

**PEQUANNOCK RIVER BASIN
REGIONAL SEWERAGE AUTHORITY**

Financial Statements

Years Ended October 31, 2009 and 2008

(With Independent Auditors' Report Thereon)

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY

TABLE OF CONTENTS

<u>Page</u>		<u>Exhibits</u>
-------------	--	-----------------

1	Independent Auditor's Report	
---	------------------------------	--

REQUIRED SUPPLEMENTARY INFORMATION

3	Management Discussion and Analysis	
---	------------------------------------	--

FINANCIAL STATEMENTS

12	Comparative Statement of Net Assets	A
14	Comparative Statement of Revenues, Expenses and Changes in Net Assets	B
15	Comparative Statement of Cash Flows	C
17	Notes to Financial Statements	

REQUIRED SUPPLEMENTARY SCHEDULES

	<u>Schedules</u>	
32	Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Cash Equivalents - Unrestricted Operating Account	1
33	Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Cash Equivalents and Investments - Trustee Restricted and Unrestricted Accounts	2
36	Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to Budget - Year Ended October 31, 2009 With Comparative Actual Amounts for Year Ended October 31, 2008	3
38	Schedule of Bonds Payable	4
42	Roster of Officials	
43	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	
45	Comments and Recommendations	
47	Schedule of Findings and Questioned Costs	
48	Summary Schedule of Prior Audit Findings	

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INDEPENDENT AUDITOR'S REPORT

The Honorable Chairman and Members
of the Pequannock River Basin Regional
Sewerage Authority
Butler, NJ 07405

We have audited the accompanying statement of net assets of the Pequannock River Basin Regional Sewerage Authority, as of October 31, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Pequannock River Basin Regional Sewerage Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in 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 in accordance with audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pequannock River Basin Regional Sewerage Authority as of October 31, 2009, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



The Honorable Chairman and Members of the
Pequannock River Basin Regional Sewerage Authority
Page 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2010 on our consideration of the Pequannock River Basin Regional Sewerage Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and Required Supplementary Information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board and the Division of Local Government Services, Department of Community Affairs, State of New Jersey. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

This report is intended for the information of management, the applicable federal agencies and the Division of Local Government Services, Department of Community Affairs, State of New Jersey. However, this report is a matter of public record and its distribution is not limited.

Ferraioli, Wielkotz, Cerullo & Cuva, P.A.

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants

January 8, 2010



REQUIRED SUPPLEMENTARY INFORMATION

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
OCTOBER 31, 2009**

As management of the Pequannock River Basin Regional Sewerage Authority, we offer the Authority's financial statements this narrative overview and analysis of the Authority's financial performance during the fiscal year ended October 31, 2009 and 2008. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- The Authority's assets exceeded its liabilities by \$7,061,350 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$6,438,324.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt, of \$2,155,231 include plant and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
 - (2) Net assets of \$2,611,826 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net assets of \$2,294,293 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority decreased by \$1,254,240 to \$8,643,991 during the fiscal year.

Overview of the Financial Statements

This annual report includes this management discussion, the independent auditor's report and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The *Statement of Net Assets* includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the authority.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2009**

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Assets*. This statement measures the results of the Authority operations over the past year and can be used to determine whether the Authority has recovered all its costs through its user fees and other charges, operational stability and credit worthiness.

The final required financial statement is the *Statement of Cash Flows*. This statement reports cash receipts and cash payments, and net changes in cash resulting from operations, investing and financing activities and provides answers to such questions as what operational sources provided cash, what was the cash used for, and what was the change in cash balance during the reporting period.

Notes to the Financial Statements

The accompanying notes to the financial statements provide information essential to a full understanding of the financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information. This supplementary information follows the notes to the financial statements.

Financial Analysis of the Authority

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better able to fulfill its mission as a result of this years activities?" The *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Net Assets* report information about the Authority's activities in a way that will help answer this question. These two statements report net assets of the Authority and the changes in those assets. The reader can think of the Authority's net assets – the difference between assets and liabilities – as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider the non-financial factors such as changes in economic conditions, population growth, development, and new or changed government regulation.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2009**

Net Assets

As year-to-year financial information is accumulated on a consistent basis, changes in net assets may be observed and used to discuss the changing financial position of the Authority as a whole.

The Authority's net assets at fiscal year-end are \$7,061,350. This is a \$623,026 increase over last year's net assets of \$6,438,324. A summary of the Authority's statement of net assets is presented in the following table:

**Condensed Statement of Net Assets
(000's)**

	<u>FY 2009</u>	<u>FY 2008</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Other Assets	9,062	9,394	(332)	(3.53)%
Capital Assets	<u>6,643</u>	<u>6,943</u>	<u>(300)</u>	(4.32)%
Total Assets	<u>15,705</u>	<u>16,337</u>	<u>(632)</u>	
Liabilities	<u>8,644</u>	<u>9,898</u>	<u>(1,254)</u>	(12.67)%
Total Liabilities	<u>8,644</u>	<u>9,898</u>	<u>(1,254)</u>	
Invested in Capital Assets, Net of Related Debt	2,155	2,014	141	7.00%
Restricted	2,612	2,638	(26)	(0.99)%
Unrestricted	<u>2,294</u>	<u>1,786</u>	<u>508</u>	28.44%
	<u>7,061</u>	<u>6,438</u>	<u>623</u>	9.68%

While the *Statement of Net Assets* shows the change in financial position of nets assets, the *Statement of Revenues, Expenses and Changes in Net Assets* provides answers as to the nature and source of these changes. As can be seen in the following table, net assets increased by \$623,026.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2009**

Net Assets (Continued)

**Condensed Statement of Net Assets
(000's)**

	<u>FY 2009</u>	<u>FY 2008</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	4,664	4,285	379	8.84%
Non-Operating Revenues	<u>266</u>	<u>382</u>	<u>(116)</u>	(30.37)%
Total Revenues	<u>4,930</u>	<u>4,667</u>	<u>263</u>	
Depreciation Expense	299	299	0	0.00%
Amortization	81	81	0	0.00%
Other Operating Expenses	2,650	2,450	200	8.16%
Other Non-Operating Expense	<u>1,277</u>	<u>1,187</u>	<u>90</u>	7.58%
Total Expenses	<u>4,307</u>	<u>4,017</u>	<u>290</u>	
Change in Net Assets	623	650	(27)	(4.15)%
Beginning Net Assets	<u>6,438</u>	<u>5,788</u>	<u>650</u>	11.23%
Ending Net Assets	<u>7,061</u>	<u>6,438</u>	<u>623</u>	9.68%

The Authority's Operating Revenues increased by \$378,864 to \$4,663,759 in 2009 from \$4,284,895 in 2008 primarily due to an increase in municipal service contract revenue. Nonoperating Revenues decreased by \$116,499 to \$265,837 from \$382,336 mainly due to a decrease in interest earned on the TBSA receivable and a decrease in interest on investments and deposits.

Budgetary Highlights

The Authority prepares and submits an annual budget to the State of New Jersey, which approves the budget for adoption by the Authority prior to the beginning of the fiscal year.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2009**

The following table provides a 2009 budget comparison:

Budget vs. Actual FY 2009 (000's)			
	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Revenues:			
Operating	4,914	4,714	(200)
Non-Operating		266	266
TBSA Loan Receivable	<u>435</u>	<u>435</u>	
	<u>5,349</u>	<u>5,415</u>	<u>66</u>
Expenses:			
Operating	2,942	2,650	292
Capital Reserve	150	150	
Debt Service	<u>2,257</u>	<u>2,233</u>	<u>24</u>
	<u>5,349</u>	<u>5,033</u>	<u>316</u>
Income Before Depreciation and Amortization	<u>-0-</u>	<u>382</u>	<u>382</u>

In accordance with the terms of the service contracts with Bloomingdale, Butler, Kinnelon and Riverdale, the PRBRSA determines sewer user charges (Annual Charges) based on three separate cost elements, namely, debt service (the Debt Service Annual Charge), operation and maintenance (the O&M Charge) and administrative (the Administrative Charge). A public hearing is conducted annually in accordance with NJSA 40:14B.

The following charts summarize the distribution of the budgeted FY 2009 Annual Charges to the four towns served by the PRBRSA.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2009**

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY -
DEBT SERVICE CHARGE**

<u>Gallons of Allocation</u>	<u>Percent of Allocation</u>	<u>Debt Service Charge</u>	<u>Total</u>	<u>Bloomingtondale</u>	<u>Butler</u>	<u>Kinnelon</u>	<u>Riverdale</u>
950,000	36.54%		\$984,549	\$984,549			
991,000	38.11%		1,026,850		\$1,026,850		
250,000	9.62%		259,206			\$259,206	
409,000	15.73%		438,761				\$438,761
2,600,000	100.00%	\$2,709,366	\$2,709,366	\$984,549	\$1,026,850	\$259,206	\$438,761

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY -
O&M CHARGE**

<u>Gallons of Consumption</u>	<u>Percent of Consumption</u>	<u>O&M Charge</u>	<u>Total</u>	<u>Bloomingtondale</u>	<u>Butler</u>	<u>Kinnelon</u>	<u>Riverdale</u>
770,000	36.15%		542,300	\$542,300			
980,000	46.01%		690,100		\$690,100		
130,000	6.11%		91,500			\$91,500	
250,000	11.73%		176,100				\$176,100
2,130,000	100.00%	\$1,500,000	\$1,500,000	\$542,300	\$690,100	\$91,500	\$176,100

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY -
ADMINISTRATIVE CHARGE**

<u>Gallons of Consumption</u>	<u>Percent of Consumption</u>	<u>Administrative Charge</u>	<u>Total</u>	<u>Bloomingtondale</u>	<u>Butler</u>	<u>Kinnelon</u>	<u>Riverdale</u>
770,000	36.15%		162,700	\$162,700			
980,000	46.01%		207,000		\$207,000		
130,000	6.11%		27,500			\$27,500	
250,000	11.73%		52,800				\$52,800
2,130,000	100.00%	\$450,000	\$450,000	\$162,700	\$207,000	\$27,500	\$52,800

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2009**

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY -
TOTAL CHARGE**

<u>Total Charge</u>	<u>Total</u>	<u>Bloomington</u>	<u>Butler</u>	<u>Kinnelon</u>	<u>Riverdale</u>
	1,689,549	\$1,689,549			
	1,923,950		\$1,923,950		
	378,206			\$378,206	
	667,661				\$667,661
\$4,659,366	\$4,659,366	\$1,689,549	\$1,923,950	\$378,206	\$667,661

REVENUES

Total Annual Charges	\$4,659,366
Plus:	
Retained Earnings	50,000
Investment Income	25,000
Application Fees and Misc.	1,077
Interest: State Loan Bonds	0
TBSA Debt Service Credit	<u>613,923</u>

TOTAL FY 2009 BUDGETED REVENUES

\$5,349,366

APPROPRIATIONS

Debt Service:

TBSA Contract Payments	839,770
Direct PRBRSA	1,417,007
Capital Reserve Fund	<u>150,000</u>
Total	2,406,777

Administrative:

TBSA Contract Payments	195,000
Direct PRBRSA	<u>295,361</u>
Total	490,361

Operation and Maintenance:

TBSA Contract Payments	2,119,228
Direct PRBRSA	333,000
Operating Reserve	<u>0</u>
Total	2,452,228

TOTAL FY 2009 BUDGETED APPROPRIATIONS

\$5,349,366

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2009**

Capital Assets

At the end of 2009, the Authority had invested \$11,975,978 in capital assets. The Authority's net plant and equipment at fiscal year-end was \$6,643,350. This is a \$299,399 decrease over last year's net plant, property and equipment of \$6,942,749. A summary of the Authority's capital assets is presented in the following table:

Capital Assets (000's)			
	<u>FY 2009</u>	<u>FY 2008</u>	<u>Dollar Change</u>
Interceptor	<u>11,976</u>	<u>11,976</u>	<u>-0-</u>
Total Capital Assets	<u>11,976</u>	<u>11,976</u>	<u>-0-</u>
Less: Accumulated Depreciation	<u>(5,333)</u>	<u>(5,033)</u>	<u>(300)</u>
	6,643	6,943	(300)
Construction in Progress	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net Capital Assets	<u><u>6,643</u></u>	<u><u>6,943</u></u>	<u><u>(300)</u></u>

The Authority had no significant capital projects or improvements pending at year-end.

Economic Factors, Future Years Budgets and Rates

The Commissioners and management of the Authority consider a broad range of factors when preparing each year's budget and sewer user charges to the towns. Among the main factors are anticipated contractual charges from the Pequannock, Lincoln Park & Fairfield Sewerage Authority (i.e., the Two Bridges Sewerage Authority); the need for repairs/replacements on and/or capital improvements to the PRBRSA regional interceptor system; significant increases in the required service levels (i.e., the flow contributions from the four towns); anticipated investment yields on non-operating revenues; and any anticipated regulatory changes likely to impose additional direct expenses or indirect expenses, primarily through increases in the Two Bridges Sewerage Authority charges.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2009**

Economic Factors, Future Years Budgets and Rates (continued)

To reduce the rate impacts of anticipated debt service increases resulting from the Two Bridges Sewerage Authority wastewater treatment plant capital improvement program, a Capital Reserve fund was created in FY 2007. As of October 31, 2009, the Capital Reserve Fund balance was \$400,000

Contacting the Authority

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the fees it receives. If you have any questions about this report or need additional information, contact the Pequannock River Basin Regional Sewerage Authority, Municipal Building, One Ace Road, Butler, NJ 07405.

FINANCIAL STATEMENTS

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
STATEMENT OF NET ASSETS
OCTOBER 31,

EXHIBIT A
Page 1 of 2

	<u>2009</u>	<u>2008</u>
<u>CURRENT ASSETS:</u>		
Cash and Cash equivalents	2,128,065	1,929,676
Due From Debt Service Account		30,259
Prepaid Expenses	<u>213,711</u>	<u>181,051</u>
Total Current Assets	<u>2,341,776</u>	<u>2,140,986</u>
<u>NON-CURRENT ASSETS:</u>		
Restricted:		
Cash and Cash equivalents	1,062,134	1,044,812
Investments	1,677,011	1,747,038
Due From Operating Account		17,792
Accrued Interest Receivable	<u>44,819</u>	<u>45,132</u>
	<u>2,783,964</u>	<u>2,854,774</u>
Capital Assets:		
Interceptor	11,975,978	11,975,978
Less: Accumulated Depreciation	<u>(5,332,628)</u>	<u>(5,033,229)</u>
Net Capital Assets	<u>6,643,350</u>	<u>6,942,749</u>
Other Assets:		
Receivable from Two Bridges Sewerage Authority	3,662,611	4,097,436
Unamortized Debt Issue Costs	<u>273,640</u>	<u>300,610</u>
	<u>3,936,251</u>	<u>4,398,046</u>
Total Non-current Assets	<u>13,363,565</u>	<u>14,195,569</u>
TOTAL ASSETS	<u><u>15,705,341</u></u>	<u><u>16,336,555</u></u>

The accompanying "Notes to the Financial Statements" are an integral part of this report.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
STATEMENT OF NET ASSETS
OCTOBER 31,

EXHIBIT A

Page 2 of 2

	<u>2009</u>	<u>2008</u>
<u>LIABILITIES:</u>		
Current Liabilities:		
Payable from Unrestricted Assets:		
Due to Trustee		271,870
Due to Debt Service Fund		17,792
Accounts Payable and Accrued Liabilities	47,483	64,739
	<u>47,483</u>	<u>354,401</u>
Payable from Restricted Assets:		
Bonds Payable - Current Portion	1,000,673	956,304
Due to Revenue Fund		30,259
Accrued Interest Payable	172,138	186,765
	<u>1,172,811</u>	<u>1,173,328</u>
Total Current Liabilities	<u>1,220,294</u>	<u>1,527,729</u>
Non-Current Liabilities:		
Sewer Revenue Bonds Payable	7,423,697	8,370,502
Total Non-Current Liabilities	<u>7,423,697</u>	<u>8,370,502</u>
TOTAL LIABILITIES	<u>8,643,991</u>	<u>9,898,231</u>
<u>NET ASSETS:</u>		
Invested in Capital Assets, net of Related Debt	2,155,231	2,013,989
Restricted:		
Bond Reserve	958,108	987,570
Renewal and Replacement	50,000	50,000
Debt Service Reserve	692,083	660,000
Operating Requirement	735,647	765,647
Construction Funds	175,988	174,533
Unrestricted		
Designated	1,266,245	300,000
Undesignated	1,028,048	1,486,585
TOTAL NET ASSETS	<u>7,061,350</u>	<u>6,438,324</u>

The accompanying "Notes to the Financial Statements" are an integral part of this report.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF REVENUES,
EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2009

	<u>2009</u>	<u>2008</u>
<u>Operating Revenues:</u>		
Service Contracts with Municipalities	4,659,366	4,264,000
Interest Earned on Investments	43	561
Application Fees	4,350	15,325
Miscellaneous		5,009
Total Operating Revenues	<u>4,663,759</u>	<u>4,284,895</u>
<u>Operating Expenses:</u>		
Cost of Providing Services	2,193,294	2,011,290
Administrative and General	456,093	439,242
Depreciation	299,400	299,400
Total Operating Expenses	<u>2,948,787</u>	<u>2,749,932</u>
Operating Income/(Loss)	<u>1,714,972</u>	<u>1,534,963</u>
<u>Non Operating Revenues (Expenses):</u>		
Interest Earned on Investments	83,307	174,436
Interest Earned on Receivable from Two Bridges Sewerage Authority	179,099	198,335
Income from NJ Wastewater Treatment Trust	3,431	9,565
Amortization of Bond Issue Costs	(26,970)	(26,970)
Amortization of Bond Premiums	5,586	5,586
Two Bridges Sewerage Authority Debt Service Charges	(830,871)	(701,749)
Interest Expense	(446,074)	(484,821)
Amortization of Gain/Loss on Advance Refunding	(59,454)	(59,454)
Total Non-Operating Revenues (Expenses)	<u>(1,091,946)</u>	<u>(885,072)</u>
Change in Net Assets	623,026	649,891
Net Assets - Beginning	<u>6,438,324</u>	<u>5,788,433</u>
Net Assets - Ending	<u><u>7,061,350</u></u>	<u><u>6,438,324</u></u>

The accompanying "Notes to the Financial Statements" are an integral part of this report.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2009

EXHIBIT C
Page 1 of 2

	<u>2009</u>	<u>2008</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Cash Received from Customers	5,098,541	4,793,175
Other Receipts		271,870
Cash Paid to Suppliers	(3,530,174)	(3,148,890)
Other Payments	(271,870)	
Interest Received	262,761	373,644
Interest Paid	(460,701)	(498,674)
	<u>1,098,557</u>	<u>1,791,125</u>
Net Cash Provided (Used) by Operating Activities		
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Income from NJ Wastewater Treatment Trust	3,431	9,565
Bonds Retired	(956,304)	(919,658)
	<u>(952,873)</u>	<u>(910,093)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities		
NET INCREASE / (DECREASE) IN CASH, CASH EQUIVALENTS AND INVESTMENTS	145,684	881,032
CASH, CASH EQUIVALENTS AND INVESTMENTS-BEGINNING OF YEAR	<u>4,721,526</u>	<u>3,840,494</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS-END OF YEAR	<u><u>4,867,210</u></u>	<u><u>4,721,526</u></u>

This statement is subject to the accompanying Notes and Accountant's Report.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED OCTOBER 31, 2009

EXHIBIT C
Page 2 of 2

	<u>2009</u>	<u>2008</u>
CHANGE IN NET ASSETS	623,026	649,891
Adjustments to Reconcile Net Income to Net		
Cash Provided by Operating Activities:		
Depreciation	299,400	299,400
Amortization of Gain/(Loss) on Advance Refunding of Debt	59,454	59,454
Amortization of Premium on Bonds	(5,586)	(5,586)
Amortization of Bond Issuance Costs	26,970	26,970
Income from NJ Wastewater Treatment Trust	(3,431)	(9,565)
(Increase)/Decrease in:		
Due from Two Bridges Sewerage Authority	434,825	415,588
Accounts Receivable		93,253
Accrued Interest Receivable	312	312
Prepaid Expenses	(32,660)	(6,162)
(Decrease)/Increase in:		
Accounts Payable	(17,256)	9,553
Due to Trustee	(271,870)	271,870
Accrued Interest Payable	(14,627)	(13,853)
 Total Adjustments	 <u>475,531</u>	 <u>1,141,234</u>
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 <u><u>1,098,557</u></u>	 <u><u>1,791,125</u></u>

This statement is subject to the accompanying Notes and Accountant's Report.

NOTES TO FINANCIAL STATEMENTS

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2009 AND 2008

NOTE 1. ORGANIZATION AND RELATIONSHIP WITH TWO BRIDGES AND OTHER PARTIES

The Pequannock River Basin Regional Sewerage Authority (the "Pequannock River Authority", the "Authority, or "PRBRSA") was created in May 1974 by parallel ordinances of its three member municipalities, Bloomingdale, Butler and Kinnelon for the purpose of acquiring, constructing, maintaining and operating sewerage facilities for the improvement of water quality in the Pequannock River Basin. In 1985, the Authority entered into a participant service agreement with Bloomingdale and Butler which obligates each municipality to pay a proportionate share of the Authority's operating expenses, bond service and required reserve additions not met by other sources. In January 1987, the Authority entered into a customer service contract with the Borough of Riverdale, which obligates the Borough to pay for the cost of services rendered by the Authority. In December 1990, the Authority entered into a revised participant service contract with Bloomingdale, Butler and Kinnelon, which also obligates Kinnelon to pay for the cost of services provided by the Authority.

On December 20, 1985, the Pequannock River Authority entered into an agreement with the Pequannock, Lincoln Park and Fairfield Sewerage Authority ("Two Bridges Sewerage Authority", "Two Bridges", or "TBSA") whereby the sewage originating within the Pequannock River Authority's service area would be treated and disposed of by Two Bridges. That agreement provided, inter alia, for the construction of a new interceptor, a portion of which would be conveyed to Two Bridges, and an annual charge for processing and other costs. The Authority's cost of the interceptor conveyed to Two Bridges on December 16, 1987 amounted to \$9,776,098, including capitalized interest expense. This amount is being repaid to the Pequannock River Authority by Two Bridges in the form of annual credits of \$613,923 through the year 2015 and \$256,588 in 2016, which credits are applied to the annual charge for processing and other costs. The interest portion of these credits is reflected in the accompanying financial statements of revenues, expenses and changes in fund equity as non-operating revenue. For the years ended October 31, 2009 and 2008, interest income from Two Bridges amounted to \$179,099 and \$198,335, respectively. The balance of this receivable from Two Bridges at October 31, 2009 and 2008 is \$3,662,611 and \$4,097,436, respectively.

On December 16, 1987, the Authority initiated regional operations by placing into operation the newly constructed regional sewer lines (the "interceptor facilities") interconnecting the PRBRSA service areas with the existing system of the Two Bridges Sewerage Authority. In conjunction with its regional wastewater management responsibilities, the Authority also assumed ownership of certain existing interceptor facilities as conveyed to PRBRSA by the Boroughs of Bloomingdale and Butler.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2009 AND 2008

NOTE 1. ORGANIZATION AND RELATIONSHIP WITH TWO BRIDGES AND OTHER PARTIES, (continued)

Two Bridges had asserted that the annual credit for the years 2008 to 2016 should be less than \$613,923. On October 11, 1995 the Authority and Two Bridges Sewerage Authority executed an agreement that the credit due to the Authority from Two Bridges Sewerage Authority on account of the annual charge would be \$613,923 per annum to the year 2015 and \$256,588 in 2016.

Under the terms of the December 20, 1985 agreement referred to above, the Pequannock River Authority is entitled to share in any refunding or crediting of the retained earnings of the Two Bridges Sewerage Authority generated subsequent to the date of conveyance by PRBRSA to Two Bridges of the new interceptor.

The Authority's annual payment obligation to Two Bridges includes a portion of TBSA's treatment plant debt service and TBSA's main sewer debt service, less the annual credits (maximum \$613,923) referred to above. The Authority's debt service obligation extends through the amortization period of TBSA's original and /or refunding bonds (2016).

During the years ended October 31, 2009 and 2008, the charges between Two Bridges Sewerage Authority and the Pequannock River Authority for providing services were as follows:

	<u>2009</u>	<u>2008</u>
Operations and Maintenance	\$1,970,936	\$1,748,602
Administrative Expenses	194,080	186,336
Two Bridges Debt Service	<u>830,871</u>	<u>701,749</u>
	<u>\$2,995,887</u>	<u>\$2,636,687</u>

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Financial Statements:

The financial statements of the Pequannock River Basin Regional Sewerage Authority have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Authority also applies Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The more significant of the Authority's accounting policies are described below.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2009 AND 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

A. Basis of Financial Statements, continued:

On November 1, 2003, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 34, "*Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*". Statement No. 34 established standards for external financial reporting for all state and local government entities, which includes a statement of net assets, a statement of activities and changes in net assets and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- *Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are any significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- *Restricted* – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net assets* – This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

On November 1, 2003, the Authority also adopted the provisions of Governmental Accounting Standards Board Statement No. 33, "*Accounting and Financial Reporting for Nonexchange Transactions*." This statement requires that capital contributions to the Authority be presented as a change in net assets.

The adoption of Statement No. 34 and Statement No. 33 affected the classification of net assets in accordance with the statements and the presentation of capital contributions as a change in net assets. The financial statements for the year ended October 31, 2009 and 2008 reflect the adoption of Statement No. 34 and Statement No. 33.

B. Basis of Accounting:

The Pequannock River Basin Regional Sewerage Authority prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2009 AND 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

C. Restricted Accounts:

The 1986 Bond Resolution provides that all revenue received by the Authority be deposited with a Trustee in accounts with various restrictions in the priority of the order listed:

<u>Reserve Fund</u>	<u>Amount</u>	<u>Purpose</u>
Revenue (Revolving)	All revenue (as defined) received by the Authority.	Authorized operating expenses and transfers to the various accounts described below after three months operating expenses reserved.
Bond Service	Amount needed to meet the bond service requirements.	Principal and interest on bonds
Sinking Fund	Amount needed to increase the account to the amount of the aggregate of all sinking fund installments (if any) required to be paid on the next succeeding December 1.	Retirement of bonds for which such account is maintained.
Bond Reserve	Amount needed to equal the Bond Reserve Requirement (as defined).	Transfers to meet minimum levels required in the Bond Service Fund or the Sinking Fund. Any excess remaining is to be paid back to the Revenue Fund.
Renewal and Replacement	Amount needed to increase the balance to equal the System Reserve Requirement.	Transfers to meet the reasonable and necessary expenses for major repairs, renewals, replacements or maintenance items of a type not recurring annually or at short intervals. Any excess is to be paid back to the Revenue Fund.
General	Any balance in revenues after above withdrawals and required reserves.	Transfers to meet deficiencies in any fund or account, after which funds may be expended for any lawful corporate purpose of the Authority.
Construction	Proceeds of debt issued, grant proceeds and insurance proceeds relating to projects (other than use and occupancy insurance), or any amount upon Officer's Certificate.	Prior and future project construction costs.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2009 AND 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

C. Restricted Accounts, continued:

In addition to the foregoing, the Authority has established the following account:

Operating Account - Unrestricted

The Operating account was established to carry on the operations of the Authority. Transfers are made from the Revenue Account to the Operating Account to pay for the operating expenses for the current fiscal year. The Operating Account is a non-trustee controlled account under the direct control of the Authority.

D. Cash and Cash Equivalents:

Cash and cash equivalents include demand deposits with original maturities of three months or less.

E. Investments:

Investments are carried at market value. Interest earned and not received is accrued. Interest earned on restricted assets is included in non-operating revenues, while interest earned on operating investments, (unrestricted assets) is included in operating revenues. Investments are made in accordance with the 1986 Bond Resolution.

F. Debt Issue Expenses:

Debt issue expenses incurred in connection with the 1994A, Series H and Series I Bonds, the 1995 Series J and K State Loan Bonds, the 1996 Series L Sewer Revenue Bonds and the 2002 Series M Revenue Refunding Bonds are being amortized over the life of those bonds. When outstanding debt is advance refunded resulting in defeasance of debt, unamortized debt issue expenses related to the defeased debt are considered in the determination of the net carrying amount of the defeased debt. The difference between the reacquisition price and the net carrying amount of the old debt is reported in the accompanying financial statements as a deduction from bonds payable and is being amortized over the life of the old debt or the life of the new debt, whichever is shorter.

G. Plant and Equipment:

Plant and equipment are stated at cost, which includes direct construction costs and other expenditures related to construction. Acquisitions that do not provide both current and future benefits are charged to current operating results.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2009 AND 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

G. Plant and Equipment, continued:

Depreciation is determined on a straight-line basis for all plant and equipment. Depreciation is provided for over the following estimated useful lives:

Interceptor	40 Years
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Interest expense is capitalized on qualified projects, net of interest revenue earned on the proceeds, from the time of borrowing funds for the project until the completion of the project. Thus, during the construction of a qualified project, there would be no impact upon operating results for interest expense or income. Instead, the net interest cost would be added to the cost of the project.

H. Income Taxes:

No provision has been made for income taxes, as the Authority is exempt from federal and state income taxes.

I. Concentration of Credit Risk:

The Authority's financial instruments that are exposed to credit risk consist primarily of cash, cash equivalents and receivables. The Authority places its cash and cash equivalents with financial institutions that are covered by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Deposits above that amount are protected by the Governmental Unit Deposit Protection Act (GUDPA), and the Authority believes no significant concentration of credit risk exists with respect to its cash and cash equivalents. There is a significant concentration of credit risk with respect to the Authority's receivables which consist of amounts due from the four (4) municipalities serviced by the Authority and an amount due from Two Bridges Sewerage Authority (see note 1). However, the credit risk with respect to Two Bridges is diluted by the fact that the Authority receives more in services from Two Bridges, for which the Authority is obligated to pay Two Bridges, than it receives in credits from Two Bridges. The Authority has entered into service contracts with each of these municipalities (see note 1) that require the municipalities to reimburse the Authority for the cost of services provided.

J. Use of Estimates:

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2009 AND 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

K. Budgetary Procedures:

The Authority follows these procedures in establishing the Operating Fund budget:

The annual budget for each fiscal year of the Authority is introduced by resolution passed by not less than a majority of the governing body. Two certified copies are submitted to the director of the Division of Local Government Services at least 60 days prior to the beginning of the Authority's fiscal year for approval prior to its adoption.

The budget must comply with the terms and provisions of any security agreements, and is to be in such form and detail as to items of revenue, expenses and other content as required by law or by rules and regulations of the Local Finance Board.

No Authority budget can be finally adopted until the Director has approved the budget.

Public hearings are conducted to obtain citizen comment on the proposed budget.

Appropriations lapse at the close of the fiscal year to the extent that they have not been expended.

The level at which expenditures cannot exceed the budget is at the total budget level.

The budget may be increased after adoption when an item of revenue has been made available after the adoption date (N.J.S.A. 5:31-2.8).

NOTE 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost plus accrued interest. U.S. Treasury and agency obligations and certificates of deposit with maturities of one year or less when purchased are stated at cost. All other investments are stated at fair value.

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.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2009 AND 2008

NOTE 3. CASH AND CASH EQUIVALENTS, (continued)

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits. The Authority's policy is based on New Jersey Statutes requiring cash to be deposited only as described on the preceding page. As of October 31, 2009, \$-0- of the Authority's bank balance of \$3,825,314 was exposed to custodial credit risk.

As of October 31, 2009, the Authority's cash and cash equivalents are summarized as follows:

<u>Accounts</u>	<u>Money Market/ Checking Accounts</u>	<u>NJ Cash Management Fund</u>	<u>Total</u>
Unrestricted:			
Operating Account	(\$619,698)		(\$619,698)
Trustee funds		\$2,747,763	2,747,763
Restricted:			
Trustee Funds	<u>328,636</u>	<u>733,498</u>	<u>1,062,134</u>
	<u>(\$291,062)</u>	<u>\$3,481,261</u>	<u>\$3,190,199</u>

New Jersey Cash Management Fund

All investments in the Fund are governed by the regulations of the Investment Council, which prescribe specific standards designed to insure the quality of investments and to minimize the risks related to investments. In all the years of the Division of Investment's existence, the Division has never suffered a default of principal or interest on any short-term security held by it due to the bankruptcy of a securities issuer; nevertheless, the possibility always exists, and for this reason a reserve is being accumulated as additional protection for the "Other-than-State" participants. In addition to the Council regulations, the Division sets further standards for specific investments and monitors the credit of all eligible securities issuers on a regular basis.

As of October 31, 2009, the Authority had \$3,481,261 on deposit with the New Jersey Cash Management Fund.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2009 AND 2008

NOTE 3. CASH AND CASH EQUIVALENTS, (continued)

The carrying amount of the Authority's cash and cash equivalents at October 31, 2009 was \$3,190,199 and the bank balance was \$3,825,314. Of this amount, \$3,481,261 in the New Jersey Cash Management Fund is not covered by either the federal depository insurance or the collateral pool maintained by the banks as required by New Jersey Statutes.

NOTE 4. NEW JERSEY WASTEWATER TREATMENT TRUST

Unrestricted

The Authority issued bonds in 1987 through the New Jersey Wastewater Treatment Trust ("Trust") to advance refund other bonds (see Note 9). The Authority receives credits from the Trust based upon current market rates to partially offset the semiannual interest payments related to the 1987 Series D Bonds. These credits are recognized as non-operating revenue on the accrual basis as earned. During fiscal years 2009 and 2008, these earnings aggregated \$3,431 and \$9,565, respectively.

NOTE 5. INVESTMENTS

The Authority's investment policy permits the investing of funds in the following types of investments:

- (a) Any direct and general obligations of the United States of America.
- (b) Negotiable or nonnegotiable certificates of deposit as defined under "Investment Obligations" of the General Bond Resolution.
- (c) Other investments, as defined in the Authority's Bond Resolution.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law and the Authority's Bond Resolution limit the type of investments made by the Authority as described above.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority's investment policy permits the investing of funds in the types of investments described above as defined by the Authority's Bond Resolution.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2009 AND 2008

NOTE 5. INVESTMENTS, (continued)

As of October 31, 2009, the Authority had the following investments:

Restricted Accounts:

<u>Investment</u>	<u>Maturity</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>Bond Service Fund:</u>			
FNMA Discount Note	11/30/09	\$60,342	\$61,000
FNMA Discount Note	12/1/09	181,061	186,000
FNMA Discount Note	11/2/09	120,451	126,060
FNMA Discount Note	12/1/09	119,720	124,000
FNMA Partn. Cert.	12/1/09	120,824	122,800
FNMA Discount Note	11/30/09	28,679	29,000
FNMA Discount Note	12/1/09	29,199	30,000
FNMA Partn. Cert.	12/1/09	58,808	59,770

Bond Reserve Fund:

FNMA Discount Note	12/1/09	<u>957,927</u>	<u>986,000</u>
		<u>\$1,677,011</u>	<u>\$1,724,630</u>

NOTE 6. PLANT AND EQUIPMENT/CONSTRUCTION IN PROGRESS

Plant and equipment are depreciated using the straight-line method over estimated useful lives of 40 years for the interceptor. Plant and equipment less accumulated depreciation at October 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Interceptor	\$11,975,978	\$11,975,978
Less: Accumulated Depreciation	<u>5,332,628</u>	<u>5,033,229</u>
	<u>\$6,643,350</u>	<u>\$6,942,749</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2009 AND 2008

NOTE 7. DEBT ISSUE COSTS

Debt issue costs less accumulated amortization at October 31, 2009 and 2008 were \$273,640 and \$300,610, respectively.

NOTE 8. PREMIUM ON BONDS PAYABLE

The Authority received a premium of \$103,332 in connection with the issuance of the Sewer Revenue Refunding Bonds (Series 2002 M). This premium is being amortized over the life of the bonds using the straight-line method. In accordance with APB 21, the unamortized balance of this premium is shown as an addition to the balance of the bonds payable.

NOTE 9. BONDS PAYABLE

On November 10, 1994, the Authority issued \$1,390,384 of Sewer Revenue Bonds (1994 Series H) to the State of New Jersey (Fund). They bear 0% interest and mature on March 1, 2014. Simultaneously, the Authority issued \$1,545,000 of Sewer Revenue Bonds (1994 Series I) to the New Jersey Wastewater Treatment Trust. They bear interest from 5.70% to 6.50%, depending upon their maturity, and have a final maturity of August 1, 2014.

On November 9, 1995, the Authority issued \$583,043 of Sewer Revenue Bonds (1995 Series J) to the State of New Jersey (Fund). They bear 0% interest and mature on August 1, 2015. Simultaneously, the Authority issued \$630,000 of Sewer Revenue Bonds (1995 Series K) to the New Jersey Wastewater Treatment Trust. They bear interest from 4.60% to 5.25%, depending upon their maturity, and have a final maturity of August 1, 2015.

On June 19, 1996, the Authority issued \$835,000 of Sewer Revenue Bonds (1996 Series L). They bear interest from 3.85% to 6.00%, depending upon their maturity, and have a final maturity of December 1, 2021.

During fiscal year 1998, the New Jersey Wastewater Treatment Trust refunded its remaining 1994 Series A Bonds by issuing its Wastewater Treatment Refunding Bonds, Series 1998 F. This refunding resulted in the recognition of an accounting gain of \$63,382 for the Authority for the fiscal year ended October 31, 1998. Under the guidelines of GASB 23, this gain has been deferred and is being amortized over the life of the bonds using the straight-line method.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2009 AND 2008

NOTE 9. BONDS PAYABLE, (continued)

On December 2, 2002, the Authority issued \$10,400,000 of Sewer Revenue Refunding Bonds (2002 Series M). The Bonds bear interest from 4.50% to 5.00% depending upon their maturity and have a final maturity of December 1, 2021. The yields on the Bonds range from 3.95% (5.00% term bond due December 1, 2006) to 5.31% (5.00% term bond due December 1, 2021) providing a net original issuance premium of \$103,332 over the \$10,400,000 par amount of the Bonds yielding gross proceeds of \$10,503,332.

The proceeds have been used to currently refund the Authority's \$10,110,000 callable Sewer Revenue Refunding Bonds (1992 Series F), dated December 1, 1992 as originally issued in the aggregate principal amount of \$12,655,000. The refunding resulted in a deferred loss on refunding (difference between the reacquisition price and the net carrying amount of the old debt) of \$1,173,944 including \$599,810 of unamortized difference related to the 1992 defeasance transaction described above. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being amortized over the life of the bonds using the straight-line method.

As of October 31, 2009 and 2008, the Authority had the following principal amounts of debt outstanding and unamortized gains and losses resulting from refunding transactions:

	Interest Rate	Maturity Date	Amount Issued	2009	2008
1994 Series H	0%	03/01/2014	\$1,390,384	\$379,215	\$455,759
1994 Series I	5.70-6.50%	03/01/2014	1,376,618	547,027	642,094
1995 Series J	0%	08/01/2015	583,043	184,785	214,478
1995 Series K	4.60-5.25%	08/01/2015	630,000	265,000	300,000
1996 Series L	3.85-6.00%	12/01/2021	835,000	570,000	600,000
2002 Series M	4.50-5.00%	12/01/2021	10,400,000	<u>7,130,000</u>	<u>7,820,000</u>
				<u>9,076,027</u>	<u>10,032,331</u>
Add: Unamortized gain resulting from refunding transaction:					
1998 Defeasance of Series A				18,681	22,684
Unamortized Premium on 2002 refunding of Series 1992 F				64,699	70,285
Less: Unamortized losses resulting from refunding transactions:					
2002 Defeasance of Series 1992 F				<u>(735,037)</u>	<u>(798,494)</u>
				<u>(651,657)</u>	<u>(705,525)</u>
Net Carrying Amount of Debt				<u>\$8,424,370</u>	<u>\$9,326,806</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2009 AND 2008

NOTE 9. BONDS PAYABLE, (continued)

Interest expense on bonds, including amortization of deferred losses on refundings, is comprised of the following:

	<u>2009</u>	<u>2008</u>
1994 Series I Bonds	\$41,308	\$45,734
1995 Series K Bonds	15,231	16,990
1996 Series L Bonds	34,072	35,697
2002 Series M Bonds	<u>355,463</u>	<u>386,400</u>
	<u>446,074</u>	<u>484,821</u>
Amortization of Deferred Losses/Gains		
Resulting from Refunding Transactions:		
1998 NJ Wastewater Treatment Trust		
Refunding of Series 1994 A	(4,003)	(4,003)
2002 Defeasance of Series F	63,457	63,457
Amortization of Bond Premium - 2002 Series M	<u>(5,586)</u>	<u>(5,586)</u>
	<u>53,868</u>	<u>53,868</u>
	<u>\$499,942</u>	<u>\$538,689</u>

Aggregate debt service requirements to maturity, including interest expense, are as follows:

Year Ending October 31,	<u>Total</u>
2010	\$1,421,355
2011	1,408,527
2012	1,421,412
2013	1,417,728
2014	1,408,497
2015-2019	3,450,334
2020-2022	<u>637,600</u>
	<u>\$11,165,453</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2009 AND 2008

NOTE 10. NET ASSETS – RESTRICTED AND UNRESTRICTED

The Authority's net assets include the following reserves, each of which is fully funded with a trustee, and unrestricted net assets:

	<u>2009</u>	<u>2008</u>
Invested in Capital Assets -		
Net of Related Debt	<u>\$2,155,231</u>	<u>\$2,013,989</u>
Restricted:		
Bond Reserve Fund	958,108	987,570
Renewal and Replacement Fund	50,000	50,000
Debt Service Reserve Fund	692,083	660,000
Operating Reserve Fund	735,647	765,647
Unexpended Construction funds	<u>175,988</u>	<u>174,533</u>
Subtotal Restricted	<u>2,611,826</u>	<u>2,637,750</u>
Unrestricted:		
Designated	1,266,245	300,000
Undesignated	<u>1,028,048</u>	<u>1,486,585</u>
Subtotal Unrestricted	<u>2,294,293</u>	<u>1,786,585</u>
	<u>\$7,061,350</u>	<u>\$6,438,324</u>

NOTE 11. INVESTMENT IN FORWARD DELIVERY AGREEMENTS

On April 27, 2000, the Pequannock River Basin Regional Sewerage Authority entered into two investment agreements with First Union National Bank as "Provider" and with First Union National Bank as "Trustee" for the "Debt Service Reserve Forward Delivery Agreement" and the "Debt Service Forward Delivery Agreement".

Under the Debt Service Reserve Forward Delivery Agreement, "Agreement", the Authority invested the proceeds of funds available within the Bond Reserve Fund (i.e. the annual Bond Reserve Requirement) in return for a \$75,000 lump sum payment and a guaranteed investment return of 5.84% through the term of the agreement on December 1, 2021.

Under the Debt Service Forward Delivery Agreement, "Agreement", the Authority invested dedicated cash flows for the principal and the interest payments on the 1992 Series F Sewer Revenue Refunding Bonds to the Provider in exchange for a guaranteed investment return of 6.54% through the maturity of the agreement on December 1, 2021.

All funds made available to the Provider are fully collateralized by U.S. Government Securities deposited with the Trustee.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2009 AND 2008

NOTE 11. INVESTMENT IN FORWARD DELIVERY AGREEMENTS, (continued)

Effective December 2, 2002, the First Amendment to the Debt Service Reserve Forward Delivery Agreement and the First Amendment to the Debt Service Forward Delivery Agreement between the Authority and Wachovia Securities Group (the "Provider") modified the terms of the respective April 27, 2000 Agreements to reflect the modified debt service repayment schedule resulting from the December 2, 2002 issuance of the Sewer Revenue Refunding Bonds (2002 Series M).

NOTE 12. COMMITMENTS AND CONTINGENCIES

The Authority's management and attorney has informed us that they are unaware of any other material commitments and contingencies that would have a material effect on the financial statements.

NOTE 13. DESIGNATION OF UNRESTRICTED NET ASSETS

The Authority's Unrestricted Net Assets – Designated at December 31, 2009 includes the following amounts: \$50,000 that has been appropriated for use in the Authority's FY 2010 budget; \$400,000 as a capital reserve fund by appropriations in its FY 2008 and FY 2009 budgets; \$550,245 as an operating reserve; \$241,000 for bond service; \$20,000 as an insurance reserve; and \$5,000 to fund arbitrage rebates related to its 2002 Series M Bonds.

REQUIRED SUPPLEMENTARY SCHEDULES

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND CASH EQUIVALENTS
UNRESTRICTED OPERATING ACCOUNT

CASH AND CASH EQUIVALENTS -
NOVEMBER 1, 2008

\$ (477,018)

Cash Receipts:

Interest on Investments

\$ 43

Transfer from:

Revenue Account

2,791,320

2,791,363

TOTAL CASH AND CASH EQUIVALENTS AVAILABLE

2,314,345

Cash Disbursements:

Operations

\$ 2,851,512

Accounts Payable

64,739

Transfer to:

Revenue Account

17,792

2,934,043

CASH AND CASH EQUIVALENTS -
OCTOBER 31, 2009

\$ (619,698)

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN CASH,
CASH EQUIVALENTS AND INVESTMENTS
TRUSTEE RESTRICTED AND UNRESTRICTED ACCOUNTS

	Revenue Account	Construction Account (#1)	Construction Account (#2)	Construction Account (#3)	Construction Account (#4)
CASH, CASH EQUIVALENTS AND INVESTMENTS, NOVEMBER 1, 2008	<u>\$ 2,904,445</u>	<u>\$ 88,971</u>	<u>\$ 15,762</u>	<u>\$ 41,405</u>	<u>\$ 28,395</u>
<u>CASH RECEIPTS:</u>					
Interest on Investments	19,382	741	132	345	237
Service Contracts-Municipal	4,659,366				
Application Fees	4,350				
Miscellaneous					
Transfer From:					
Revenue Fund					
Operating Account	17,792				
Bond Reserve Fund	283,025				
Bond Service Fund (Interest)	30,259				
	<u>5,014,174</u>	<u>741</u>	<u>132</u>	<u>345</u>	<u>237</u>
<u>CASH DISBURSEMENTS:</u>					
Bond Principal	195,771				
Interest on Bonds	48,017				
Due to US Bank	271,870				
Transfers To:					
Operating Account	2,791,320				
Revenue Fund					
Bond Service Fund	111,389				
Bond Service Fund (Principal)	658,750				
Bond Service Fund (Interest)	363,225				
	<u>4,440,342</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, OCTOBER 31, 2009	<u>\$ 3,478,277</u>	<u>\$ 89,712</u>	<u>\$ 15,894</u>	<u>\$ 41,750</u>	<u>\$ 28,632</u>
<u>Analysis of Balance:</u>					
Restricted	\$ 798,992	\$ 89,712	\$ 15,894	\$ 41,750	\$ 28,632
Unrestricted	2,679,285				
	<u>\$ 3,478,277</u>	<u>\$ 89,712</u>	<u>\$ 15,894</u>	<u>\$ 41,750</u>	<u>\$ 28,632</u>
 Cash and Cash Equivalents Investments	 \$ 3,478,277	 \$ 89,712	 \$ 15,894	 \$ 41,750	 \$ 28,632
	<u>\$ 3,478,277</u>	<u>\$ 89,712</u>	<u>\$ 15,894</u>	<u>\$ 41,750</u>	<u>\$ 28,632</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN CASH,
CASH EQUIVALENTS AND INVESTMENTS
TRUSTEE RESTRICTED AND UNRESTRICTED ACCOUNTS

	<u>General Account</u>	<u>Bond Service Account</u>	<u>Bond Service "F" Principal</u>	<u>Bond Service "F" Interest</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, NOVEMBER 1, 2008	\$ 55,560	\$ 206	\$ 643,032	\$ 160,726
<u>CASH RECEIPTS:</u>				
Interest on Investments	462	1	13,928	4,848
Service Contracts-Municipal				
Application Fees				
Miscellaneous				
Transfer From:				
Revenue Fund		111,389	658,750	363,225
Operating Account				
Bond Reserve Fund				
Bond Service Fund (Interest)				
	<u>462</u>	<u>111,390</u>	<u>672,678</u>	<u>368,073</u>
<u>CASH DISBURSEMENTS:</u>				
Bond Principal		70,534	690,000	
Interest on Bonds		40,855		368,400
Due to US Bank				
Transfers To:				
Operating Account				
Revenue Fund				30,259
Bond Service Fund				
Bond Service Fund (Principal)				
Bond Service Fund (Interest)				
	<u>-</u>	<u>111,389</u>	<u>690,000</u>	<u>398,659</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, OCTOBER 31, 2009	\$ 56,022	\$ 207	\$ 625,710	\$ 130,140
<u>Analysis of Balance:</u>				
Restricted		\$ 207	\$ 625,710	\$ 130,140
Unrestricted	56,022			
	<u>\$ 56,022</u>	<u>\$ 207</u>	<u>\$ 625,710</u>	<u>\$ 130,140</u>
 Cash and Cash Equivalents	\$ 56,022	\$ 207	\$ 23,312	\$ 13,454
Investments			602,398	116,686
	<u>\$ 56,022</u>	<u>\$ 207</u>	<u>\$ 625,710</u>	<u>\$ 130,140</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND CHANGES IN CASH,
CASH EQUIVALENTS AND INVESTMENTS
TRUSTEE RESTRICTED AND UNRESTRICTED ACCOUNTS

	Bond Reserve Account	Bond Reserve Forward Delivery	Renewal and Replacement Account	Total
CASH, CASH EQUIVALENTS AND INVESTMENTS, NOVEMBER 1, 2008	<u>\$ 574</u>	<u>\$ 1,198,102</u>	<u>\$ 61,366</u>	<u>\$ 5,198,544</u>
<u>CASH RECEIPTS:</u>				
Interest on Investments	5	43,031	511	83,623
Service Contracts-Municipal				4,659,366
Application Fees				4,350
Miscellaneous				-
Transfer From:				
Revenue Fund				1,133,364
Operating Account				17,792
Bond Reserve Fund				283,025
Bond Service Fund (Interest)				30,259
	<u>5</u>	<u>43,031</u>	<u>511</u>	<u>6,211,779</u>
<u>CASH DISBURSEMENTS:</u>				
Bond Principal				956,305
Interest on Bonds				457,272
Due to US Bank				271,870
Transfers To:				
Operating Account				2,791,320
Revenue Fund		283,025		313,284
Bond Service Fund				111,389
Bond Service Fund (Principal)				658,750
Bond Service Fund (Interest)				363,225
	<u>-</u>	<u>283,025</u>	<u>-</u>	<u>5,923,415</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, OCTOBER 31, 2009	<u>\$ 579</u>	<u>\$ 958,108</u>	<u>\$ 61,877</u>	<u>\$ 5,486,908</u>
<u>Analysis of Balance:</u>				
Restricted		\$ 958,108	\$ 50,000	\$ 2,739,145
Unrestricted	<u>579</u>		<u>11,877</u>	<u>2,747,763</u>
	<u>\$ 579</u>	<u>\$ 958,108</u>	<u>\$ 61,877</u>	<u>\$ 5,486,908</u>
 Cash and Cash Equivalents	 \$ 579	 \$ 181	 \$ 61,877	 \$ 3,809,897
Investments		<u>957,927</u>		<u>1,677,011</u>
	<u>\$ 579</u>	<u>\$ 958,108</u>	<u>\$ 61,877</u>	<u>\$ 5,486,908</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET
YEAR ENDED OCTOBER 31, 2009
WITH COMPARATIVE ACTUAL AMOUNTS
FOR THE YEAR ENDED OCTOBER 31, 2008

	2009 Budget	2009 Budget After Modifications	2009 Actual	2008 Actual
<u>REVENUE:</u>				
Retained Earnings Appropriated	\$ 50,000	\$ 50,000	\$ 50,000	\$
Service Contracts with Municipalities	4,630,000	4,659,366	4,659,366	4,264,000
Two Bridges Sewerage Authority				
Annual Credit	613,923	613,923	613,923	613,923
Interest on Investments	25,000	25,000	83,350	174,997
Income from NJ Wastewater				
Treatment Trust			3,431	9,565
Application Fees	1,000	1,000	4,350	15,325
Miscellaneous Income	77	77		5,009
TOTAL OPERATING REVENUES	5,320,000	5,349,366	5,414,420	5,082,819
<u>EXPENSES:</u>				
Operations and Maintenance Expenses:				
Professional Services	57,000	57,000	62,485	63,623
Contract Services	266,000	266,000	159,873	199,065
State and Federal Compliance	10,000	10,000	-	-
Two Bridges Sewerage Authority	2,119,228	2,119,228	1,970,936	1,748,602
Total Operating Expenses	2,452,228	2,452,228	2,193,294	2,011,290
Administrative and General Expenses:				
Professional Services	226,961	226,961	215,438	191,022
Insurance	17,400	17,400	17,975	13,982
Office Expenses	9,500	9,500	6,954	6,533
Professional Expenses	7,500	7,500	7,571	2,800
Financial Services	34,000	34,000	14,075	38,569
Two Bridges Sewerage Authority	195,000	195,000	194,080	186,336
Total Administrative and General Expenses	490,361	490,361	456,093	439,242

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET
YEAR ENDED OCTOBER 31, 2009
WITH COMPARATIVE ACTUAL AMOUNTS
FOR THE YEAR ENDED OCTOBER 31, 2008

SCHEDULE 3
Page 2 of 2

	<u>2009</u> <u>Budget</u>	<u>2009 Budget</u> <u>After</u> <u>Modifications</u>	<u>2009</u> <u>Actual</u>	<u>2008</u> <u>Actual</u>
Debt Service:				
Bond Principal	1,361,507	1,376,190	1,376,190	1,291,659
Interest on Bonds	865,904	880,587	857,060	814,570
Total Debt Service	2,227,411	2,256,777	2,233,250	2,106,229
Reserves:				
Capital Reserve Fund	150,000	150,000	150,000	250,000
Total Reserves	150,000	150,000	150,000	250,000
TOTAL COSTS FUNDED BY OPERATING REVENUE	5,320,000	5,349,366	5,032,637	4,806,761
EXCESS	\$ <u> </u>	\$ <u> </u>	\$ <u>381,783</u>	\$ <u>276,058</u>

Reconciliation of Budgetary Basis

To Change in Net Assets:

Depreciation Expense	(299,400)	(299,400)
Amortization of Debt Issue Costs	(26,970)	(26,970)
Amortization of Bond Premium	5,586	5,586
Amortization of Deferred Gain/Loss on		
Early Extinguishment of Debt	(59,454)	(59,454)
Net Assets Appropriated	(50,000)	
Capital Reserve Fund Appropriation	150,000	250,000
TBSA Debt Service Principal	(419,885)	(372,000)
Loan Principal Receipts	(434,824)	(415,588)
Bond Principal Payments	1,376,190	1,291,659

Total Adjustments

241,243 373,833

Change in Net Assets

623,026 649,891

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF BONDS PAYABLE
OCTOBER 31, 2009

	<u>Original</u>		<u>Interest</u>	<u>Maturities</u>		<u>Balance</u>	<u>Issued</u>	<u>Redeemed or</u>	<u>Balance</u>
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Amount</u>	<u>Nov. 1, 2008</u>		<u>Retired</u>	<u>Oct. 31, 2009</u>
1994A Series H Bonds	10/26/1994	\$ 1,390,384	0.000%	3/1/2010	67,123				
				9/1/2010	8,648				
				3/1/2011	68,037				
				9/1/2011	6,755				
				3/1/2012	71,543				
				9/1/2012	4,650				
				3/1/2013	74,836				
				9/1/2013	2,369				
				3/1/2014	75,254				
						455,759		76,544	379,215

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF BONDS PAYABLE
OCTOBER 31, 2009

	Original		Interest Rate	Maturities Date	Amount	Balance Nov. 1, 2008	Issued	Redeemed or Retired	Balance Oct. 31, 2009
	Date	Amount							
1998F Series I Bonds	9/1/1998	\$ 1,376,618	Various	3/1/2010	98,326				
				3/1/2011	102,048				
				3/1/2012	109,663				
				3/1/2013	117,138				
				3/1/2014	119,852				
						642,094		95,067	547,027
1995 Series J Bonds	11/9/1995	\$ 583,043	0.000%	8/1/2010	31,576				
				8/1/2011	30,358				
				8/1/2012	32,057				
				8/1/2013	30,672				
				8/1/2014	29,289				
				8/1/2015	30,833				
						214,478		29,693	184,785

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF BONDS PAYABLE
OCTOBER 31, 2009

	Original		Interest Rate	Maturities Date	Amount	Balance Nov. 1, 2008	Issued	Redeemed or Retired	Balance Oct. 31, 2009
	Date	Amount							
1995 Series K	11/9/1995	\$ 630,000	5.200%	8/1/2010	40,000				
			5.250%	8/1/2011	40,000				
			5.250%	8/1/2012	45,000				
			5.250%	8/1/2013	45,000				
			5.250%	8/1/2014	45,000				
			5.250%	8/1/2015	50,000				
						300,000		35,000	265,000
1996 Series L	6/1/1996	\$ 835,000	5.600%	12/1/2009	30,000				
			5.700%	12/1/2010	30,000				
			5.950%	12/1/2011	35,000				
			5.950%	12/1/2012	35,000				
			5.950%	12/1/2013	40,000				
			6.000%	12/1/2014	40,000				
			6.000%	12/1/2015	45,000				
			6.000%	12/1/2016	45,000				
			6.000%	12/1/2017	50,000				
			6.000%	12/1/2018	50,000				
			6.000%	12/1/2019	55,000				
			6.000%	12/1/2020	55,000				
			6.000%	12/1/2021	60,000				
						600,000	-	30,000	570,000

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF BONDS PAYABLE
OCTOBER 31, 2009

	Original		Interest Rate	Maturities		Balance Nov. 1, 2008	Issued	Redeemed or Retired	Balance Oct. 31, 2009
	Date	Amount		Date	Amount				
2002 Series M	12/2/2002	\$ 10,400,000	5.000%	12/1/2009	725,000				
				12/1/2010	755,000				
				12/1/2011	795,000				
				12/1/2012	835,000				
				12/1/2013	875,000				
				12/1/2014	915,000				
				12/1/2015	965,000				
				12/1/2016	595,000				
				12/1/2017	120,000				
				12/1/2018	130,000				
				12/1/2019	135,000				
				12/1/2020	140,000				
				12/1/2021	145,000				
						7,820,000		690,000	7,130,000
GRAND TOTALS						10,032,331	-	956,304	9,076,027
Analysis of Balance:									
Current Portion						956,304		(44,369)	1,000,673
Long-Term Portion						9,076,027		1,000,673	8,075,354
						10,032,331	-	956,304	9,076,027

ROSTER OF OFFICIALS

The following officials were in office during the period under audit:

Robert Voorman	Chairman (1)	Borough of Bloomingdale
Raymond Verdonik	Vice Chairman (1)	Borough of Butler
Edwin Howard	Secretary (1)	Borough of Bloomingdale
E.J. Gall	Treasurer/Asst. Secretary (1)	Borough of Kinnelon
James P. Lampmann	Commissioner (1)	Borough of Butler
Paul Metcalfe	Commissioner (1)	Borough of Kinnelon
Kelly Engineering	Consulting Engineer	
Maraziti, Falcon & Healey	General Counsel	
Ferraioli, Wielkotz, Cerullo & Cuva, P.A.	Auditors	
U.S. Bank	Trustee	
Hawkins, Delafield & Wood	Bond Counsel	

- (1) All Authority Commissioners are covered by Employment Practices Liability Policy No. GWPKG0119200 in the amount of \$1,000,000 issued by the Arch Insurance Company expiring June 23, 2010.

Ferraioli, Wielkotz, Cerullo & Cuva, P.A.

Charles J. Ferraioli, Jr., MBA, CPA, RMA
Steven D. Wielkotz, CPA, RMA
James J. Cerullo, CPA, RMA
Paul J. Cuva, CPA, RMA
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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

January 8, 2010

The Honorable Chairman and Members
of the Pequannock River Basin Regional
Sewerage Authority
Butler, NJ 07405

We have audited the financial statements of the Pequannock River Basin Regional Sewerage Authority as of and for the year ended October 31, 2009 and 2008, and have issued our report thereon dated January 8, 2010. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey; and the standards applicable to financial audits contained in "Government Auditing Standards", issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pequannock River Basin Regional Sewerage Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 Pequannock River Basin Regional Sewerage Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Pequannock River Basin Regional Sewerage Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.



The Honorable Chairman and Members
of the Pequannock River Basin Regional
Sewerage Authority
January 8, 2010
Page 2.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This 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 is intended solely for the information of the governing body, the Division of Local Government Services, Department of Community Affairs, State of New Jersey, Federal Awarding Agencies and Pass Through Entities and is not intended to be and should not be used by anyone other than these specified parties.

Ferraioli, Wielkatz, Cerullo & Cuva, P.A.

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants

Pompton Lakes, New Jersey 07442



COMMENTS AND RECOMMENDATIONS

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required to be Advertised Per N.J.S. 40A:11-3

N.J.S.A. 40A:11-4 states "Every contract awarded by the contracting agent for the provision or performance of any goods or services, the cost of which in the aggregate exceeds the bid threshold, shall be awarded by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other law."

Effective July 1, 2005 and thereafter the bid thresholds in accordance with N.J.S.A. 40A:11-3 (as amended) is \$21,000 or \$29,000 if there is a certified purchasing agent.

N.J.S.A. 40A:11-2 contains definitions for terms used throughout N.J.S.A. 40A:11-1 et seq. and was amended under P.L. 1999, c.440. It includes as subsection (23) the term 'competitive contracting', which is defined as "the method described in sections 1 through 5 of P.L. 1999, c.440 (C.40:11-4.1 through C.40A:11-4.5) of contracting for specialized goods and services in which formal proposals are solicited from vendors, formal proposals are evaluated by the purchasing agent or counsel; and the governing body awards a contract to a vendor or vendors from among the formal proposals received."

N.J.S.A. 40A:11-3 was amended with P.L. 1999, c.440 to raise the bid threshold and require award by governing body resolution. "When the cost or price of any contract awarded by the purchasing agent in the aggregate does not exceed in a contract year the sum of \$21,000 or \$29,000 if there is a certified purchasing agent, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids and bidding therefore, except that the governing body may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations."

N.J.S.A. 40A:11-15 was amended with P.L. 1999, c.440 to extend the base contract period. "Any contract made pursuant to this section may be awarded for a period of 24 consecutive months, except that contracts for professional services pursuant to paragraph (1) of subsection (a) of N.J.S.A. 40A:11-5 may be awarded for a period not exceeding 12 consecutive months.

The governing body of the Authority has the responsibility of determining whether the expenditures in any category will exceed the statutory threshold within the contract year. Where question arises as to whether any contract or agreement might result in violation of the statute, the opinion of the Authority's attorney should be sought before a commitment is made.

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 results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
COMMENTS AND RECOMMENDATIONS, CONTINUED

Our examination of expenditures did not reveal any individual payments, contracts or agreements "for the performance of any work or the furnishing or hiring of any materials or supplies" in excess of the statutory thresholds other than those where bids had been previously sought by public advertisement or where a resolution had previously been adopted under the provisions of N.J.S.A. 40A:11-6.

Our review of the Authority's minutes indicated that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S.A. 40A:11-5.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED OCTOBER 31, 2009

Summary of Auditor's Results:

- An unqualified opinion was issued on the Authority's financial statements.
- The audit did not disclose any material weaknesses in the internal controls of the Authority.
- The Authority was not subject to the single audit provisions of Federal OMB Circular A-133 (the "Circular") and State Circular 04-04-OMB for fiscal year 2009 as there were no grant expenditures for the year ended October 31, 2009.

Findings relating to the Financial Statements which are required to be Reported in Accordance with Generally Accepted Government Auditing Standards:

- The audit did not disclose any findings required to be reported under Generally Accepted Government Auditing Standards.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED OCTOBER 31, 2009

There were no findings of noncompliance noted for the year ended October 31, 2008.

Problems and weaknesses noted in our review were not of such magnitude that they would affect our ability to express an opinion on the financial statements taken as a whole.

We wish to thank Pequannock River Basin Regional Sewerage Authority for their cooperation during the performance of our audit.

Very truly yours,

Ferraioli, Wielkottz, Cerullo & Cuva, P.A.

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants