

**PEQUANNOCK RIVER BASIN
REGIONAL SEWERAGE AUTHORITY**

Financial Statements

Years Ended October 31, 2012 and 2011

(With Independent Auditors' Report Thereon)

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY

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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, 2012 and 2011, 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, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2013 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.



Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 the 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the Pequannock River Basin Regional Sewerage Authority's financial statements. The Supplemental Schedules are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Schedules are fairly stated in all material respects in relation to the financial statements taken as a whole.

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

January 9, 2013



Required Supplementary Information

Management Discussion and Analysis

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
OCTOBER 31, 2012**

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, 2012 and 2011. 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 \$9,091,405 (net assets) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$8,285,241.
- Total net assets are comprised of the following:
 - (1) Capital assets, net of related debt, of \$2,839,531 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 \$2,269,287 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net assets of \$3,982,587 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority decreased by \$1,496,244 to \$5,186,941 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, 2012**

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 as related to its operational stability and creditworthiness and can be used to determine whether the Authority has recovered all its costs through its user fees and other charges.

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 also 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, 2012**

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 \$9,091,405. This is a \$806,164 increase over the prior year's net assets of \$8,285,241. 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 2012</u>	<u>FY 2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>FY 2010</u>
Current and Other Assets	8,533	8,924	(391)	(4.38)%	9,054
Capital Assets	<u>5,745</u>	<u>6,044</u>	<u>(299)</u>	(4.95)%	<u>6,344</u>
Total Assets	<u>14,278</u>	<u>14,968</u>	<u>(690)</u>		<u>15,398</u>
Liabilities	<u>5,187</u>	<u>6,683</u>	<u>(1,496)</u>	(22.39)%	<u>7,671</u>
Total Liabilities	<u>5,187</u>	<u>6,683</u>	<u>(1,496)</u>		<u>7,671</u>
Invested in Capital Assets, Net of Related Debt	2,839	2,392	447	18.69%	2,321
Restricted	2,269	2,643	(374)	(14.15)%	2,626
Unrestricted	<u>3,983</u>	<u>3,250</u>	<u>733</u>	22.55%	<u>2,780</u>
Net Assets	<u>9,091</u>	<u>8,285</u>	<u>806</u>	9.73%	<u>7,727</u>

While the *Statement of Net Assets* shows the change in financial position of Net 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 \$806,164.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2012**

Net Assets (Continued)

**Condensed Statement of Revenues, Expenses
and Changes in Net Assets
(000's)**

	<u>FY 2012</u>	<u>FY 2011</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>FY 2010</u>
Operating Revenues	4,770	4,620	150	3.25%	4,755
Non-Operating Revenues	<u>119</u>	<u>106</u>	<u>13</u>	12.26%	<u>276</u>
Total Revenues	<u>4,889</u>	<u>4,726</u>	<u>163</u>		<u>5,031</u>
Depreciation Expense	299	299	0	0.00%	299
Amortization	81	81	0	0.00%	81
Other Operating Expenses	2,398	2,485	(87)	(3.50)%	2,706
Other Non-Operating Expense	<u>1,305</u>	<u>1,303</u>	<u>2</u>	0.15%	<u>1,279</u>
Total Expenses	<u>4,083</u>	<u>4,168</u>	<u>(85)</u>		<u>4,365</u>
Change in Net Assets	806	558	248	44.44%	666
Beginning Net Assets	<u>8,285</u>	<u>7,727</u>	<u>558</u>	7.22%	<u>7,061</u>
Ending Net Assets	<u>9,091</u>	<u>8,285</u>	<u>806</u>	9.73%	<u>7,727</u>

The Authority's Operating Revenues increased by \$149,903 to \$4,770,000 in 2012 from \$4,620,097 in 2011 primarily due to municipal service contracts in 2012. Nonoperating Revenues increased by \$12,360 to \$118,857 from \$106,497 mainly due to an increase in interest on investments and a decrease in interest earned on the receivable from Two Bridges Sewerage Authority.

Budgetary Highlights

The Authority prepares and submits an annual budget to the State of New Jersey, Department of Community Affairs, Division of Local Government Services, 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, 2012**

The following table provides a 2012 budget comparison:

Budget vs. Actual FY 2012 (000's)			
	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Revenues:			
Operating	5,011	4,770	(241)
Non-Operating		119	119
TBSA Loan Receivable	<u>584</u>	<u>584</u>	<u>—</u>
	<u>5,595</u>	<u>5,473</u>	<u>(122)</u>
Expenses:			
Operating	2,903	2,398	505
Capital Reserve	190	190	
Debt Service	<u>2,502</u>	<u>2,397</u>	<u>105</u>
	<u>5,595</u>	<u>4,985</u>	<u>610</u>
Income Before Depreciation and Amortization	<u><u>-0-</u></u>	<u><u>488</u></u>	<u><u>488</u></u>

In accordance with the terms of the service contracts with Bloomingdale, Butler, Kinnelon and Riverdale, the PRBRSA determines the 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 budget hearing is conducted annually in accordance with N.J.S.A. 40:14B.

The following charts summarize the distribution of the budgeted FY 2012 Annual Charges to the four towns served by the PRBRSA:

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2012**

**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%		\$913,500	\$913,500			
991,000	38.11%		952,700		\$952,700		
250,000	9.62%		240,500			\$240,500	
409,000	15.73%		393,300				\$393,300
2,600,000	100.00%	\$2,500,000	\$2,500,000	\$913,500	\$952,700	\$240,500	\$393,300

**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 %		685,200	\$685,200			
980,000	46.01%		871,900		\$871,900		
130,000	6.11%		115,600			\$115,600	
250,000	11.73%		222,300				\$222,300
2,130,000	100.00%	\$1,895,000	\$1,895,000	\$685,200	\$871,900	\$115,600	\$222,300

**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%		189,800	\$189,800			
980,000	46.01%		241,500		\$241,500		
130,000	6.11%		32,100			\$32,100	
250,000	11.73%		61,600				\$61,600
2,130,000	100.00%	\$525,000	\$525,000	\$189,800	\$241,500	\$32,100	\$61,600

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2012**

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY -
TOTAL ANNUAL CHARGES**

<u>Total Charge</u>	<u>Total</u>	<u>Bloomingtondale</u>	<u>Butler</u>	<u>Kinnelon</u>	<u>Riverdale</u>
	1,788,500	\$1,788,500			
	2,066,100		\$ 2,066,100		
	388,200			\$388,200	
	677,200				\$677,200
\$4,825,000	\$4,920,000	\$1,788,500	\$2,066,100	\$388,200	\$677,200

REVENUES

Total Annual Charges	\$4,920,000
Plus:	
Retained Earnings	-0-
Investment Income	56,000
Application Fees and Misc.	5,077
Interest: State Loan Bonds	-0-
TBSA Debt Service Credit	<u>613,923</u>

TOTAL FY 2012 BUDGETED REVENUES \$5,595,000

APPROPRIATIONS

Debt Service:	
TBSA Contract Payments	1,080,500
Direct PRBRSA	1,421,411
Capital Reserve Fund	<u>190,000</u>
Total	2,691,911

Administrative:	
TBSA Contract Payments	220,000
Direct PRBRSA	<u>304,000</u>
Total	524,000

Operation and Maintenance:	
TBSA Contract Payments	2,052,000
Direct PRBRSA	327,000
Operating Reserve	<u>89</u>
Total	2,379,089

TOTAL FY 2012 BUDGETED APPROPRIATIONS \$5,595,000

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2012**

2012 Series N Refunding Bonds

On September 6, 2012, the Authority issued the 2012 Series N Refunding Bonds in the principal amount of \$4,195,000 to retire and defease \$475,000.00 of the then outstanding 1996 Series L Bonds and \$4,020,000.00 of the 2002 Series M Bonds.

The refunding resulted in a savings of \$210,123.99 net of issuance expenses and income lost on the 2002 Series M Bond Forward Delivery Agreement/Guaranteed Investment Contract with Wells Fargo NA on the Bond Reserve Fund (the "DSRF") which loss resulted from the reduced arbitrage yield limitation on the 2012 Series N Bond DSRF over the bond life.

The Bond Reserve Requirement held in the DSRF was reduced from \$836,956.00 to \$559,175.18. The \$277,780.82 released funds were applied to reduce the principal amount of the 2012 Series N Refunding Bonds. Both transactions resulted in a total reduction of \$487,904.81 in the Authority's operating budgets from FY 2012 through FY 2022 (December 1, 2021).

The refunding yielded a net of \$75,352.56 reduction in the FY 2012 operating budget debt service expenses on an accrual basis.

Forward Delivery Agreements (Guaranteed Investment Contract)

Simultaneously, the Forward Delivery Agreements/Guaranteed Investment Contracts between the Authority and Wells Fargo, NA were amended reducing the Bond Reserve Requirement held in the DSRF by \$277,780.32. The previously guaranteed interest rates were not amended. The Guaranteed Investment Contracts will continue to earn a net of 5.86% DSRF and 6.54% on the Bond Service Fund (DSF). However, since the DSRF arbitrage yield was lowed to 1.656503% as a result of the refunding, the investment income earned on the DSRF will be subject to substantially higher rebates due to the Internal Revenue Service in future years. The DSF cash flows are not subject to rebate.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2012**

Capital Assets

At the end of 2012, the Authority had invested \$11,975,978 in capital assets. The Authority's net plant and equipment at fiscal year-end was \$5,745,151. This is a \$299,400 decrease over last year's net plant, property and equipment of \$6,044,551. A summary of the Authority's capital assets is presented in the following table:

Capital Assets			
(000's)			
	<u>FY 2012</u>	<u>FY 2011</u>	<u>Dollar Change</u>
Interceptor	<u>11,976</u>	<u>11,976</u>	<u>-0-</u>
Total Capital Assets	11,976	11,976	-0-
Less: Accumulated Depreciation	<u>(6,231)</u>	<u>(5,931)</u>	<u>(300)</u>
	5,745	6,045	(300)
Construction in Progress	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net Capital Assets	<u>5,745</u>	<u>6,045</u>	<u>(300)</u>

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 establishing the sewer user charges (i.e., the Annual Charges) to the towns. The principal factors include, for example, anticipated contractual charges from the Pequannock, Lincoln Park & Fairfield Sewerage Authority (i.e., the Two Bridges Sewerage Authority); the need for repairs/replacements of 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, the latter primarily through increases in the Two Bridges Sewerage Authority charges.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2012**

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, 2012, the Capital Reserve Fund balance was \$1,775,000.00.

Contacting the Authority

This financial report is designed to provide the Authority's Participants and the Borough of Riverdale, as well as System users, the general public, investors 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, it may be obtained from the Authority's website at PRBRSA.org or by contacting 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
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	2012	2011
<u>CURRENT ASSETS:</u>		
Cash and Cash equivalents	\$ 3,806,600	3,078,100
Investments	-	
Prepaid Expenses	220,867	216,437
Total Current Assets	4,027,467	3,294,537
<u>NON-CURRENT ASSETS:</u>		
Restricted:		
Cash and Cash equivalents	1,489,374	1,098,017
Investments	785,905	1,639,905
Accrued Interest Receivable	39,566	44,788
	2,314,845	2,782,710
Capital Assets:		
Interceptor	11,975,978	11,975,978
Less: Accumulated Depreciation	(6,230,827)	(5,931,427)
Net Capital Assets	5,745,151	6,044,551
Other Assets:		
Receivable from Two Bridges Sewerage Authority	2,042,641	2,626,929
Unamortized Debt Issue Costs	148,242	219,699
	2,190,883	2,846,628
Total Non-current Assets	10,250,879	11,673,889
TOTAL ASSETS	\$ 14,278,346	14,968,426

See accompanying Notes to the Financial Statements.

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

EXHIBIT A
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	2012	2011
<u>LIABILITIES:</u>		
Current Liabilities:		
Payable from Unrestricted Assets:		
Accounts Payable and Accrued Liabilities	\$ 44,580	44,518
Prepaid Revenue	300	300
	44,880	44,818
Payable from Restricted Assets:		
Bonds Payable - Current Portion	1,105,015	1,092,913
Accrued Interest Payable	45,558	139,133
	1,150,573	1,232,046
Total Current Liabilities	1,195,453	1,276,864
Non-Current Liabilities:		
Sewer Revenue Bonds Payable	3,991,488	5,406,321
Total Non-Current Liabilities	3,991,488	5,406,321
TOTAL LIABILITIES	5,186,941	6,683,185
<u>NET ASSETS:</u>		
Invested in Capital Assets, net of Related Debt	2,839,531	2,391,945
Restricted:		
Bond Reserve	551,299	883,645
Renewal and Replacement	50,000	50,000
Debt Service Reserve	765,417	760,833
Operating Requirement	725,772	772,384
Construction Funds	176,799	176,715
Unrestricted		
Designated	2,730,624	2,251,245
Undesignated	1,251,963	998,474
TOTAL NET ASSETS	\$ 9,091,405	8,285,241

See accompanying Notes to the Financial Statements.

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

	<u>2012</u>	<u>2011</u>
<u>Operating Revenues:</u>		
Service Contracts with Municipalities	\$ 4,770,000	4,619,797
Application Fees		300
Total Operating Revenues	<u>4,770,000</u>	<u>4,620,097</u>
<u>Operating Expenses:</u>		
Cost of Providing Services	1,959,082	2,058,305
Administrative and General	439,017	426,651
Depreciation	299,399	299,399
Total Operating Expenses	<u>2,697,498</u>	<u>2,784,355</u>
Operating Income/(Loss)	<u>2,072,502</u>	<u>1,835,742</u>
<u>Non Operating Revenues (Expenses):</u>		
Interest Earned on Investments	84,490	68,686
Interest Earned on Receivable from Two Bridges Sewerage Authority	29,635	33,191
Income from NJ Wastewater Treatment Trust	4,732	4,620
Amortization of Bond Issue Costs	(26,062)	(26,970)
Amortization of Bond Premiums	8,756	5,586
Two Bridges Sewerage Authority Debt Service Charges	(1,069,608)	(944,427)
Interest Expense	(234,924)	(359,218)
Amortization of Loss on Advance Refunding	(63,357)	(59,453)
Total Non-Operating Revenues (Expenses)	<u>(1,266,338)</u>	<u>(1,277,985)</u>
Change in Net Assets	806,164	557,757
Net Assets - Beginning	<u>8,285,241</u>	<u>7,727,484</u>
Net Assets - Ending	<u>\$ 9,091,405</u>	<u>8,285,241</u>

See accompanying Notes to the Financial Statements.

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

EXHIBIT C
Page 1 of 2

	2012	2011
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Cash Received from Customers	\$ 5,354,288	5,201,129
Cash Paid to Suppliers	(3,472,075)	(3,407,512)
Interest Received	119,347	101,306
Interest Paid	(328,499)	(376,330)
	1,673,061	1,518,593
 <u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Income from NJ Wastewater Treatment Trust	4,732	4,620
Refunding Bond Proceeds	4,395,404	
Premium Received	225,574	
Payment to Series 2012 Refunding Escrow	(311,146)	
Issue Costs Paid	(133,855)	
Bonds Retired	(5,587,913)	(1,032,197)
	(1,407,204)	(1,027,577)
Net Cash Provided (Used) by Capital and Related Financing Activities		
	(1,407,204)	(1,027,577)
NET INCREASE / (DECREASE) IN CASH, CASH EQUIVALENTS AND INVESTMENTS	265,857	491,016
CASH, CASH EQUIVALENTS AND INVESTMENTS- BEGINNING OF YEAR	5,816,022	5,325,006
CASH, CASH EQUIVALENTS AND INVESTMENTS- END OF YEAR	\$ 6,081,879	5,816,022

See accompanying Notes to the Financial Statements.

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

EXHIBIT C
Page 2 of 2

	2012	2011
CHANGE IN NET ASSETS	\$ 806,164	557,757
Adjustments to Reconcile Net Income to Net		
Cash Provided by Operating Activities:		
Depreciation	299,399	299,400
Amortization of Gain/(Loss) on Advance Refunding of Debt	63,357	59,453
Amortization of Premium on Bonds	(8,756)	(5,586)
Amortization of Bond Issuance Costs	26,062	26,970
Income from NJ Wastewater Treatment Trust	(4,732)	(4,620)
(Increase)/Decrease in:		
Due from Two Bridges Sewerage Authority	584,288	580,732
Accrued Interest Receivable	5,222	(572)
Prepaid Expenses	(4,430)	14,384
(Decrease)/Increase in:		
Prepaid Revenue		300
Accounts Payable	62	7,487
Accrued Interest Payable	(93,575)	(17,112)
 Total Adjustments	 866,897	 960,836
 NET CASH PROVIDED BY OPERATING ACTIVITIES	 \$ 1,673,061	 1,518,593

See accompanying Notes to the Financial Statements.

Notes to Financial Statements

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2012 AND 2011

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, 2012 and 2011, interest income from Two Bridges amounted to \$29,635 and \$33,191, respectively. The balance of this receivable due from Two Bridges at October 31, 2012 and 2011 is \$2,042,641 and \$2,626,929, 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, 2012 AND 2011

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

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 - Southern Portion on that date.

On December 31, 2008, the Authority entered into four agreements collectively known as the "2008 Amendments" to the following agreements: (1) The December 20, 1985 Agreement with Two Bridges; (2) The 1990 Amendment to the 1985 Service Contract Between and Among the Boroughs of Bloomingdale, Butler and Kinnelon; (3) The 1987 Riverdale Service Contract; (4) a separate agreement between and among the Borough of Lincoln Park, the Authority and the Borough of Riverdale.

The 2008 Amendments increased the Authority's treatment capacity allocation in the Two Bridges system (from 2.50 mgd to 2.60 mgd) as well as the main sewer capacity (from 3.750 mgd to 3.925 mgd) and among other things, increased the Borough of Riverdale's reserve capacity allocation in the Authority's System from (0.309 mgd to 0.409 mgd) commensurately increasing the Authority's treatment plant and main sewer debt service obligations to Two Bridges.

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.

During the years ended October 31, 2012 and 2011, the charges between Two Bridges Sewerage Authority and the Pequannock River Authority for providing services were as follows:

	<u>2012</u>	<u>2011</u>
Operations and Maintenance	\$1,813,858	\$1,937,350
Administrative Expenses	218,033	210,702
Two Bridges Debt Service	<u>1,069,608</u>	<u>944,427</u>
	<u>\$3,101,499</u>	<u>\$3,092,479</u>

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2012 AND 2011**

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.

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.

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.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
 NOTES TO FINANCIAL STATEMENTS, CONTINUED
 OCTOBER 31, 2012 AND 2011**

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

C. Restricted Accounts, continued:

<u>Reserve Fund</u>	<u>Amount</u>	<u>Purpose</u>
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.

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 Fund 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.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2012 AND 2011

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

E. Investments:

U.S. Treasury and agency obligations and certificates of deposit with maturities of one year or less are stated at cost. All other investments are stated at fair 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 1998 Series I Bonds, the 1996 Series L Bonds, the 2002 Series M Bonds, and the 2012 Series N 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.

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.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2012 AND 2011

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

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.

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 a majority of the full membership 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.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2012 AND 2011

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

K. Budgetary Procedures, continued:

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.

A public hearing is conducted annually 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).

L. Recent Accounting Pronouncements

The Government Accounting Standards Board issued GASB Statement No. 60, Accounting and Financial Reporting for Services Concession Arrangements. This Statement improves financial reporting by addressing issues relating to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. The provisions of this Statement generally are required to be applied retroactively for all periods presented. As of October 31, 2012, the Authority had no such service concession agreements.

The Government Accounting Standards Board issued GASB Statement No. 61, The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34. The objective of this statement is to modify certain requirements for inclusion of component units in the financial reporting entity. Since the Authority has no component units, the provisions of this Statement do no apply to the reporting period ending October 31, 2012.

The Government Accounting Standards Board issued GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2012 AND 2011

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

L. Recent Accounting Pronouncements, continued:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins or the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure

This Pronouncement will have no effect on the financial presentation as of October 31, 2012.

The Government Accounting Standards Board issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources, inflows of resources, and net position as defined under the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Since the Authority reports only business-type activities as a program-specific entity, the provisions of this Statement are not applicable.

The Government Accounting Standards Board issued GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions - an amendment of GASB Statement No. 53*. The objective of this statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty of swap counterparty's credit support provider. The Authority has determined that this Statement is not applicable for the reporting period ending October 31, 2012.

NOTE 3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include petty cash, 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.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2012 AND 2011

NOTE 3. CASH AND CASH EQUIVALENTS, (continued)

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.

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, 2012, \$0- of the Authority's bank balance of \$6,042,857 was exposed to custodial credit risk.

As of October 31, 2012, the Authority's cash and cash equivalents are summarized as follows:

<u>Accounts</u>	Money Market/ Checking <u>Accounts</u>	NJ Cash Management <u>Fund</u>	<u>Total</u>
Unrestricted:			
Operating Account	\$(664,587)		(\$664,587)
Trustee funds	146,831	\$4,324,356	4,471,187
Restricted:			
Trustee Funds	<u>530,336</u>	<u>959,038</u>	<u>1,489,374</u>
	<u>\$12,580</u>	<u>\$5,283,394</u>	<u>\$5,295,974</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.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2012 AND 2011

NOTE 3. CASH AND CASH EQUIVALENTS, (continued)

New Jersey Cash Management Fund, (continued)

As of October 31, 2012, the Authority had \$5,283,394 on deposit with the New Jersey Cash Management Fund.

The carrying amount of the Authority's cash and cash equivalents at October 31, 2012 was \$5,295,974 and the bank balance was \$6,042,857. Of this amount, \$5,283,394 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 2012 and 2011, these earnings aggregated \$4,732 and \$4,620, 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.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2012 AND 2011

NOTE 5. INVESTMENTS, (continued)

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.

As of October 31, 2012, 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>			
FHLMC Discount Note	12/3/12	\$69,079	\$70,994
FHLMC	11/30/12	138,302	144,032
FHLMC Discount Note	12/3/12	19,442	19,998
<u>Bond Reserve Fund:</u>			
FHLMC Discount Note	12/3/12	<u>559,082</u>	<u>566,955</u>
		<u>\$785,905</u>	<u>\$801,979</u>

NOTE 6. PLANT AND EQUIPMENT

Plant and equipment are depreciated using the straight-line method over estimated useful lives of 40 years for the interceptor. Activity for the Authority's plant and equipment is summarized below:

	<u>Balance 10/31/11</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 10/31/12</u>
Interceptor	\$11,975,978	\$	\$	\$11,975,978
Less:				
Accumulated Depreciation	<u>5,931,427</u>	<u>299,400</u>	_____	<u>6,230,827</u>
Net Plant and Equipment	<u>\$6,044,551</u>	<u>\$299,400</u>	<u>\$</u> _____	<u>\$5,745,151</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2012 AND 2011

NOTE 7. DEBT ISSUE COSTS

Debt issue costs less accumulated amortization at October 31, 2012 and 2011 were \$148,242 and \$219,699, respectively.

NOTE 8. PREMIUM ON BONDS PAYABLE

The Authority received a premium of \$225,574 in connection with the issuance of the Sewer Revenue Refunding Bonds (Series 2012 N). 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, 2012 AND 2011

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 of the 2002 Series M Bonds have been used to currently refund and to defease 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.

On September 6, 2012, the Authority issued \$4,195,000 of Sewer Revenue Refunding Bonds (2012 Series N). The Bonds bear interest from 3.00% to 4.00% depending upon their maturity and have a final maturity of December 1, 2021. The bonds yields range from 1.100% to 2.720% providing a net original issuance premium of \$225,574 over the \$4,195,000 par amount of the Bonds and an underwriter's discount of \$25,170 yielding net proceeds of \$4,395,404.

The proceeds of the 2012 Series N Bonds have been used to currently refund all of the \$475,000 aggregate outstanding principle amount of the Authority's Sewer Revenue Bonds (1996 Series L) and all of the \$4,020,000 aggregate principal amount of the Authority's callable Sewer Revenue Refunding Bonds (2002 Series M) and pay the costs and expenses in connection with the issuance of the Bonds. The refunding resulted in a deferred loss on the refunding (difference between the reacquisition price and the net carrying amount of the old debt) of \$796,364 including \$555,244 of unamortized difference related to the 2002 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.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2012 AND 2011

NOTE 9. BONDS PAYABLE, (continued)

The following is a summary of the Authority's long-term debt transactions for the fiscal year ended October 31, 2012:

	<u>Balance</u> <u>10/31/11</u>	<u>Issued</u> <u>FY 2011</u>	<u>Refunded/ Retired</u> <u>FY 2012</u>	<u>Balance</u> <u>10/31/12</u>
1994 Series H	\$228,652	\$	\$76,193	\$152,459
1994 Series I	346,653		109,663	236,990
1995 Series J	122,851		32,057	90,794
1995 Series K	185,000		45,000	140,000
1996 Series L	510,000		510,000	0
2002 Series M	5,650,000		4,815,000	835,000
2012 Series N	<u> </u>	<u>4,195,000</u>	<u> </u>	<u>4,195,000</u>
	<u>\$7,043,156</u>	<u>\$4,195,000</u>	<u>\$5,587,913</u>	<u>\$5,650,243</u>

As of October 31, 2012 and 2011, the Authority had the following principal amounts of debt outstanding and unamortized gains and losses resulting from refunding transactions:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Original Issue Amount</u>	<u>2012</u>	<u>2011</u>
1994 Series H	0%	03/01/2014	\$1,390,384	\$152,459	\$228,652
1994 Series I	5.70-6.50%	03/01/2014	1,376,618	236,990	346,653
1995 Series J	0%	08/01/2015	583,043	90,794	122,851
1995 Series K	4.60-5.25%	08/01/2015	630,000	140,000	185,000
1996 Series L	3.85-6.00%	12/01/2021	835,000		510,000
2002 Series M	4.50-5.00%	12/01/2021	10,400,000	835,000	
2012 Series N	3.00%-4.00%	12/01/2021	4,195,000	<u>4,195,000</u>	<u>5,650,000</u>
				<u>5,650,243</u>	<u>7,043,156</u>
Add: Unamortized gain resulting from refunding transaction:					
				6,672	10,674
					53,528
				221,473	
Less: Unamortized losses resulting from refunding transactions:					
					(608,124)
				<u>(781,885)</u>	<u>(608,124)</u>
				<u>(553,740)</u>	<u>(543,922)</u>
Net Carrying Amount of Debt				<u>\$5,096,503</u>	<u>\$6,499,234</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2012 AND 2011

NOTE 9. BONDS PAYABLE, (continued)

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

	<u>2012</u>	<u>2011</u>
1994 Series I Bonds	\$26,080	\$31,237
1995 Series K Bonds	9,122	11,647
1996 Series L Bonds	16,777	30,688
2002 Series M Bonds	162,312	285,646
2012 Series N Bonds	<u>20,633</u>	<u> </u>
	<u>234,924</u>	<u>359,218</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	52,880	
2012 Defeasance of Series 1996 L and 2002 M	14,479	63,456
Amortization of Bond Premium - 2002 Series M	(4,654)	(5,586)
Amortization of Bond Premium - 2012 Series N	<u>(4,101)</u>	<u> </u>
	<u>54,601</u>	<u>53,867</u>
	<u>\$289,525</u>	<u>\$413,085</u>

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

Year Ending <u>October 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$1,105,016	\$148,703	\$1,253,719
2014	874,393	145,763	1,020,156
2015	1,065,834	104,750	1,170,584
2016	1,035,000	71,825	1,106,825
2017	650,000	46,550	696,550
2018-2022	<u>920,000</u>	<u>95,000</u>	<u>1,015,000</u>
	<u>\$5,650,243</u>	<u>\$612,591</u>	<u>\$6,262,834</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2012 AND 2011

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>2012</u>	<u>2011</u>
Invested in Capital Assets -		
Net of Related Debt	\$2,839,531	\$2,391,945
Restricted:		
Bond Reserve Fund	551,299	883,645
Renewal and Replacement Fund	50,000	50,000
Debt Service Reserve Fund	765,417	760,833
Operating Reserve Fund	725,772	772,384
Unexpended Construction funds	<u>176,799</u>	<u>176,715</u>
Subtotal Restricted	<u>2,269,287</u>	<u>2,643,577</u>
Unrestricted:		
Designated	2,730,624	2,251,245
Undesignated	<u>1,251,919</u>	<u>998,474</u>
Subtotal Unrestricted	<u>3,982,543</u>	<u>3,249,719</u>
	<u>\$9,091,361</u>	<u>\$8,285,241</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 (currently, Wells Fargo) as "Provider" and with First Union National Bank (currently, US 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 5.86% 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.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2012 AND 2011**

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

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

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") (currently, Wells Fargo) 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).

Simultaneously with the issuance of the 2012 Series N Refunding Bonds, the Forward Delivery Agreements/Guaranteed Investment Contracts between the Authority and Wells Fargo, NA were amended reducing the Bond Reserve Requirement held in the DSRF by \$277,780.32. The previously guaranteed interest rates were not amended. The Guaranteed Investment Contracts will continue to earn a net of 5.86% DSRF and 6.54% on the Bond Service Fund (DSF). However, since the DSRF arbitrage yield was lowered to 1.656503% as a result of the refunding, the investment income earned on the DSRF balances will be subject to substantially higher rebates due to the Internal Revenue Service in future years. The DSF cash flows are not subject to rebate or yield restriction.

NOTE 12. COMMITMENTS AND CONTINGENCIES

The Authority's management and attorney has informed us that they are unaware of any other 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 October 31, 2012 includes the following amounts:

<u>Purpose</u>	<u>Amount</u>
Capital Reserve	\$1,775,000
Operating Reserve	550,245
Bond Service Reserve	272,671
Insurance Reserve	20,000
2002 Series M Arbitrage Rebate Reserve	15,000
TBSA User Charge Reserve	97,708
	<u>\$2,730,624</u>

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, 2011		\$ <u>(647,282)</u>
Cash Receipts:		
Interest on Investments	\$ 13	
Transfer from:		
Revenue Account	<u>2,950,473</u>	<u>2,950,486</u>
 TOTAL CASH AND CASH EQUIVALENTS AVAILABLE		 2,303,204
 Cash Disbursements:		
Operations	\$ 2,923,273	
Accounts Payable	<u>44,518</u>	<u>2,967,791</u>
 CASH AND CASH EQUIVALENTS -		
OCTOBER 31, 2012		\$ <u><u>(664,587)</u></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>Revenue Account</u>	<u>Construction Account (#1)</u>	<u>Construction Account (#2)</u>	<u>Construction Account (#3)</u>	<u>Construction Account (#4)</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, NOVEMBER 1, 2011	\$ 4,353,830	\$ 90,083	\$ 15,959	\$ 41,923	\$ 28,750
<u>CASH RECEIPTS:</u>					
Interest on Investments	946	42	8	20	14
Service Contracts-Municipal	4,770,000				
Miscellaneous					
Transfer From:					
Revenue Fund					
Renewal and Replacement Fund	173				
Bond Reserve Fund	179,089				
Bond Service Fund (Principal)	148,043				
Bond Service Fund (Interest)	43,415				
	<u>5,141,666</u>	<u>42</u>	<u>8</u>	<u>20</u>	<u>14</u>
<u>CASH DISBURSEMENTS:</u>					
Bond Principal	262,912				
Interest on Bonds	31,638				
Payment to Refunding Escrow					
Transfers To:					
Operating Account	2,950,473				
Revenue Fund					
General Fund	2,698,953				
Bond Service Fund	97,869				
Bond Service Fund (Principal)	894,583				
Bond Service Fund (Interest)	259,313				
	<u>7,195,741</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, OCTOBER 31, 2012	\$ 2,299,755	\$ 90,125	\$ 15,967	\$ 41,943	\$ 28,764
<u>Analysis of Balance:</u>					
Restricted	\$ 732,175	\$ 90,125	\$ 15,967	\$ 41,943	\$ 28,764
Unrestricted	1,567,580	-	-	-	-
	<u>\$ 2,299,755</u>	<u>\$ 90,125</u>	<u>\$ 15,967</u>	<u>\$ 41,943</u>	<u>\$ 28,764</u>
Cash and Cash Equivalents	\$ 2,299,755	\$ 90,125	\$ 15,967	\$ 41,943	\$ 28,764
Investments	-	-	-	-	-
	<u>\$ 2,299,755</u>	<u>\$ 90,125</u>	<u>\$ 15,967</u>	<u>\$ 41,943</u>	<u>\$ 28,764</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, 2011	\$ 56,254	\$ 208	\$ 730,911	\$ 104,479
<u>CASH RECEIPTS:</u>				
Interest on Investments	967		21,537	3,058
Service Contracts-Municipal				
Miscellaneous	101,761			
Transfer From:				
Revenue Fund	2,698,953	97,869	894,583	259,313
Operating Account				
Bond Reserve Fund				
Bond Service Fund (Principal)				
Bond Service Fund (Interest)				
	<u>2,801,681</u>	<u>97,869</u>	<u>916,120</u>	<u>262,371</u>
<u>CASH DISBURSEMENTS:</u>				
Bond Principal		35,000	795,000	
Interest on Bonds		29,504		262,625
Payment to Refunding Escrow		33,365		
Transfers To:				
Operating Account				
Revenue Fund			148,043	43,415
General Fund				
Bond Service Fund				
Bond Service Fund (Principal)				
Bond Service Fund (Interest)				
	<u>-</u>	<u>97,869</u>	<u>943,043</u>	<u>306,040</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, OCTOBER 31, 2012	\$ 2,857,935	\$ 208	\$ 703,988	\$ 60,810
<u>Analysis of Balance:</u>				
Restricted	\$ -	\$ 208	\$ 703,988	\$ 60,810
Unrestricted	2,857,935	-	-	-
	<u>\$ 2,857,935</u>	<u>\$ 208</u>	<u>\$ 703,988</u>	<u>\$ 60,810</u>
Cash and Cash Equivalents	\$ 2,857,935	\$ 208	\$ 496,607	\$ 41,368
Investments	-	-	207,381	19,442
	<u>\$ 2,857,935</u>	<u>\$ 208</u>	<u>\$ 703,988</u>	<u>\$ 60,810</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>Bond Reserve Account</u>	<u>Bond Reserve Forward Delivery</u>	<u>Renewal and Replacement Account</u>	<u>Total</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, NOVEMBER 1, 2011	\$ 582	\$ 990,155	\$ 50,170	\$ 6,463,304
<u>CASH RECEIPTS:</u>				
Interest on Investments		63,084	23	89,699
Service Contracts-Municipal				4,770,000
Miscellaneous				101,761
Transfer From:				
Revenue Fund				3,950,718
Operating Account				173
Bond Reserve Fund				179,089
Bond Service Fund (Principal)				148,043
Bond Service Fund (Interest)				43,415
	<u>-</u>	<u>63,084</u>	<u>23</u>	<u>9,282,898</u>
<u>CASH DISBURSEMENTS:</u>				
Bond Principal				1,092,912
Interest on Bonds				323,767
Payment to Refunding Escrow		277,781		311,146
Transfers To:				
Operating Account				2,950,473
Revenue Fund		179,089	173	370,720
General Fund				2,698,953
Bond Service Fund				97,869
Bond Service Fund (Principal)				894,583
Bond Service Fund (Interest)				259,313
	<u>-</u>	<u>456,870</u>	<u>173</u>	<u>8,999,736</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, OCTOBER 31, 2012	\$ 582	\$ 596,369	\$ 50,020	\$ 6,746,466
<u>Analysis of Balance:</u>				
Restricted	\$ -	\$ 551,299	\$ 50,000	\$ 2,275,279
Unrestricted	582	45,070	20	4,471,187
	<u>\$ 582</u>	<u>\$ 596,369</u>	<u>\$ 50,020</u>	<u>\$ 6,746,466</u>
Cash and Cash Equivalents	\$ 582	\$ 37,287	\$ 50,020	\$ 5,960,561
Investments	-	559,082	-	785,905
	<u>\$ 582</u>	<u>\$ 596,369</u>	<u>\$ 50,020</u>	<u>\$ 6,746,466</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET
YEAR ENDED OCTOBER 31, 2012
WITH COMPARATIVE ACTUAL AMOUNTS
FOR THE YEAR ENDED OCTOBER 31, 2011

	<u>2012</u> <u>Budget</u>	<u>2012 Budget</u> <u>After</u> <u>Modifications</u>	<u>2012</u> <u>Actual</u>	<u>2011</u> <u>Actual</u>
<u>REVENUE:</u>				
Service Contracts with Municipalities	\$ 4,920,000	\$ 4,920,000	\$ 4,770,000	\$ 4,619,797
Two Bridges Sewerage Authority				
Annual Credit	613,923	613,923	613,923	613,923
Interest on Investments	56,000	56,000	84,490	68,686
Income from NJ Wastewater				
Treatment Trust	4,000	4,000	4,732	4,620
Application Fees	1,000	1,000		300
Miscellaneous Income	77	77		
TOTAL OPERATING REVENUES	<u>5,595,000</u>	<u>5,595,000</u>	<u>5,473,145</u>	<u>5,307,326</u>
<u>EXPENSES:</u>				
Operations and Maintenance Expenses:				
Professional Services	57,000	57,000	59,841	53,420
Contract Services	260,000	260,000	85,383	67,535
State and Federal Compliance	10,000	10,000		
Operating Reserve	89	89		
Two Bridges Sewerage Authority	2,052,000	2,052,000	1,813,858	1,937,350
Total Operating Expenses	<u>2,379,089</u>	<u>2,379,089</u>	<u>1,959,082</u>	<u>2,058,305</u>
Administrative and General Expenses:				
Professional Services	241,000	241,000	176,254	176,850
Insurance	15,000	15,000	12,074	12,545
Office Expenses	10,000	10,000	9,406	9,062
Professional Expenses	9,000	9,000	4,500	4,000
Financial Services	29,000	29,000	18,750	13,492
Two Bridges Sewerage Authority	220,000	220,000	218,033	210,702
Total Administrative and General Expenses	<u>524,000</u>	<u>524,000</u>	<u>439,017</u>	<u>426,651</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET
YEAR ENDED OCTOBER 31, 2012
WITH COMPARATIVE ACTUAL AMOUNTS
FOR THE YEAR ENDED OCTOBER 31, 2011

SCHEDULE 3
Page 2 of 2

	<u>2012 Budget</u>	<u>2012 Budget After Modifications</u>	<u>2012 Actual</u>	<u>2011 Actual</u>
Debt Service:				
Bond Principal	1,633,162	1,633,162	1,633,162	1,470,553
Interest on Bonds	868,749	868,749	764,283	865,290
Total Debt Service	<u>2,501,911</u>	<u>2,501,911</u>	<u>2,397,445</u>	<u>2,335,843</u>
Reserves:				
Capital Reserve Fund	190,000	190,000	190,000	125,000
Total Reserves	<u>190,000</u>	<u>190,000</u>	<u>190,000</u>	<u>125,000</u>
TOTAL COSTS FUNDED BY OPERATING REVENUE	<u>5,595,000</u>	<u>5,595,000</u>	<u>4,985,544</u>	<u>4,945,799</u>
EXCESS	\$ <u> </u>	\$ <u> </u>	\$ <u>487,601</u>	\$ <u>361,527</u>

Reconciliation of Budgetary Basis

To Change in Net Assets:

Depreciation Expense		(299,399)	(299,399)
Amortization of Debt Issue Costs		(26,061)	(26,970)
Amortization of Bond Premium		8,756	5,586
Amortization of Deferred Gain/Loss on Early Extinguishment of Debt		(63,357)	(59,453)
Capital Reserve Fund Appropriation		190,000	125,000
TBSA Debt Service Principal		(540,250)	(438,355)
Loan Principal Receipts		(584,288)	(580,732)
Bond Principal Payments		1,633,162	1,470,553
Total Adjustments		<u>318,563</u>	<u>196,230</u>
Change in Net Assets		<u>806,164</u>	<u>557,757</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF BONDS PAYABLE
OCTOBER 31, 2012

	<u>Date</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturities Date</u>	<u>Maturities Amount</u>	<u>Balance Nov. 1, 2011</u>	<u>Issued</u>	<u>Redeemed or Retired</u>	<u>Balance Oct. 31, 2012</u>
1994A Series H Bonds	10/26/1994	\$ 1,390,384	0.000%	3/1/2013	74,836				
				9/1/2013	2,369				
				3/1/2014	75,254				
						228,652		76,193	152,459
1998F Series I Bonds	9/1/1998	\$ 1,376,618	Various	3/1/2013	117,138				
				3/1/2014	119,852				
						346,653		109,663	236,990
1995 Series J Bonds	11/9/1995	\$ 583,043	0.000%	8/1/2013	30,672				
				8/1/2014	29,289				
				8/1/2015	30,833				
						122,851		32,057	90,794

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF BONDS PAYABLE
OCTOBER 31, 2012

	<u>Date</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturities Date</u>	<u>Maturities Amount</u>	<u>Balance Nov. 1, 2011</u>	<u>Issued</u>	<u>Redeemed or Retired</u>	<u>Balance Oct. 31, 2012</u>
1995 Series K	11/9/1995	\$ 630,000	5.250%	8/1/2013	45,000				
			5.250%	8/1/2014	45,000				
			5.250%	8/1/2015	50,000				
						185,000	-	45,000	140,000
1996 Series L	6/1/1996	\$ 835,000				510,000	-	510,000	-
2002 Series M	12/2/2002	\$ 10,400,000	5.000%	12/1/2012	835,000	5,650,000		4,815,000	835,000

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF BONDS PAYABLE
OCTOBER 31, 2012

	Original		Interest Rate	Maturities	Balance Nov. 1, 2011	Issued	Redeemed or Retired	Balance Oct. 31, 2012
	Date	Amount						
2012 Series N	9/6/2012	\$ 4,195,000	3.000%	12/1/2013	605,000			
			3.000%	12/1/2014	985,000			
			3.000%	12/1/2015	1,035,000			
			3.000%	12/1/2016	650,000			
			4.000%	12/1/2017	170,000			
			4.000%	12/1/2018	175,000			
			4.000%	12/1/2019	185,000			
			4.000%	12/1/2020	190,000			
			4.000%	12/1/2021	200,000			
						4,195,000	-	4,195,000
GRAND TOTALS					7,043,156	4,195,000	5,587,913	5,650,243
Analysis of Balance:					1,092,913		(12,102)	1,105,015
Current Portion					5,950,243	4,195,000	5,600,015	4,545,228
Long-Term Portion					7,043,156	4,195,000	5,587,913	5,650,243

ROSTER OF OFFICIALS

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

Robert Voorman	Chairman (1), (2)	Borough of Bloomingdale
Raymond Verdonik	Vice Chairman (1), (2)	Borough of Butler
Edwin Howard	Secretary (1)	Borough of Bloomingdale
James P. Lampmann	Treasurer/Asst. Secretary (1)	Borough of Butler
E. J. Gall	Commissioner (1)	Borough of Kinnelon
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. GWPKG0119203 in the amount of \$1,000,000 per occurrence/\$3,000,000 aggregate issued by the Arch Insurance Company expiring June 23, 2013.

(2) Also serves as PRBRSA Member on the Two Bridges Sewerage Authority.

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

Charles J. Ferraioli, Jr., MBA, CPA, RMA
Steven D. Wielkocz, CPA, RMA
James J. Cerullo, CPA, RMA
Paul J. Cuva, CPA, RMA
Thomas M. Ferry, 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 9, 2013

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, 2012 and 2011, and have issued our report thereon dated January 9, 2013. 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

Management of the Pequannock River Basin Regional Sewerage Authority is responsible for establishing and maintaining effective 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 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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.



The Honorable Chairman and Members
of the Pequannock River Basin Regional
Sewerage Authority
January 9, 2013
Page 2.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 and use 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, Wielkote, Cerullo & Cuva P.A.
FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants

Pompton Lakes, New Jersey 07442



PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
COMMENTS AND RECOMMENDATIONS

Contracts and Agreements

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 only by resolution of the governing body of the contracting unit to the lowest responsible bidder after public advertising for bids and bidding therefor, except as is provided otherwise in this act or specifically by any other law.”

Effective April 17, 2000 and thereafter the bid thresholds in accordance with N.J.S.A. 40A:11-3 (as amended) is \$17,500.00 and \$25,000.00 with a qualified purchasing agent. On July 1, 2010, the bid threshold was increased to \$36,000.00 with a qualified 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 total sum of \$17,500.00, 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 bid threshold within the contract year. Where question arises as to whether any contract or agreement might result in violation of the statute, the Authority’s Counsel’s opinion should be sought before a commitment is made.

Resolutions were adopted authorizing the awarding of contracts and agreements for "Professional Services" N.J.S. 40A:11-5.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
COMMENTS AND RECOMMENDATIONS, (CONTINUED)

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 material or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear cut violation existed. No violations were disclosed.

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

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED OCTOBER 31, 2012

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 2012 as there were no grant expenditures for the year ended October 31, 2012.

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, 2012

There were no findings of noncompliance noted for the prior year as ended October 31, 2011.

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, Wielkutz, Cerullo & Cuva P.A.

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