risk – As of October 31, 2019 the Authority’s investment in Bond Anticipation Notes was 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.

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 Bills and 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, 2019 and 2018.

<u>Description of Investment</u>	<u>Interest Rates</u>	<u>Balance as of</u>
<u>General Fund</u>		<u>October 31, 2019</u>
Bond Anticipation Notes:		
Hudson County Improvement Authority	3.50%	\$ 504,595
Certificate of Deposit	Variable	222,518
U.S. Treasury Bills	Various	<u>11,418,710</u>
Grand Total		\$ <u><u>12,145,823</u></u>

<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><u>10,257,090</u></u>

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

2. 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 are held to maturity.
- *US Treasury Bills and Notes*: Valued at the closing price reported on the active market in which the security is traded. The U.S. Treasury Bills and Notes have a rating by S&P of AA to Aa.
- *Certificates of Deposit*: Valued at the acquisition price which equals fair value.

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

The following table sets forth by level, within the fair value hierarchy, the Authority's assets at fair value as of October 31, 2019 and 2018:

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

2. Deposits and Investments - (Continued)

	<i>Assets at Fair Value as of October 31, 2019</i>	
	<u>Level 2</u>	<u>Total</u>
Held to maturity securities:		
US Treasury Bills	\$ 11,418,710	\$ 11,418,710
Bond Anticipation Note	504,595	504,595
Certificate of Deposit	<u>222,518</u>	<u>222,518</u>
Total	<u>\$ 12,145,823</u>	<u>\$ 12,145,823</u>

	<i>Assets at Fair Value as of October 31, 2018</i>	
	<u>Level 2</u>	<u>Total</u>
Held to maturity securities:		
US Treasury Notes	\$ 9,454,974	\$ 9,454,974
Bond Anticipation Notes	579,664	579,664
Certificate of Deposit	<u>222,452</u>	<u>222,452</u>
Total	<u>\$ 10,257,090</u>	<u>\$ 10,257,090</u>

3. Capital Assets

The following schedule is a summarization of the changes in capital assets for the years ended October 31, 2019 and 2018.

October 31, 2019	Beginning <u>Balance</u>	<u>Additions</u>	Transfers and <u>Deletions</u>	Ending <u>Balance</u>
Capital assets, not being depreciated:				
Construction In Progress	\$ 1,010,776	\$ 1,304,795	\$ (844,337)	\$ 1,471,234
Land	<u>1,470,400</u>	<u>466,721</u>		<u>1,937,121</u>
Total capital assets, not being depreciated	<u>2,481,176</u>	<u>1,771,516</u>	<u>(844,337)</u>	<u>3,408,355</u>
Capital assets, being depreciated:				
Buildings and improvements	15,543,486			15,580,686
Other improvements	73,069,013	48,718	2,938	73,120,669
Sewer mains and interceptors	32,701,470			32,701,470
Pump stations	7,894,501	435,922	183,921	8,514,344
Other equipment	4,514,896	237,227	657,478	5,409,601
Vehicles	<u>1,342,361</u>	<u>32,680</u>	<u>(37,615)</u>	<u>1,337,426</u>
Total assets being depreciated	<u>135,065,727</u>	<u>791,747</u>	<u>806,722</u>	<u>136,664,196</u>
Accumulated depreciation	<u>(68,073,346)</u>	<u>(3,142,724)</u>	<u>30,490</u>	<u>(71,185,580)</u>
Total capital assets, being depreciated, net	<u>66,992,381</u>	<u>(2,350,977)</u>	<u>837,212</u>	<u>65,478,616</u>
Net Capital Assets	<u>\$ 69,473,557</u>	<u>\$ (579,461)</u>	<u>\$ (7,125)</u>	<u>\$ 68,886,971</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

3. Capital Assets – (Continued)

October 31, 2018	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Construction In Progress	\$ 248,555	\$ 762,221	\$ -	\$ 1,010,776
Land	<u>1,470,400</u>			<u>1,470,400</u>
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	<u>1,154,009</u>	<u>208,348</u>	<u>(19,996)</u>	<u>1,342,361</u>
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>

4. Long-term liabilities

During the year ended October 31, 2019, the following changes occurred in long-term liabilities.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Revenue bonds payable	\$ 9,818,338	\$ -	\$ 3,426,938	\$ 6,391,400
Unamortized premium	<u>57,491</u>	<u>-</u>	<u>4,784</u>	<u>52,707</u>
	9,875,829	-	3,431,722	6,444,107
Compensated absences	<u>360,492</u>	<u>1,803</u>	<u>28,007</u>	<u>334,288</u>
Sub-total	10,236,321	1,803	3,459,729	6,778,395
Net OPEB liability	7,261,164		1,325,817	5,935,347
Net pension liability	<u>7,680,727</u>	<u>-</u>	<u>430,935</u>	<u>7,249,792</u>
Total	<u>\$ 25,178,212</u>	<u>\$ 1,803</u>	<u>\$ 5,216,481</u>	<u>\$ 19,963,534</u>
Current Portion	<u>\$ 3,431,721</u>			<u>\$ 3,486,182</u>

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

4. Long-term liabilities – (Continued)

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>

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 on February 1, 2020 and August 1, 2020 at maturities of \$30,894 to \$1,154,690, respectively. 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 a remaining annual maturity due August 1, 2020 of \$2,070,816 which bears 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 \$225,000 to \$320,000. Interest rates range from 2.125% to 2.0%.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

4. Long-term liabilities – (Continued)

Aggregate long-term debt outstanding is as follows:

<u>Fiscal</u> <u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 3,481,400	\$ 179,002	\$ 3,660,402
2021	230,000	67,094	297,094
2022	235,000	62,206	297,206
2023	240,000	56,919	296,919
2024	245,000	51,519	296,519
2025-2029	1,340,000	171,644	1,511,644
2030-2031	<u>620,000</u>	<u>23,500</u>	<u>643,500</u>
	<u>\$ 6,391,400</u>	<u>\$ 611,884</u>	<u>\$ 7,003,284</u>

5. 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 \$334,288 and \$360,492 as of October 31, 2019 and 2018, respectively.

6. 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 a cost-sharing multiple-employer plan.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

6. Pension Plans – (Continued)

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.

Service retirement benefits of 1/55th of final average salary for each year of service credit is available to tiers 1 and 2 members upon reaching age 60 and to tier 3 members upon reaching age 62. Service retirement benefits of 1/60th of final average salary for each year of service credit is available to tier 4 members upon reaching age 62 and tier 5 members upon reaching age 65. Early retirement benefits are available to tiers 1 and 2 members before reaching age 60, tiers 3 and 4 with 25 years or more of service credit before age 62, and tier 5 with 30 years or more of service credit before age 65. Benefits are reduced by a fraction of a percent for each month that a member retires prior to the age at which a member can receive full early retirement benefits in accordance with their respective tier. Tier 1 members can receive an unreduced benefit from age 55 to age 60 if they have at least 25 years of service. Deferred retirement is available to members who have at least 10 years of service credit and have not reached the service retirement age for the respective tier.

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

Funding Policy

The contribution policy is set by New Jersey State Statutes and contributions are required by active members and contributing members. Plan member and employer contributions may be amended by State of New Jersey legislation. Under the provisions of Chapter 78, P.L. 2011, the employee contribution rate for PERS for 2019 was 7.50% 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, 2019, 2018 and 2017 were \$392,687, \$389,301 and \$356,766, respectively, equal to the required contributions for each year.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

6. Pension Plans – (Continued)

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, 2019 and 2018, the Authority reported a liability of \$7,249,792 and \$7,680,727, respectively, for its proportionate share of the net pension liability. The October 31, 2019 net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation at July 1, 2018, which was rolled forward to June 30, 2019. 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, 2019, the Authority’s proportion was 0.0402353051 percent, which was an increase of 0.0012260551 from its proportion measured as of June 30, 2018 of 0.0390092500 percent. For the years ended October 31, 2019 and 2018, the Authority recognized full accrual pension expense of \$421,430 and \$440,147, respectively, in the financial statements.

At October 31, 2019 and 2018, the Authority reported deferred outflows of resources and deferred inflows of resources related to PERS from the following sources:

<u>October 31, 2019</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions	\$ 723,918	\$ 2,516,380
Net difference between projected and actual earnings on pension plan investments		114,441
Changes in proportion	742,039	172,747
Difference between expected and actual experience	130,124	32,026
Authority contributions subsequent to the measurement date	130,458	
	<u>\$ 1,726,539</u>	<u>\$ 2,835,594</u>
<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		
Authority contributions subsequent to the measurement date	123,458	
	<u>\$ 2,272,644</u>	<u>\$ 2,927,707</u>

For the year ended October 31, 2019, \$130,458 is reported as deferred outflows of resources related to pensions resulting from Authority contributions subsequent to the measurement date. Other

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

6. Pension Plans – (Continued)

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

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:	
2020	\$ (105,278)
2021	(473,580)
2022	(422,147)
2023	(218,219)
2024	(20,289)
	<u>\$ (1,239,513)</u>

Actuarial Assumptions

The collective total pension liability for the June 30, 2019 measurement date was determined by an actuarial valuation as of July 1, 2018, which was rolled forward to June 30, 2019. This actuarial valuation used the following actuarial assumptions, applied to all periods included in the measurement:

Inflation rate:	
Price	2.75%
Wage	3.25%
Salary increases	
Through 2026	2.00-6.00%
	based on years of service
Thereafter	3.00-7.00%
	based on years of service
Investment rate of return	7.00%

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, applied to all periods included in the measurement:

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

6. Pension Plans – (Continued)

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

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%

Mortality Rates

Pre-retirement mortality rates were based on the Pub-2010 General Below-Median Income Employee mortality table with an 82.2% adjustment for males and 101.4% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Post-retirement mortality rates were based on the Pub-2010 General Below-Median Income Healthy Retiree mortality table with a 91.4% adjustment for males and 99.7% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Disability retirement rates used to value disabled retirees were based on the Pub-2010 Non-Safety Disabled Retiree mortality table with a 127.7% adjustment for males and 117.2% adjustment for females, and with future improvement from the base year of 2010 on a generational basis. Mortality improvement is based on Scale MP-2019.

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, 2014 to June 30, 2018.

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, 2019) is determined by the State Treasurer, after consultation with the Directors of the Division of Investment 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, 2019 are summarized in the following table:

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Years Ended October 31, 2019 and 2018

6. 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	3.00%	4.67%
Cash equivalents	5.00%	2.00%
U.S. Treasuries	5.00%	2.68%
Investment grade credit	10.00%	4.25%
High yield	2.00%	5.37%
Private credit	6.00%	7.92%
Real assets	2.50%	9.31%
Real estate	7.50%	8.33%
U.S.equity	28.00%	8.26%
Non-U.S. developed markets equ	12.50%	9.00%
Emerging markets equity	6.50%	11.37%
Private equity	12.00%	10.85%
	<u>100.00%</u>	

Discount rate

The discount rate used to measure the total pension liability was 6.28% as of June 30, 2019. 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 3.50% as of June 30, 2019 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 70% of the actuarially determined contributions for the State employer and 100% of actuarially determined contributions for local employers. 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 2057. Therefore, the long-term expected rate of return on plan investments was applied to projected benefit payments through 2057 and the municipal bond rate was applied to projected benefit payments after that date in determining the total pension liability.

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

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

6. Pension Plans - (Continued)

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

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. 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 benefits 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, 2019 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 (5.28 percent) or 1-percentage-point higher (7.28 percent) than the current rate:

At 1% decrease (5.28%)	At current discount rate (6.28%)	At 1% increase (7.28%)
\$ 9,157,665	\$ 7,249,792	\$ 5,642,138

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:

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

6. Pension Plans - (Continued)

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

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

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 the end of the current measurement period, June 30, 2019 are as follows:

Deferred outflows of resources	\$	3,149,522,616
Deferred inflows of resources	\$	7,645,087,574
Net pension liability	\$	18,143,832,135
Authority's Proportion		0.0402353051%

Collective balances of the Local Group at the end of the measurement period, 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 pension expense for the Local Group for the measurement period ended June 30, 2019 and June 30, 2018 were \$974,471,686 and \$1,099,708,157, respectively.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
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6. Pension Plans - (Continued)

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

The average of the expected remaining service lives of all employees that are provided with pension through the pension plan (all plan members) is 5.21, 5.63, 5.48, 5.57, 5.72 and 6.44 years for the 2019, 2018, 2017, 2016, 2015 and 2014 amounts, respectively.

7. 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, 2019 and 2018, the Authority reported a liability of \$5,935,347 and \$7,261,164, respectively for its proportionate share of the net OPEB liability. The net OPEB liability as of October 31, 2019 was determined by an actuarial valuation as of June 30, 2018 which was rolled forward to June 30, 2019. 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 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, 2019 and 2018, the Authority's proportion was 0.43816 and 0.046348 percent, respectively.

For the year ended October 31, 2019, the Authority recognized OPEB expense of \$(497,481). At October 31, 2019, the Authority reported deferred outflow of resources and deferred inflows of resources related to OPEB from the following sources:

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Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

7. Postemployment Benefits Other Than Pensions (OPEB) - (Continued)

	<u>Deferred Outflow of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes of assumptions		\$ 2,103,355
Difference between expected and actual experience		1,735,727
Net difference between projected and actual earnings on		
OPEB plan investments	\$ 4,889	
Changes in proportion		<u>1,521,792</u>
	<u>\$ 4,889</u>	<u>\$ 5,360,874</u>

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:

	<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>

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

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

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

Year ended October 31:

2020	\$	(900,515)
2021		(900,517)
2022		(900,924)
2023		(901,579)
2024		(902,106)
2025		(575,880)
2026		(263,703)
2027		(10,761)
		\$ (5,355,985)

Discount Rate

The discount rate for June 30, 2019 and 2018 was 3.50% and 3.87%, 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

Mortality rates for June 30, 2019 for Pre-retirement and Post retirement healthy retirees is based on the Pub-2010 Healthy “General” table. Disability mortality is based on the Pub-2010 Disabled “General” table.

Mortality rates for June 30, 2018 for 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-2014 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-2014 Headcount-Weighted Disabled Male/Female mortality table with fully generational improvement projections from the central year using the MP-2017 scale.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

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

Health Care Trend Assumptions

For pre-Medicare medical benefits, the trend is initially 5.7% and decreases to a 4.5% long-term trend rate after eight years. For post-65 medical benefits, the actual fully-insured Medicare Advantage trend rates for fiscal year 2020 are reflected. The assumed post-65 medical trend is 4.5% for all future years.

For prescription drug benefits, the initial trend rate is 7.5% and decreases to a 4.5% long-term trend rate after eight 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, 2019 calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	At 1% Decrease (2.50%)	At Current Discount Rate (3.50%)	At 1% Increase (4.50%)
Authority's proportionate share of the net OPEB liability	\$ 6,862,771	\$ 5,935,347	\$ 5,181,692

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

The following presents the Authority's proportionate share of the net OPEB liability associated with the Authority as of June 30, 2019 calculated using a healthcare cost trend rate that is 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

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

	At 1% Decrease	At Current Healthcare Cost Trend	At 1% Increase
Authority's proportionate share of the net OPEB liability	\$ 5,008,701	\$ 5,935,347	\$ 7,117,439

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

Actuarial assumptions and other inputs

The total OPEB liability as of June 30, 2019 was determined by an actuarial valuation as of June 30, 2018, which was rolled forward to June 30, 2019. The actuarial assumptions vary for each plan member depending on the pension plan the member is enrolled in. This actuarial valuations used the following actuarial assumptions, applied to all periods in the measurement:

Inflation rate	2.50%
Salary increases*	
Rate through 2026	2.00 to 6.00%
Rate thereafter	3.00 to 7.00%

* Salary increases are based on years of service within the plan.

Actuarial assumptions used in the July 1, 2018 valuation were based on the results of PERS experience studies prepared for July 1, 2014 to June 30, 2018.

The average service lives of all plan members is 8.05, 8.14 and 8.04 years for 2019, 2018 and 2017, respectively.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

8. Defined Contribution Retirement Program

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

9. Deferred Compensation

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

10. Risk Management

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

Property and Liability Insurance:

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

New Jersey Unemployment Compensation Insurance:

The Authority has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method." Under this plan, the Authority is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The Authority is billed quarterly for amounts due to the State. There are sufficient funds maintained in the separate unemployment compensation account to pay current billings.

11. Contingent Liabilities

Grant Programs:

The Authority participates in federal grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the Authority has not complied with the rules and regulations governing grants, refunds of any money received may be required.

TWO RIVERS WATER RECLAMATION AUTHORITY
Notes to the Basic Financial Statements
Years Ended October 31, 2019 and 2018

11. Contingent Liabilities – (Continued)

Management is not aware of any material items of noncompliance, which would result in the disallowance of program expenditures.

Litigation:

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

12. Restrictions on Net Position

Certain portions of net position have been restricted. Restrictions as of October 31, 2019 and 2018 include net position restricted for dredging project of \$190,000, for renewal and replacement of \$1,500,000 and for debt service of \$100,000.

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

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

	Years Ended June 30									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Authority's proportion of the net pension liability (asset) - Local Group	0.0402353051%	0.0390092500%	0.0380955948%	0.0344806309%	0.0367209865%	0.0355618788%	N/A	N/A	N/A	N/A
Authority's proportionate share of the net pension liability (asset)	\$ 7,249,792	\$ 7,680,727	\$ 8,868,048	\$ 10,212,174	\$ 8,243,126	\$ 6,658,156	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 pension liability (asset) as a percentage of its employee payroll	255.53%	282.52%	345.57%	418.97%	333.20%	260.69%	N/A	N/A	N/A	N/A
Plan fiduciary net position as a percentage of the total pension liability - Local Group	56.27%	53.60%	48.10%	40.14%	47.93%	48.72%	N/A	N/A	N/A	N/A

Last Ten Fiscal Years

* 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, 2017 of 5.00% to 5.66% as of the measurement date of June 30, 2018.

The discount rate changed from the measurement date of June 30, 2018 of 5.66% to 6.28% as of the measurement date of June 30, 2019.

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,									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ 392,687	\$ 389,301	\$ 356,766	\$ 306,321	\$ 315,702	\$ 293,167	\$ 295,253	\$ 279,877	\$ 289,618	\$ 269,851
Contributions in relation to the contractually required contribution	(392,687)	(389,301)	(356,766)	(306,321)	(315,702)	(293,167)	(295,253)	(279,877)	(289,618)	(269,851)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered employee payroll	\$ 2,927,422	\$ 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
Contributions as a percentage of covered-employee payroll	13.41%	13.72%	13.12%	11.94%	12.95%	11.85%	11.56%	10.74%	11.69%	11.01%

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

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Authority's proportion of the net OPEB liability (asset)	0.0438160000%	0.4634800000%	0.0467040000%	0.0537190000%	N/A	N/A	N/A	N/A	N/A	N/A
Authority's proportionate share of the net OPEB liability (asset)	\$ 5,935,347	\$ 7,261,164	\$ 9,534,990	\$ 11,666,405	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	209.20%	267.09%	26.914%	20.893%	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 3.87% as of June 30, 2018 to 3.50% as of June 30, 2019.

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 the Authority's OPEB Contributions
State Health Benefit Local Government Retired Employees Plan
Required Supplementary Information

Last Ten Fiscal Years

	Year Ended June 30									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions in relation to the contractually required contribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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, 2019**

Cash and Cash Equivalents, November 1, 2018	\$	4,861,338
Cash Receipts:		
Customer Municipalities Annual Charges		7,382,395
Monmouth Park		224,263
Participating Municipalities Service Charges		5,003,891
Other Income		76,946
Interest Income		76,470
Connection Fees		487,100
Transfers from Restricted Accounts		2,499,029
Federal Emergency Management Agency		<u>324,097</u>
Total Cash Available		<u>20,935,529</u>
Cash Disbursements:		
Vendors and Payroll		9,987,849
Transfers to Restricted Accounts		<u>6,234,903</u>
Total Cash Disbursements		<u>16,222,752</u>
Cash and Cash Equivalents, October 31, 2019	\$	<u><u>4,712,777</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, 2019**

	Accounts Required by Revenue Bond Agreement					Other Accounts		
	Bond Service	Bond Reserve	Renewal and Replacement	General	Construction	Unemployment Reserve	Escrow Deposits	Total
Cash and Cash Equivalents and Investments, November 1, 2018	\$ 176	\$ 100,003	\$ 1,521,945	\$ 14,150,045	\$ 109,753	\$ 98,418	\$ 163,054	\$ 16,143,394
Cash Receipts:								
Interest on Investments	219	2,169	31,444	378,553	7,729		261	420,375
Sewer Connections					26,800			26,800
Transfers from Unrestricted Funds	3,532,018			1,377,885	1,325,000			6,234,903
Transfers from Restricted Funds	204,633							204,633
Total Cash and Investments Available	3,737,046	102,172	1,553,389	15,906,483	1,469,282	98,418	163,315	23,030,105
Cash Disbursements:								
Payment of Bond Interest	229,734							229,734
Payment of Bond Principal	3,426,937							3,426,937
Transfers to Unrestricted Funds		2,169	254,580	1,225,354	1,016,926			2,499,029
Transfers to Restricted Funds				204,633				204,633
NJETT - Administrative Fee	80,145							80,145
Developers' Escrow Payments							14,911	14,911
Total Cash Disbursements	3,736,816	2,169	254,580	1,429,987	1,016,926		14,911	6,455,389
Cash and Cash Equivalents and Investments, October 31, 2019	\$ 230	\$ 100,003	\$ 1,298,809	\$ 14,476,496	\$ 452,356	\$ 98,418	\$ 148,404	\$ 16,574,716
Balance Comprised of:								
Cash and Cash Equivalents	\$ 230	\$ 100,003	\$ 1,298,809	\$ 2,330,673	\$ 452,356	\$ 98,418	\$ 148,404	\$ 4,428,893
Investments				12,145,823				12,145,823
	\$ 230	\$ 100,003	\$ 1,298,809	\$ 14,476,496	\$ 452,356	\$ 98,418	\$ 148,404	\$ 16,574,716

**TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
YEARS ENDED OCTOBER 31, 2019 AND 2018**

	October 31, 2019			October 31, 2018		
	Adopted Budget	Final Budget	Variance Final to Actual	Final Budget	Realized	Variance Final to Actual
Revenues						
Revenue from Customer Municipalities and Government Facilities:	\$ 7,405,000	\$ 7,405,000		\$ 7,260,000	\$ 2,055,150	
Eatontown		\$ 1,808,910			1,235,613	
Tinton Falls		1,122,280			1,620,485	
Red Bank		1,516,709			1,645,591	
Rumson		1,793,308			468,913	
Sea Bright		490,897			238,420	
Township of Shrewsbury		245,170				
	<u>7,405,000</u>	<u>7,405,000</u>	<u>\$(427,726)</u>	<u>7,260,000</u>	<u>7,264,172</u>	<u>\$ 4,172</u>
Service Charges:						
Individual Billings Member Towns	5,976,500	5,976,500	168,222	5,860,200	5,893,401	33,201
Interest on Investments	72,000	72,000	422,327	60,000	299,095	239,095
Other Fees:						
Connection Charges	429,750	429,750	57,350	425,500	269,000	(156,500)
Miscellaneous Income	25,000	25,000	51,946	25,000	770,078	745,078
	<u>454,750</u>	<u>454,750</u>	<u>109,296</u>	<u>450,500</u>	<u>1,039,078</u>	<u>588,578</u>
Total Revenues	<u>\$ 13,908,250</u>	<u>\$ 13,908,250</u>	<u>\$ 273,119</u>	<u>\$ 13,630,700</u>	<u>\$ 14,495,746</u>	<u>\$ 865,046</u>
Expenses						
Administrative and General Expenses:						
Administrative Salaries and Wages	\$ 543,000	\$ 543,000	\$ (85,092)	\$ 525,000	\$ 569,581	\$ (44,581)
Employee Benefits	144,385	144,385	30,996	170,000	141,640	28,360
FICA and Medicare	65,000	65,000	25,112	100,000	36,004	63,996
Employee Medical Related	2,000	2,000	(133)	310,000	1,758	(1,738)
Pension PERS	358,000	358,000	(82,358)		440,147	(130,147)
OPEB Benefit			497,481		(136,839)	136,839

**TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
YEARS ENDED OCTOBER 31, 2019 AND 2018**

	October 31, 2019			October 31, 2018			
	Adopted Budget	Final Budget	Paid or Charged	Variance Final to Actual	Final Budget	Paid or Charged	Variance Final to Actual
Expenses: (Continued)							
Billing Expenses:							
Computer Service	\$ 32,000	\$ 32,000	\$ 24,199	\$ 7,801	\$ 20,000	\$ 30,427	\$ (10,427)
Billing Postage	36,000	36,000	8,451	27,549	20,000	36,471	(16,471)
Bank Fees	4,000	4,000	3,404	596	12,000	3,607	8,393
Office Expenses:							
Other Postage	3,000	3,000	4,042	(1,042)	2,000	3,272	(1,272)
Stationery and Supplies	21,000	21,000	22,285	(1,285)	14,000	20,742	(6,742)
Equipment Rental and Supplies	28,000	28,000	22,866	5,134	31,694	28,546	3,148
Printing	6,000	6,000	2,539	3,461	5,000	6,457	(1,457)
Equipment Service Contracts	3,000	3,000	14,915	(11,915)	15,000	1,726	13,274
Telephone	20,000	20,000	18,349	1,651	18,000	19,444	(1,444)
General Expenses:							
Conferences and Training	10,000	10,000	7,300	2,700	15,000	9,142	5,858
Commissioners Conference			1,070	(1,070)		350	(350)
Travel Expenses	3,000	3,000	8,248	(5,248)	3,000	2,509	491
Motor Vehicle Fees	6,000	6,000	4,612	1,388	6,000	5,844	156
Auto and Fire Liability Business Insurance	150,000	150,000	110,753	39,247	215,000	147,138	67,862
Worker's Compensation Insurance	100,000	100,000	89,795	10,205	110,000	89,324	20,676
Advertising Fees	10,000	10,000	3,615	6,385	10,000	6,640	3,360
NJEIT Administration & Agent Fees			80,145	(80,145)		80,145	(80,145)
Dues and Membership	10,000	10,000	9,779	221	10,000	8,666	1,334
Subscriptions	10,000	10,000	30	9,970	2,000	483	1,517
Gift Baskets	500	500	122	378	500	94	406
Meeting Expenses	2,000	2,000	1,995	5	3,000	1,381	1,619
Equipment Renewal and Replacement			1,060	(1,060)		3,935	(3,935)
Leases of R.R. Property	115	115		115	110	113	(3)
Long Branch Sewerage Authority	4,000	4,000	3,696	304	3,696		
Professional Expenses:							
Legal Fees	80,000	80,000	91,733	(11,733)	80,000	106,208	(26,208)
Engineering Fees	215,000	215,000	151,818	63,182	150,000	156,593	(6,593)
Trustee Fees	10,000	10,000	8,500	1,500	10,000	8,500	1,500
Auditors Fees	72,000	72,000	57,604	14,396	42,000	61,125	(19,125)
Investment Management Fees	36,000	36,000	39,000	(3,000)	36,000	33,000	3,000
Pre-Employment Physical Fees	1,000	1,000	217	783	1,000	175	825
Total Administrative and General Expenses	1,985,000	1,985,000	1,518,521	466,479	1,940,000	1,928,024	11,976

**TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
YEARS ENDED OCTOBER 31, 2019 AND 2018**

	October 31, 2019			October 31, 2018		
	Adopted Budget	Final Budget	Paid or Charged	Final Budget	Paid or Charged	Variance Final to Actual
Expenses (Continued)						
Treatment Plant and Main Pumping Expenses:						
Plant Salaries and Wages	\$ 2,400,000	\$ 2,400,000	\$ 2,387,626	\$ 2,000,000	\$ 2,312,764	\$ (312,764)
Employee Benefits	900,000	900,000	623,679	1,000,000	740,060	259,940
FICA and Medicare	200,000	200,000	178,710	200,000	170,496	29,504
Other Treatment Plant Expenses:						
Conferences and Training	15,000	15,000	9,368	15,000	15,457	(457)
Electricity	700,000	700,000	567,463	800,000	660,746	139,254
Fuel - Diesel	70,000	70,000	92,459	70,000	43,660	26,340
Natural Gas	90,000	90,000	53,220	90,000	53,754	36,246
Sodium Hypochlorite	90,000	90,000	67,038	90,000	74,544	15,456
Polymer	80,000	80,000	78,660	80,000	61,180	18,820
Hydrogen Peroxide	80,000	80,000	38,137	80,000	25,687	54,313
Non Bulk Chemicals	5,000	5,000	3,003	5,000	3,774	1,226
Fuel - Unleaded	25,000	25,000	4,591	25,000	9,387	15,613
Truck Maintenance	75,000	75,000	56,845	75,000	58,859	16,141
DEP and EPA Permits	60,000	60,000	51,996	60,000	44,731	15,269
Calibration Services	10,000	10,000	23,881	7,500	8,098	(598)
Water	80,000	80,000	56,113	80,000	76,919	3,081
Stationery Supplies			1,478		960	(960)
Maintenance Supplies	60,000	60,000	37,229	100,000	39,864	60,136
Equipment Service Contracts	75,000	75,000	54,980	75,000	68,852	6,148
Equipment Repair	125,000	125,000	62,056	125,000	148,075	(23,075)
Uniforms and Gloves	20,000	20,000	15,402	17,500	21,439	(3,939)
Equipment Replacement	125,000	125,000	271,323	75,000	178,311	(103,311)
Sludge Removal	938,000	938,000	736,210	1,100,000	907,096	192,904
Ash, Grit and Screenings	20,000	20,000	28,552	20,000	24,459	(4,459)
Laboratory Supplies	35,000	35,000	34,092	35,000	20,809	14,191
Outside Lab Fees	25,000	25,000	57,650	25,000	40,824	(15,824)
Municipal Services	35,000	35,000	17,162	35,000	33,586	1,414
Janitorial Supplies	12,000	12,000	6,048	10,000	11,634	(1,634)
Building and Ground Maintenance	75,000	75,000	102,025	75,000	75,908	(908)
Travel Expenses			688		376	(376)
Contingency	20,000	20,000	21,739	40,000	71,838	40,000
Plant Renewal and Replacement			69,725		71,838	(71,838)
New Equipment	100,000	100,000		100,000	95,460	4,540
Staffing	35,000	35,000	50,510			
Hurricane Damage			17,363		8,510	(8,510)
Total Treatment Plant and Main Pumping Expenses	6,580,000	6,580,000	5,877,021	6,510,000	6,108,117	401,883

**TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE SCHEDULE OF REVENUES AND EXPENSES COMPARED TO BUDGET
YEARS ENDED OCTOBER 31, 2019 AND 2018**

	October 31, 2019			October 31, 2018		
	Adopted Budget	Final Budget	Paid or Charged	Final Budget	Paid or Charged	Variance Final to Actual
Expenses (Continued)						
Lines and System Pumping Station:						
Line Salaries and Wages	\$ 450,000	\$ 450,000	\$ 359,974	\$ 90,026	\$ 440,000	\$ 118,454
Employee Benefits	190,000	190,000	66,275	123,725	200,000	72,994
FICA and Medicare	24,000	24,000	23,772	228	20,000	(3,017)
Other Lines Expenses:						
Stationery and Supplies	2,000	2,000	670	(670)	2,000	(86)
Conferences and Training	100,000	100,000	80,229	19,771	1,035	965
Electricity	15,000	15,000	13,678	1,322	100,000	4,477
Fuel - Unleaded Gasoline	5,000	5,000	4,937	63	15,000	2,477
Equipment Service Contracts	15,000	15,000	6,848	8,152	5,000	1,309
Truck Maintenance	20,000	20,000	34,020	(14,020)	15,000	5,979
Natural Gas	75,000	75,000	18,731	56,269	20,000	27,786
Hydrogen Peroxide	30,000	30,000	41,079	(11,079)	75,000	22,495
Nitrate Oxygen	25,000	25,000	6,467	18,533	30,000	13,845
Maintenance and Supplies	3,500	3,500	73	3,427	25,000	11,633
Uniforms and Gloves	20,000	20,000	35,149	(15,149)	3,500	787
Buildings and Grounds Maintenance	10,000	10,000	86,456	10,000	16,848	3,152
Chemicals	100,000	100,000	404,806	(134,806)	1,974	8,026
Bioxide 71	270,000	270,000	2,423	77	86,000	(70,537)
Maintenance of Lines	2,500	2,500	14,043	957	435,059	(185,059)
Water	15,000	15,000	716	1,784	2,500	(589)
Meter Calibration	2,500	2,500	184,339	(124,339)	15,000	(4,420)
Communications Equipment	60,000	60,000	117,180	(42,180)	629	1,871
Equipment Repair	75,000	75,000	7,161	89,141	54,628	5,372
Equipment Replacement	96,302	96,302	27,313	(2,313)	80,331	(5,331)
Contingency	25,000	25,000			102,858	97,413
New Equipment					25,000	12,379
Total Lines and System Pumping Station Expenses	1,630,802	1,630,802	1,536,339	94,463	1,599,338	110,463
Total Operating Expenses	10,195,802	10,195,802	8,931,881	1,263,921	10,049,358	524,322
Other Costs Funded by Revenues:						
Bond Principal	3,426,938	3,426,938	3,426,938		3,323,917	28,109
Interest on Bonds	285,510	285,510	204,274	81,236	257,425	
Renewal and Replacement			1,018,809	(1,018,809)		
Total Other Costs Funded by Revenues	3,712,448	3,712,448	4,650,021	(937,573)	3,581,342	28,109
Grand Totals	\$ 13,908,250	\$ 13,908,250	\$ 13,581,902	\$ 326,348	\$ 13,630,700	\$ 552,431

**TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
SCHEDULE OF LONG-TERM REVENUE BONDS PAYABLE
YEAR ENDED OCTOBER 31, 2019**

Purpose	Date of Issue	Maturities		Interest Rate	Balance October 31, 2018	Paid	Balance October 31, 2019
		Date	Amount				
\$26,715,000 (Series 2000 NJET) Trust Loan - To provide funds for the Treatment Plant Expansion and Upgrade Project and costs of issuance.	11/9/2000	8/1/2020	\$ 2,070,816	5.25%	\$ 4,039,318	\$ 1,968,502	\$ 2,070,816
		2/1/2020	30,894	0%			
		8/1/2020	1,154,690	0%	2,424,020	1,238,436	1,185,584
		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%	3,355,000	220,000	3,135,000		
Grand Total			\$ 9,818,338	\$ 3,426,938	\$ 6,391,400		
Detail:			\$ 3,426,937		\$ 3,481,400		
Current portion			6,391,402		2,910,000		
Long-term liability			\$ 9,818,339		\$ 6,391,400		

TWO RIVERS WATER RECLAMATION AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
ANALYSIS OF CAPITAL PROJECTS
YEAR ENDED OCTOBER 31, 2019

Schedule 5

<u>Asset Category</u>	<u>Project Description</u>	<u>Amount Capitalized</u>
Land	12 Highland Avenue	\$ 466,721
Buildings and Building Improvements	Dewatering Door Replacement	37,200
Other Improvements	Aertion Basin Lights	10,937
	Yard Hydrants	37,781
Total Other Improvements		48,718
Pump Stations	Replacement Pump MPS Unit 4	7,350
	3 Pump Guages	9,855
	Station 5 Valve Replacement	75,649
	New Pump Station 9	17,684
	Flow Meter System	9,844
	Transfer Switch PS 7	2,461
	Station 13 Valves	79,700
	Grinder PS 19	2,985
	Sliverside Slip Lining Repair	230,394
Total Pump Stations		435,922
Vehicles	Honda Passport	32,680
Other Equipment	Shaft for Clarifier	10,098
	Programmable Logic Controller for Tunnel Ventilator	101,265
	Aeration Replacement Valve	10,906
	Shaft for Clarifier	5,150
	Disc Channel for Clarifier Gate	4,761
	Grit Pimp	4,113
	Lab Furnace	3,385
	Rebuilt Gravity Filter Press	34,424
	Gate Opener	5,645
	Clarifier Bearings	5,110
	Grit Concentrators	8,502
	Sensor for Storage Tank 1	2,186
	Clarifier Control Module	2,500
	Clamp for Flow Meter	4,320
	Camera System	4,750
	Robison Drives	17,100
	All Weather Sampler	6,613
	HP Server	6,399
Total Other Equipment		237,227
Construction in Progress		
Blower PLC		547
PS 2		58,850
PS 12		30,952
Main Pump Station Replacement		549,719
Main Pump Station Drive Replacement		19,280
Orege System		50,000
Little Silver Interceptor		1,874
Electrical and Switch Gear Upgrades		63,075
RAS Pipe Reconstruction		530,498
Total Construction in Progress		1,304,795
Total		\$ 2,563,263
Detail:		
Additions to Construction in Progress		\$ 1,304,795
Current Year's Acquisitions		1,258,468
		\$ 2,563,263



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, 2019, 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 9, 2020.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2019-001 and 2019-002 that we consider to be significant deficiencies.

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 findings 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, LLP

July 9, 2020
Florham Park, New Jersey

TWO RIVERS WATER RECLAMATION AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES OCTOBER 31, 2019

2019-001 Significant Deficiency 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 not monitored effectively. The intent of monitoring is to evaluate the degree of compliance or noncompliance with such control policies or procedures.

Context: The Authority proposed numerous adjusting entries after it had closed its records at October 31, 2019.

Criteria: Authority's control process and procedures.

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

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

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.

2019-002 Significant Deficiency in Internal Control over the Purchasing Cut-off Process and Procedures

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 purchasing cut-off process that results in the accurate recording of accounts payable, they are ineffective due to the absence of adequate monitoring procedures intended to evaluate the degree of compliance or noncompliance with such control policies or procedures.

Context: During our search for unrecorded liabilities we advised the Authority of proposed adjusting entries after it had closed its records at October 31, 2019.

Criteria: Authority's control process and procedures.

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

TWO RIVERS WATER RECLAMATION AUTHORITY

**SCHEDULE OF FINDINGS AND RESPONSES - Continued
OCTOBER 31, 2019**

Recommendation: That the purchasing cut-off process and procedures be strictly adhered to.

Authority Response: The Authority has taken steps toward ensuring that its purchasing cut-off 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, 2019

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
Brian Rice	Secretary	A
Richard N. Tocci	Assistant Treasurer	A
Scott Hartman	Assistant Secretary	A
John Bonforte	Member	A
Gregory J. Christopher	Member	A
David Twigg	Member	A
Eric R. Jaeger	Member	A
Brian McPeak	Member	A
Jason N. Sena	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, 2020

UNAUDITED

A blanket policy issued by the New Jersey Utility Authorities Joint Insurance Fund for a one-year period expiring on January 1, 2020, 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
Cyber Security	10,000,000
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, 2019

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 2019 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, 2019 covering all unpaid charges on that date.

A test verification of delinquent charges outstanding at October 31, 2019 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, 2019 and 2018.

Vouchers were examined on a test basis.

A test was made of the employees' compensation and payroll deductions for the year ended October 31, 2019 and for those employees tested, no exceptions were noted.

Finding 2019-001:

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.

Finding 2019-002:

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.

Expenditures – (Continued)

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 2019-003:

Condition: The search for unrecorded liabilities revealed unrecorded accounts payable.

Criteria: Accrual accounting requires the proper recording of all accounts payable.

Cause: Failure to continue to review invoices received after year end for proper cut off procedures.

Recommendation: It is recommended the Authority follow its accounts payable cut-off procedures.

Authority Response: The Authority will review all invoices received after year end to determine proper cut-off procedure compliance.

Finding 2019-004:

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

Criteria: Chapter 78, P.L. 2011.

Cause: The Authority made computational errors.

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

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

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 2018 audit recommendations. 2019 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:

*2019-001 The Authority's financial statement close process and procedures be strictly adhered to.

2019-002 The Authority review its accounts payable cut-off procedures to ensure proper recording of all accounts payable at year end.

*2019-003 The Authority encumber funds and issue purchase orders prior to acquiring goods and services.

2019-004 The payroll deductions for employees' contributions for health insurance be compliant with the requirements of Chapter 78, P.L. 2011.

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. Findings 2019-001 and 2019-002 were deemed to be significant deficiencies as described in the accompanying schedule of findings and responses.