

**PEQUANNOCK RIVER BASIN  
REGIONAL SEWERAGE AUTHORITY**

**Financial Statements**

**Years Ended October 31, 2013 and 2012**

**(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

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of the Pequannock River Basin Regional Sewerage Authority as of October 31, 2013 and 2012, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### ***Auditor's Responsibility***

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 audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pequannock River Basin Regional Sewerage Authority as of October 31, 2013 and 2012, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 13 to the financial statements, in 2013 the Authority adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that 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.

The Honorable Chairman and Members of the  
Pequannock River Basin Regional Sewerage Authority  
Page 3.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Pequannock River Basin Regional Sewerage Authority's financial statements. The schedule of cash receipts, cash disbursements and changes in cash and cash equivalents - unrestricted operating account; schedule of cash receipts, cash disbursements and changes in cash and cash equivalents and investments - trustee restricted and unrestricted accounts; schedule of operating revenue and costs funded by operating revenue compared to budget; schedule of bonds payable; and roster of officials (collectively referred to as the "Supplementary Schedules") are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplemental schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2013 on our consideration of the Pequannock River Basin Regional Sewerage Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Pequannock River Basin Regional Sewerage Authority's internal control over financial reporting and compliance.

Very truly yours,

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

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants  
Pompton Lakes, New Jersey

December 19, 2013



**Required Supplementary Information**

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
OCTOBER 31, 2013**

*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, 2013 and 2012. 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 \$9,536,903 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$8,943,163, (restated).
- Total net position are comprised of the following:
  - (1) Capital assets, net of related debt, of \$2,912,361 include plant and equipment, net of accumulated depreciation, and reduced for outstanding debt related to the purchase or construction of capital assets.
  - (2) Net position of \$1,978,396 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
  - (3) Unrestricted net position of \$4,646,146 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority decreased by \$1,064,383 to \$4,676,298 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 Position* 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, 2013**

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Position*. 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 Position* and the *Statement of Revenues, Expenses and Changes in Net Position* report information about the Authority's activities in a way that will help answer this question. These two statements report net position of the Authority and the changes in those assets. The reader can think of the Authority's net position – 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 position 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, 2013**

**Net Position**

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

The Authority's net position at fiscal year-end are \$9,536,903. This is a \$593,740 increase over the prior year's net position of \$8,943,163. A summary of the Authority's statement of net position is presented in the following table:

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

	<u>FY 2013</u>	<u>Restated FY 2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>FY 2011</u>
Current and Other Assets	8,199	8,385	(186)	(2.22)%	8,924
Capital Assets	5,519	5,745	(226)	(3.93)%	6,044
Deferred Outflow of Resources	<u>692</u>	<u>775</u>	<u>(83)</u>	<u>(10.71)%</u>	<u>        </u>
Total Assets and Deferred Outflows	<u>14,410</u>	<u>14,905</u>	<u>(495)</u>		<u>14,968</u>
Liabilities	4,676	5,741	(1,065)	(18.55)%	<u>6,683</u>
Deferred Inflows of Resources	<u>197</u>	<u>221</u>	<u>(24)</u>	<u>(10.86)%</u>	
Total Liabilities and Deferred Inflows	<u>4,873</u>	<u>5,962</u>	<u>(1,089)</u>		<u>6,683</u>
Invested in Capital Assets, Net of Related Debt	2,912	2,691	221	8.21%	2,392
Restricted	1,979	2,269	(290)	(12.78)%	2,643
Unrestricted	<u>4,646</u>	<u>3,983</u>	<u>663</u>	<u>16.65%</u>	<u>3,250</u>
Net Position	<u>9,537</u>	<u>8,943</u>	<u>594</u>	<u>6.64%</u>	<u>8,285</u>

While the *Statement of Net Position* shows the change in financial position of Net Position, the *Statement of Revenues, Expenses and Changes in Net Position* provides answers as to the nature and source of these changes. As can be seen in the following table, net position increased by \$593,740.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
OCTOBER 31, 2013**

**Net Position (Continued)**

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

	<u>FY 2013</u>	<u>Restated FY 2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>FY 2011</u>
Operating Revenues	4,810	4,770	40	0.84%	4,620
Non-Operating Revenues	<u>61</u>	<u>119</u>	<u>(58)</u>	(48.74)%	<u>106</u>
Total Revenues	<u>4,871</u>	<u>4,889</u>	<u>(18)</u>		<u>4,726</u>
Depreciation Expense	299	299	0	0.00%	299
Amortization	58	55	3	5.45%	81
Other Operating Expenses	2,678	2,398	280	11.68%	2,485
Other Non-Operating Expense	<u>1,242</u>	<u>1,305</u>	<u>(63)</u>	(4.83)%	<u>1,303</u>
Total Expenses	<u>4,277</u>	<u>4,057</u>	<u>220</u>		<u>4,168</u>
Change in Net Position	594	832	(238)	(28.61)%	558
Beginning Net Position	<u>8,943</u>	<u>8,111</u>	<u>832</u>	10.26%	<u>7,727</u>
Ending Net Position	<u>9,537</u>	<u>8,943</u>	<u>594</u>	6.64%	<u>8,285</u>

The Authority's Operating Revenues increased by \$40,000 to \$4,810,000 in 2013 from \$4,770,000 in 2012 primarily due to municipal service contracts in 2013. Nonoperating Revenues decreased by \$57,531 to \$61,326 from \$118,857 mainly due to a decrease 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, 2013**

The following table provides a 2013 budget comparison:

<b>Budget vs. Actual FY 2013 (000's)</b>			
	<u><b>Budget</b></u>	<u><b>Actual</b></u>	<u><b>Difference</b></u>
<b>Revenues:</b>			
Operating	5,065	4,810	(255)
Non-Operating		262	262
TBSA Loan Receivable	<u>590</u>	<u>590</u>	<u>0</u>
	<u>5,655</u>	<u>5,662</u>	<u>7</u>
<b>Expenses:</b>			
Operating	2,941	2,679	262
Capital Reserve	355	355	
2012 Series N Reserve	30	30	0
Debt Service	<u>2,329</u>	<u>2,347</u>	<u>(18)</u>
	<u>5,655</u>	<u>5,411</u>	<u>244</u>
<b>Income Before Depreciation and Amortization</b>	<u><b>-0-</b></u>	<u><b>251</b></u>	<u><b>251</b></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 2013 Annual Charges to the four towns served by the PRBRSA:

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
OCTOBER 31, 2013**

**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%		\$950,000	\$950,000			
991,000	38.11%		991,000		\$991,000		
250,000	9.62%		250,000			\$250,000	
409,000	15.73%		409,000				\$409,000
2,600,000	100.00%	\$2,600,000	\$2,600,000	\$950,000	\$991,000	\$250,000	\$409,000

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

<u>Gallons of Consumption</u>	<u>Percent of Consumption</u>	<u>O&amp;M Charge</u>	<u>Total</u>	<u>Bloomingtondale</u>	<u>Butler</u>	<u>Kinnelon</u>	<u>Riverdale</u>
770,000	36.16%		661,200	\$661,200			
980,000	46.01%		872,300		\$872,300		
130,000	6.10%		91,900			\$91,900	
250,000	11.73%		284,600				\$284,600
2,130,000	100.00%	\$1,910,000	\$1,910,000	\$661,200	\$872,300	\$91,900	\$284,600
Refund		(\$200,000)		(\$64,600)	(\$88,520)	(\$8,680)	(\$38,220)
NET		\$1,710,000		\$596,600	\$783,780	\$83,240	\$246,380

**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	36.16%		173,100	\$173,100			
980,000	46.01%		228,300		\$228,300		
130,000	6.10%		24,100			\$24,100	
250,000	11.73%		74,500				\$74,500
2,130,000	100.00%	\$500,000	\$500,000	\$173,100	\$228,300	\$24,100	\$74,500

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
OCTOBER 31, 2013**

**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>
	1,784,300	\$1,784,300			
	2,091,000		\$2,091,000		
	366,000			\$366,000	
	768,000				\$768,000
	\$5,010,000	\$5,010,000	\$1,784,300	\$2,091,600	\$366,000
Net	\$4,810,000	\$4,810,000	\$1,719,700	\$2,003,080	\$357,340
					\$768,100
					\$729,880

**REVENUES**

Total Annual Charges	\$5,010,000	(Net \$4,810,000)
Plus:		
Retained Earnings	0	
Investment Income	26,000	
Application Fees and Misc.	5,077	
Interest: State Loan Bonds	0	
TBSA Debt Service Credit	<u>613,923</u>	
<b>TOTAL FY 2013 BUDGETED REVENUES</b>	<b><u>\$5,655,000</u></b>	<b>(Net \$5,455,000)</b>

**APPROPRIATIONS**

Debt Service:	
TBSA Contract Payments	1,075,276
Direct PRBRSA	1,253,719
Capital Reserve Fund	355,000
2012 Series N Reserve	<u>30,500</u>
Total	2,714,495
Administrative:	
TBSA Contract Payments	235,125
Direct PRBRSA	<u>304,000</u>
Total	539,125
Operation and Maintenance:	
TBSA Contract Payments	2,072,421
Direct PRBRSA	327,000
Operating Reserve	<u>1,959</u>
Total	2,401,380

**TOTAL FY 2013 BUDGETED APPROPRIATIONS** **\$5,655,000**

As indicated above, in FY 2013, the Authority refunded \$200,000 to the municipalities from net unrestricted assets.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
OCTOBER 31, 2013**

**Third Amendment to Debt Service Forward Delivery Agreements (Guaranteed Investment Contract)**

Effective September 26, 2013, the Authority entered into the Third Amendment to the Debt Service Forward Delivery Agreement to amend the Guaranteed Investment Contracts between and among the Authority, Wells Fargo, NA and US Bank. The previously guaranteed interest rates were not amended. Both the Debt Service and the Debt Service Reserve Guaranteed Investment Contracts will continue to earn a net of 5.86% DSRF and 6.54% on the Bond Service Fund (DSF). The DSRF arbitrage yield was lowered to 1.656503% as a result of the refunding. Accordingly, income earned on the DSRF will be subject to substantially higher rebates due to the Internal Revenue Service in future years. Since the DSF cash flows are not subject to arbitrage/permitted yield limitations, no rebates will be due IRS non the DSF income.

**Capital Assets**

At the end of 2013, the Authority had invested \$11,975,978 in capital assets. The Authority's net plant and equipment at fiscal year-end was \$5,518,829. This is a \$226,322 decrease over last year's net plant, property and equipment of \$5,745,151. A summary of the Authority's capital assets is presented in the following table:

	<b>Capital Assets (000's)</b>			
	<u><b>FY 2013</b></u>	<u><b>FY 2012</b></u>	<u><b>Dollar Change</b></u>	<u><b>FY 2011</b></u>
Interceptor	<u>11,976</u>	<u>11,976</u>	<u>-0-</u>	<u>11,976</u>
Total Capital Assets	<u>11,976</u>	<u>11,976</u>	<u>-0-</u>	<u>11,976</u>
Less: Accumulated Depreciation	<u>(6,530)</u>	<u>(6,231)</u>	<u>(299)</u>	<u>(5,931)</u>
	5,446	5,745	(299)	6,045
Construction in Progress	<u>73</u>	<u>-0-</u>	<u>73</u>	<u>      </u>
Net Capital Assets	<u><u>5,519</u></u>	<u><u>5,745</u></u>	<u><u>(226)</u></u>	<u><u>6,045</u></u>

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
OCTOBER 31, 2013**

**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.

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, 2013, the Capital Reserve Fund balance was \$2,275,000.00.

**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](http://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 POSITION**  
**OCTOBER 31,**

**EXHIBIT A**  
Page 1 of 2

	<b>2013</b>	<b>Restated 2012</b>
<b><u>CURRENT ASSETS:</u></b>		
Cash and Cash equivalents	\$ 4,458,035	3,806,600
Prepaid Expenses	247,363	220,867
Total Current Assets	4,705,398	4,027,467
<b><u>NON-CURRENT ASSETS:</u></b>		
Restricted:		
Cash and Cash equivalents	953,838	1,489,374
Investments	1,067,479	785,905
Accrued Interest Receivable	19,755	39,566
	2,041,072	2,314,845
Capital Assets:		
Interceptor	11,975,978	11,975,978
Less: Accumulated Depreciation	(6,530,226)	(6,230,827)
	5,445,752	5,745,151
Construction in Progress	73,077	
Net Capital Assets	5,518,829	5,745,151
Other Assets:		
Receivable from Two Bridges Sewerage Authority	1,452,427	2,042,641
	1,452,427	2,042,641
Total Non-current Assets	9,012,328	10,102,637
<b>TOTAL ASSETS</b>	<b>13,717,726</b>	<b>14,130,104</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES:</u></b>		
Unamortized Loss on Refunding of Debt	692,340	775,213
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 692,340</b>	<b>775,213</b>

See accompanying Notes to the Financial Statements.

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

**EXHIBIT A**  
Page 2 of 2

	<b>2013</b>	<b>Restated 2012</b>
<b><u>LIABILITIES:</u></b>		
Current Liabilities:		
Payable from Unrestricted Assets:		
Accounts Payable and Accrued Liabilities	\$ 48,551	44,580
Prepaid Revenue	10,701	300
	59,252	44,880
Payable from Restricted Assets:		
Bonds Payable - Current Portion	874,395	1,105,015
Accounts Payable	9,142	
Accrued Interest Payable	62,676	45,558
	946,213	1,150,573
Total Current Liabilities	1,005,465	1,195,453
Non-Current Liabilities:		
Sewer Revenue Bonds Payable	3,670,833	4,545,228
Total Non-Current Liabilities	3,670,833	4,545,228
<b>TOTAL LIABILITIES</b>	<b>4,676,298</b>	<b>5,740,681</b>
<b><u>DEFERRED INFLOWS OF RESOURCES:</u></b>		
Unamortized Bond Premium	196,865	221,473
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>196,865</b>	<b>221,473</b>
<b><u>NET POSITION:</u></b>		
Invested in Capital Assets, net of Related Debt	2,912,361	2,691,289
Restricted:		
Bond Reserve	526,210	551,299
Renewal and Replacement	50,000	50,000
Debt Service Reserve	554,583	765,417
Operating Requirement	734,637	725,772
Construction Funds	112,966	176,799
Unrestricted		
Designated	3,230,624	2,730,624
Undesignated	1,415,522	1,251,963
<b>TOTAL NET POSITION</b>	<b>\$ 9,536,903</b>	<b>8,943,163</b>

See accompanying Notes to the Financial Statements.

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

	<b>2013</b>	<b>Restated 2012</b>
<b><u>Operating Revenues:</u></b>		
Service Contracts with Municipalities	\$ 4,810,000	4,770,000
Total Operating Revenues	4,810,000	4,770,000
<b><u>Operating Expenses:</u></b>		
Cost of Providing Services	2,188,540	1,959,082
Administrative and General	489,856	439,017
Depreciation	299,399	299,399
Total Operating Expenses	2,977,795	2,697,498
<b>Operating Income/(Loss)</b>	<b>1,832,205</b>	<b>2,072,502</b>
<b><u>Non Operating Revenues (Expenses):</u></b>		
Interest Earned on Investments	28,951	84,490
Interest Earned on Receivable from Two Bridges Sewerage Authority	23,708	29,635
Income from NJ Wastewater Treatment Trust	8,247	4,732
Miscellaneous	420	
Amortization of Bond Premiums	24,608	8,756
Two Bridges Sewerage Authority Debt Service Charges	(1,075,705)	(1,069,608)
Interest Expense	(165,821)	(234,924)
Amortization of Loss on Advance Refundings	(82,873)	(63,357)
Total Non-Operating Revenues (Expenses)	(1,238,465)	(1,240,276)
<b>Change in Net Position</b>	<b>593,740</b>	<b>832,226</b>
<b>Net Position - Beginning (As previously reported)</b>	<b>8,943,163</b>	<b>8,285,241</b>
<b>Prior Period Adjustment:</b>		
Cumulative Effect of change in Accounting Principle - Implementation of GASB No. 65	(174,304)	(174,304)
<b>Net Position - Beginning (As Restated)</b>	<b>8,943,163</b>	<b>8,110,937</b>
<b>Net Position - Ending</b>	<b>\$ 9,536,903</b>	<b>8,943,163</b>

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

	<b>2013</b>	<b>Restated 2012</b>
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>		
Cash Received from Customers	\$ 5,411,035	5,354,288
Cash Paid to Suppliers	(3,776,626)	(3,472,075)
Interest Received	72,470	119,347
Interest Paid	(148,703)	(328,499)
	1,558,176	1,673,061
<b><u>CASH FLOWS FROM INVESTING ACTIVITIES:</u></b>		
Sale/(Purchase) of Investments	(281,574)	854,000
Purchase of Property, Plant and Equipment	(63,935)	
	(345,509)	854,000
<b><u>CASH FLOWS FROM FINANCING ACTIVITIES:</u></b>		
Income from NJ Wastewater Treatment Trust	8,247	4,732
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	(1,105,015)	(5,587,913)
	(1,096,768)	(1,407,204)
Net Cash Provided (Used) by Capital and Related Financing Activities		
<b>NET INCREASE / (DECREASE) IN CASH, CASH EQUIVALENTS AND INVESTMENTS</b>	115,899	1,119,857
<b>CASH, CASH EQUIVALENTS AND INVESTMENTS- BEGINNING OF YEAR</b>	5,295,974	4,176,117
<b>CASH, CASH EQUIVALENTS AND INVESTMENTS- END OF YEAR</b>	\$ 5,411,873	5,295,974
Classified As:	\$ 4,458,035	3,806,600
Unrestricted Assets	953,838	1,489,374
Restricted Assets	\$ 5,411,873	5,295,974

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

	<b>2013</b>	<b>Restated 2012</b>
<b>CHANGE IN NET POSITION</b>	\$ 593,740	832,226
<b>Adjustments to Reconcile Change In Net Position to</b>		
<b>Net Cash Provided by Operating Activities:</b>		
Depreciation	299,399	299,399
Amortization of Gain/(Loss) on Advance Refunding of Debt	82,873	63,357
Amortization of Premium on Bonds	(24,608)	(8,756)
Income from NJ Wastewater Treatment Trust	(8,247)	(4,732)
<b>(Increase)/Decrease in:</b>		
Due from Two Bridges Sewerage Authority	590,214	584,288
Accrued Interest Receivable	19,811	5,222
Prepaid Expenses	(26,496)	(4,430)
<b>(Decrease)/Increase in:</b>		
Prepaid Revenue	10,401	
Accounts Payable	3,971	62
Accrued Interest Payable	17,118	(93,575)
	964,436	840,835
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 1,558,176</b>	<b>1,673,061</b>

See accompanying Notes to the Financial Statements.

**Notes to Financial Statements**

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS**  
**OCTOBER 31, 2013 AND 2012**

**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, 2013 and 2012, interest income from Two Bridges amounted to \$23,708 and \$29,635, respectively. The principal balance of this receivable due from Two Bridges at October 31, 2013 and 2012 is \$1,452,427 and \$2,042,641, 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, 2013 AND 2012**

**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, 2013 and 2012, the charges between Two Bridges Sewerage Authority and the Pequannock River Authority for providing services were as follows:

	<u>2013</u>	<u>2012</u>
Operations and Maintenance	\$2,069,583	\$1,813,858
Administrative Expenses	233,749	218,033
Two Bridges Debt Service	<u>1,075,705</u>	<u>1,069,608</u>
	<u>\$3,379,037</u>	<u>\$3,101,499</u>



**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS, CONTINUED  
 OCTOBER 31, 2013 AND 2012**

**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.

**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, 2013 AND 2012**

**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, 2013 AND 2012**

**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/Deferred Outflow of Resources:**

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 expensed in the period incurred. When outstanding debt is advance refunded resulting in defeasance of 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 deferred outflow of resources 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, 2013 AND 2012**

**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, 2013 AND 2012**

**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. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The Authority has applied GASB No. 65 for the year ending October 31, 2013.

The Government Accounting Standards Board issued GASB Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statement No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a government financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting Guidance Contained in Pre-November 20, 1989 FASB and AICPA Pronouncements*. This Statement is effective for periods beginning after December 15, 2012. The Authority has determined that this Statement is not applicable for the reporting period ending October 31, 2013.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**OCTOBER 31, 2013 AND 2012**

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

**L. Recent Accounting Pronouncements, continued:**

The Government Accounting Standards Board issued GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local government pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision - useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. As the Authority had no employees, it has determined that this Statement is not applicable for the reporting period ending October 31, 2013.

The Government Accounting Standards Board issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve financial reporting by state and local government for pensions. It also improves information provided by state and local governmental employees about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating transparency. This Statement is effective for financial statements for fiscals years beginning after June 15, 2014. As the Authority had no employees, it has determined that this Statement is not applicable for the reporting period ending October 31, 2013.

The Government Accounting Standards Board issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term “government combinations” includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement is effective for financial statements beginning after December 15, 2013. The Authority does not believe this Statement will materially affect its current practice.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**OCTOBER 31, 2013 AND 2012**

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

**L. Recent Accounting Pronouncements, continued:**

In April of 2013, the Government Accounting Standards Board issued GASB Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees. The objective of this Statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This Statement is effective for reporting periods beginning after June 15, 2013. The Authority does not believe this Statement will materially affect its current practice.

**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.

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, 2013, \$-0- of the Authority's bank balance of \$5,867,281 was exposed to custodial credit risk.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**OCTOBER 31, 2013 AND 2012**

**NOTE 3. CASH AND CASH EQUIVALENTS, (continued)**

As of October 31, 2013, 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	\$(673,725)		(\$673,725)
Trustee funds	32,968	\$5,098,792	5,131,760
Restricted:			
Trustee Funds	<u>245,816</u>	<u>708,022</u>	<u>953,838</u>
	<u>(\$394,941)</u>	<u>\$5,806,814</u>	<u>\$5,411,873</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, 2013, the Authority had \$5,806,814 on deposit with the New Jersey Cash Management Fund.

The carrying amount of the Authority's cash and cash equivalents at October 31, 2013 was \$5,411,873 and the bank balance was \$5,867,281. Of this amount, \$5,806,814 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.



**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**OCTOBER 31, 2013 AND 2012**

**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 2013 and 2012, these earnings aggregated \$8,247 and \$4,732, 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, 2013 AND 2012**

**NOTE 5. INVESTMENTS, (continued)**

As of October 31, 2013, the Authority had the following investments:

**Restricted Accounts:**

<u>Investment</u>	<u>Maturity</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<b><u>Bond Service Fund:</u></b>			
FHLMC Discount Note	11/01/2013	\$60,012	\$61,000
FHLMC Discount Note	12/02/2013	120,046	122,000
FHLMC Discount Note	12/02/2013	362,044	366,000
<b><u>Bond Reserve Fund:</u></b>			
FHLMC Discount Note	12/02/2013	<u>525,377</u>	<u>533,000</u>
		<u>\$1,067,479</u>	<u>\$1,082,000</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 10/31/12</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 10/31/13</u>
Capital Assets, Not Being Depreciated:				
Depreciated:				
Construction in Progress	<u>                    </u>	<u>73,077</u>	<u>                    </u>	<u>\$73,077</u>
Total Capital Assets, Not Being Depreciated	<u>                    </u>	<u>73,077</u>	<u>                    </u>	<u>73,077</u>
Capital Assets, Being Depreciated:				
Interceptor	<u>11,975,978</u>	<u>                    </u>	<u>                    </u>	<u>11,975,978</u>
Total Capital Assets, Being Depreciated	<u>11,975,978</u>	<u>                    </u>	<u>                    </u>	<u>11,975,978</u>
Less: Accumulated Depreciation:				
Interceptor	<u>(6,230,827)</u>	<u>(299,399)</u>	<u>                    </u>	<u>(6,530,226)</u>
Total Accumulated Depreciation	<u>(6,230,827)</u>	<u>(299,399)</u>	<u>                    </u>	<u>(6,530,226)</u>
Total Capital Assets, Being Depreciated, Net	<u>5,745,151</u>	<u>(299,399)</u>	<u>                    </u>	<u>5,445,752</u>
Capital Assets, Net	<u>\$5,745,151</u>	<u>(\$226,322)</u>	<u>\$                    </u>	<u>\$5,518,829</u>

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**OCTOBER 31, 2013 AND 2012**

**NOTE 7. 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. The unamortized balance of this premium is shown on the Statement of Net Position as a Deferred Inflow of Resources.

**NOTE 8. 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). The 1996 Series L Bonds were defeased on issuance of the 2012 Series N Bonds.

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.

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.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**OCTOBER 31, 2013 AND 2012**

**NOTE 8. BONDS PAYABLE, (continued)**

The proceeds of the 2002 Series M Bonds were 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 deferred outflow of resources, 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 deferred outflow of resources, is being amortized over the life of the bonds using the straight-line method.

The following is a summary of the Authority's long-term debt transactions for the fiscal year ended October 31, 2013:

	Balance	Issued	Refunded/ Retired	Balance	Amount
	<u>10/31/12</u>	<u>FY 2013</u>	<u>FY 2013</u>	<u>10/31/13</u>	<u>Due Within One Year</u>
1994 Series H	\$152,459	\$	\$77,205	\$75,254	\$75,254
1994 Series I	236,990		117,138	119,852	119,852
1995 Series J	90,794		30,672	60,122	29,289
1995 Series K	140,000		45,000	95,000	45,000
2002 Series M	835,000		835,000	0	
2012 Series N	<u>4,195,000</u>	_____	_____	<u>4,195,000</u>	<u>605,000</u>
	<u>\$5,650,243</u>	<u>\$</u>	<u>\$1,105,015</u>	<u>\$4,545,228</u>	<u>\$874,395</u>

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**OCTOBER 31, 2013 AND 2012**

**NOTE 8. BONDS PAYABLE, (continued)**

As of October 31, 2013 and 2012, the Authority had the following principal amounts of debt outstanding and unamortized gains and losses resulting from refunding transactions:

	<u>Interest</u> <u>Rate</u>	<u>Maturity</u> <u>Date</u>	<u>Original</u> <u>Issue</u> <u>Amount</u>	<u>2013</u>	<u>2012</u>
1994 Series H	0%	03/01/2014	\$1,390,384	\$75,254	\$152,459
1994 Series I	5.70-6.50%	03/01/2014	1,376,618	119,852	236,990
1995 Series J	0%	08/01/2015	583,043	60,122	90,794
1995 Series K	4.60-5.25%	08/01/2015	630,000	95,000	140,000
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>4,195,000</u>
				<u>\$4,545,228</u>	<u>\$5,650,243</u>

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

	<u>2013</u>	<u>2012</u>
1994 Series I Bonds	\$20,308	\$26,080
1995 Series K Bonds	6,984	9,122
1996 Series L Bonds		16,777
2002 Series M Bonds	3,479	162,312
2012 Series N Bonds	<u>135,050</u>	<u>20,633</u>
	<u>165,821</u>	<u>234,924</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	86,876	14,479
Amortization of Bond Premium - 2002 Series M		(4,654)
Amortization of Bond Premium - 2012 Series N	<u>(24,608)</u>	<u>(4,101)</u>
	<u>58,265</u>	<u>54,601</u>
	<u>\$224,086</u>	<u>\$289,525</u>

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**OCTOBER 31, 2013 AND 2012**

**NOTE 8. BONDS PAYABLE, (continued)**

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

<u>Year Ending</u> <u>October 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$874,394	\$145,762	\$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	170,000	33,400	203,400
2019-2022	<u>750,000</u>	<u>61,600</u>	<u>811,600</u>
	<u>\$4,545,228</u>	<u>\$463,887</u>	<u>\$5,009,115</u>

**NOTE 9. NET ASSETS – RESTRICTED AND UNRESTRICTED**

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

	<u>2013</u>	<u>Restated</u> <u>2012</u>
Invested in Capital Assets - Net of Related Debt	<u>\$2,912,361</u>	<u>\$2,691,289</u>
Restricted:		
Bond Reserve Fund	526,210	551,299
Renewal and Replacement Fund	50,000	50,000
Debt Service Reserve Fund	554,583	765,417
Operating Reserve Fund	734,637	725,772
Unexpended Construction funds	<u>112,966</u>	<u>176,799</u>
Subtotal Restricted	<u>1,978,396</u>	<u>2,269,287</u>
Unrestricted:		
Designated	3,230,624	2,730,624
Undesignated	<u>1,415,522</u>	<u>1,251,963</u>
Subtotal Unrestricted	<u>4,646,146</u>	<u>3,982,587</u>
	<u>\$9,536,903</u>	<u>\$8,943,163</u>

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**OCTOBER 31, 2013 AND 2012**

**NOTE 10. 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 net 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.

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 were amended through the Second Amendment to the Debt Service Reserve Forward Delivery Agreement and the Second Amendment to the Debt Service Forward Delivery Agreement between and among the Authority, Wells Fargo, NA and US Bank, NA. The previously guaranteed interest rates were not amended. The Guaranteed Investment Contracts will continue to earn a net of 5.86% on the 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 restrictions.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS, CONTINUED  
OCTOBER 31, 2013 AND 2012**

**NOTE 10. INVESTMENT IN FORWARD DELIVERY AGREEMENTS, (continued)**

Effective September 26, 2013, the Authority entered into the Third Amendment to the Debt Service Forward Delivery Agreement between and among Wells Fargo NA, US Bank NA and the Authority (the “Third Amendment”).

The Third Amendment resolved an outstanding issue between the Authority and Wells Fargo on investments due under the Forward Delivery Agreement for the months of June, July, August and September 2013 during which time the principal amounts residing within the Authority’s Forward Delivery account remained uninvested. As of October 1, 2013, the principal amount of \$302,500 along with ongoing deposits of principal and interest were and will continue to be invested at the 6.54% guaranteed investment yield in accordance with the original Forward Delivery Agreement.

**NOTE 11. 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 12. DESIGNATION OF UNRESTRICTED NET ASSETS**

The Authority’s Unrestricted Net Assets – Designated at October 31, 2013 includes the following amounts:

<u>Purpose</u>	<u>Amount</u>
Capital Reserve	\$2,275,000
Operating Reserve	550,245
Bond Service Reserve	272,671
Insurance Reserve	20,000
2012 Series N Arbitrage Rebate Reserve	15,000
TBSA User Charge Reserve	<u>97,708</u>
	<u>\$3,230,624</u>



**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY**  
**NOTES TO FINANCIAL STATEMENTS, CONTINUED**  
**OCTOBER 31, 2013 AND 2012**

**NOTE 13. PRIOR PERIOD ADJUSTMENT AND RECLASSIFICATIONS**

During the fiscal year ended October 31, 2013, the Authority implemented GASB Statement No. 65 which required restatement of bond issuance costs. Under this Statement, all future bond issuance costs, other than the cost of insurance, will be expensed in the fiscal year the cost is incurred. Under prior statements, the bond issuance costs had been amortized, and therefore, the remaining bond issuance costs were written off to investment in capital assets, net of related debt. Additionally, in conformance with GASB Statement No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position", the following restatement of adjustments were made to the October 31, 2012 financial statements:

	Balance 10/31/12 as Previously <u>Reported</u>	Retroactive <u>Adjustments</u>	Balance 10/31/12 as Restated
Assets:			
Other Assets:			
Unamortized Debt Issue Costs	\$148,242	(148,242)	
Deferred Outflows of Resources:			
Unamortized Loss on Refunding of Debt		775,213	775,213
Total Assets	14,278,346	(148,242)	14,130,104
Net Position:			
Invested in Capital Assets, Net of Related Debt			
	2,839,531	(148,242)	2,691,289
Long-term Portion of Revenue Bonds	3,991,488	553,740	4,545,228
Deferred Inflows of Resources:			
Unamortized Bond Premiums		221,473	221,473

**NOTE 14. SUBSEQUENT EVENTS**

The Authority has evaluated subsequent events through December 19, 2013, the date which the financial statements were available to be issued and no additional items were noted for disclosure.

**Required Supplementary Information**

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

<b>CASH AND CASH EQUIVALENTS -</b>			
NOVEMBER 1, 2012			\$ <u>(664,587)</u>
<b>Cash Receipts:</b>			
Interest on Investments	\$	8	
Transfer from:			
Revenue Account		<u>3,353,137</u>	<u>3,353,145</u>
<b>TOTAL CASH AND CASH EQUIVALENTS AVAILABLE</b>			<u>2,688,558</u>
<b>Cash Disbursements:</b>			
Operations	\$	3,317,703	
Accounts Payable		<u>44,580</u>	<u>3,362,283</u>
<b>CASH AND CASH EQUIVALENTS -</b>			
OCTOBER 31, 2013			\$ <u><u>(673,725)</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**

	Revenue Fund	Construction Fund (#1)	Construction Fund (#2)	Construction Fund (#3)	Construction Fund (#4)
<b>CASH, CASH EQUIVALENTS AND INVESTMENTS, NOVEMBER 1, 2012</b>	\$ 2,299,755	\$ 90,125	\$ 15,967	\$ 41,943	\$ 28,764
<b><u>CASH RECEIPTS:</u></b>					
Interest on Investments	919	38	7	17	12
Service Contracts-Municipal	5,020,401				
Transfer From:					
Revenue Fund					
Construction Funds					
Bond Reserve Fund	68,580				
Bond Service Fund (Principal)	16,043				
Bond Service Fund (Interest)	101,180				
	<u>5,207,123</u>	<u>38</u>	<u>7</u>	<u>17</u>	<u>12</u>
<b><u>CASH DISBURSEMENTS:</u></b>					
Bond Principal	270,015				
Interest on Bonds	20,169				
Project Expenses					
Transfers To:					
Operating Account	3,353,137				
Revenue Fund					
Construction Funds		90,163	15,974	41,960	28,776
General Fund	500,000				
Bond Service Fund	643,641				
Bond Service Fund (Principal)	60,688				
Bond Service Fund (Interest)	139,167				
	<u>4,986,817</u>	<u>90,163</u>	<u>15,974</u>	<u>41,960</u>	<u>28,776</u>
<b>CASH, CASH EQUIVALENTS AND INVESTMENTS, OCTOBER 31, 2013</b>	\$ 2,520,061	\$ -	\$ -	\$ -	\$ -
<b><u>Analysis of Balance:</u></b>					
Restricted	\$ 781,649	\$ -	\$ -	\$ -	\$ -
Unrestricted	1,738,412	-	-	-	-
	<u>\$ 2,520,061</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Cash and Cash Equivalents	\$ 2,520,061	\$ -	\$ -	\$ -	\$ -
Investments	-	-	-	-	-
	<u>\$ 2,520,061</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<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>General Fund</u>	<u>Bond Service Fund</u>	<u>Bond Service "F" Principal</u>	<u>Bond Service "F" Interest</u>	<u>Series 2012 Prin. And Interest</u>
<b>CASH, CASH EQUIVALENTS AND INVESTMENTS, NOVEMBER 1, 2012</b>	\$ 2,857,935	\$ 208	\$ 703,988	\$ 60,810	\$ -
<b><u>CASH RECEIPTS:</u></b>					
Interest on Investments	1,812		7,888	557	6,055
Service Contracts-Municipal					
Transfer From:					
Revenue Fund	500,000		139,167	60,688	643,641
Construction Funds					
Bond Reserve Fund					
Bond Service Fund (Principal)					
Bond Service Fund (Interest)					
	<u>501,812</u>	<u>-</u>	<u>147,055</u>	<u>61,245</u>	<u>649,696</u>
<b><u>CASH DISBURSEMENTS:</u></b>					
Bond Principal			835,000		
Interest on Bonds				20,875	99,412
Project Expenses					
Transfers To:					
Operating Account					
Revenue Fund			16,043	101,180	
Construction Funds					
General Fund					
Bond Service Fund					
Bond Service Fund (Principal)					
Bond Service Fund (Interest)					
	<u>-</u>	<u>-</u>	<u>851,043</u>	<u>122,055</u>	<u>99,412</u>
<b>CASH, CASH EQUIVALENTS AND INVESTMENTS, OCTOBER 31, 2013</b>	\$ 3,359,747	\$ 208	\$ -	\$ -	\$ 550,284
<b><u>Analysis of Balance:</u></b>					
Restricted	\$ -	\$ 208	\$ -	\$ -	\$ 550,284
Unrestricted	3,359,747	-	-	-	-
	<u>\$ 3,359,747</u>	<u>\$ 208</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 550,284</u>
Cash and Cash Equivalents	\$ 3,359,747	\$ 208	\$ -	\$ -	\$ 8,182
Investments	-	-	-	-	542,102
	<u>\$ 3,359,747</u>	<u>\$ 208</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 550,284</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>Const. Fund 2013 Project</u>	<u>Bond Reserve Fund</u>	<u>Bond Reserve Forward Delivery</u>	<u>Renewal and Replacement Fund</u>	<u>Total</u>
<b>CASH, CASH EQUIVALENTS AND INVESTMENTS, NOVEMBER 1, 2012</b>	\$ -	\$ 582	\$ 596,369	\$ 50,020	\$ 6,746,466
<b><u>CASH RECEIPTS:</u></b>					
Interest on Investments	28		31,389	31	48,753
Service Contracts-Municipal					5,020,401
Transfer From:					
Revenue Fund					1,343,496
Construction Funds	176,873				176,873
Bond Reserve Fund					68,580
Bond Service Fund (Principal)					16,043
Bond Service Fund (Interest)					101,180
	<u>176,901</u>	<u>-</u>	<u>31,389</u>	<u>31</u>	<u>6,775,326</u>
<b><u>CASH DISBURSEMENTS:</u></b>					
Bond Principal					1,105,015
Interest on Bonds					140,456
Project Expenses	63,935				63,935
Transfers To:					
Operating Account					3,353,137
Revenue Fund			68,580		185,803
Construction Funds					176,873
General Fund					500,000
Bond Service Fund					643,641
Bond Service Fund (Principal)					60,688
Bond Service Fund (Interest)					139,167
	<u>63,935</u>	<u>-</u>	<u>68,580</u>	<u>-</u>	<u>6,368,715</u>
<b>CASH, CASH EQUIVALENTS AND INVESTMENTS, OCTOBER 31, 2013</b>	\$ 112,966	\$ 582	\$ 559,178	\$ 50,051	\$ 7,153,077
<b><u>Analysis of Balance:</u></b>					
Restricted	\$ 112,966	\$ -	\$ 526,210	\$ 50,000	2,021,317
Unrestricted	-	582	32,968	51	5,131,760
	<u>\$ 112,966</u>	<u>\$ 582</u>	<u>\$ 559,178</u>	<u>\$ 50,051</u>	<u>\$ 7,153,077</u>
 Cash and Cash Equivalents	\$ 112,966	\$ 582	\$ 33,801	\$ 50,051	6,085,598
Investments	-	-	525,377	-	1,067,479
	<u>\$ 112,966</u>	<u>\$ 582</u>	<u>\$ 559,178</u>	<u>\$ 50,051</u>	<u>\$ 7,153,077</u>

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY**  
**SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY**  
**OPERATING REVENUES COMPARED TO BUDGET**  
**YEAR ENDED OCTOBER 31, 2013**  
**WITH COMPARATIVE ACTUAL AMOUNTS**  
**FOR THE YEAR ENDED OCTOBER 31, 2012**

	2013 Budget	2013 Budget After Modifications	2013 Actual	2012 Actual
<b><u>REVENUE:</u></b>				
Net Assets Utilized	\$	\$ 200,000	\$ 200,000	\$ 4,770,000
Service Contracts with Municipalities	4,950,000	4,810,000	4,810,000	4,770,000
Two Bridges Sewerage Authority				
Annual Credit	613,923	613,923	613,923	613,923
Interest on Investments	56,000	26,000	28,951	84,490
Income from NJ Wastewater				
Treatment Trust	4,000	4,000	8,247	4,732
Application Fees	1,000	1,000		
Miscellaneous Income	77	77	420	
<b>TOTAL OPERATING REVENUES</b>	<b>5,625,000</b>	<b>5,655,000</b>	<b>5,661,541</b>	<b>5,473,145</b>
<b><u>EXPENSES:</u></b>				
<b>Operations and Maintenance Expenses:</b>				
Professional Services	57,000	57,000	48,213	59,841
Contract Services	260,000	260,000	70,744	85,383
State and Federal Compliance	10,000	10,000		
Operating Reserve	3,450	1,960		
Two Bridges Sewerage Authority	2,072,421	2,072,421	2,069,583	1,813,858
Total Operating Expenses	2,402,871	2,401,381	2,188,540	1,959,082
<b>Administrative and General Expenses:</b>				
Professional Services	241,000	241,000	193,069	176,254
Insurance	15,000	15,000	12,272	12,074
Office Expenses	10,000	10,000	8,540	9,406
Professional Expenses	9,000	9,000	4,500	4,500
Financial Services	29,000	29,000	37,726	18,750
Two Bridges Sewerage Authority	235,125	235,125	233,749	218,033
Total Administrative and General Expenses	539,125	539,125	489,856	439,017

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY**  
**SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY**  
**OPERATING REVENUES COMPARED TO BUDGET**  
**YEAR ENDED OCTOBER 31, 2013**  
**WITH COMPARATIVE ACTUAL AMOUNTS**  
**FOR THE YEAR ENDED OCTOBER 31, 2012**

**SCHEDULE 3**  
Page 2 of 2

	<u>2013 Budget</u>	<u>2013 Budget After Modifications</u>	<u>2013 Actual</u>	<u>2012 Actual</u>
<b>Debt Service:</b>				
Bond Principal	1,677,653	1,642,653	1,642,653	1,633,162
Interest on Bonds	815,351	686,341	703,889	764,283
<b>Total Debt Service</b>	<u>2,493,004</u>	<u>2,328,994</u>	<u>2,346,542</u>	<u>2,397,445</u>
<b>Reserves:</b>				
2012 Series N Reserve (BRR)		30,500	30,500	
Capital Reserve Fund	190,000	355,000	355,000	190,000
<b>Total Reserves</b>	<u>190,000</u>	<u>385,500</u>	<u>385,500</u>	<u>190,000</u>
<b>TOTAL COSTS FUNDED BY OPERATING REVENUE</b>	<u>5,625,000</u>	<u>5,655,000</u>	<u>5,410,438</u>	<u>4,985,544</u>
<b>EXCESS</b>	\$ <u><u>          </u></u>	\$ <u><u>          </u></u>	\$ <u><u>251,103</u></u>	\$ <u><u>487,601</u></u>

**Reconciliation of Budgetary Basis**

**To Change in Net Position:**

Depreciation Expense		(299,399)	(299,399)
Amortization of Bond Premium		24,608	8,756
Amortization of Deferred Gain/Loss on Early Extinguishment of Debt		(82,873)	(63,357)
Capital Reserve Fund Appropriation		355,000	190,000
Operating Reserve Fund Appropriation		30,500	
Net Assets Utilized		(200,000)	
TBSA Debt Service Principal		(537,638)	(540,250)
Loan Principal Receipts		(590,214)	(584,287)
Bond Principal Payments		1,642,653	1,633,162
<b>Total Adjustments</b>		<u>342,637</u>	<u>344,625</u>
<b>Change in Net Position</b>		<u><u>593,740</u></u>	<u><u>832,226</u></u>



PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY  
SCHEDULE OF BONDS PAYABLE  
OCTOBER 31, 2013

	<u>Date</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturities Date</u>	<u>Amount</u>	<u>Balance Nov. 1, 2012</u>	<u>Issued</u>	<u>Redeemed or Retired</u>	<u>Balance Oct. 31, 2013</u>
1994A Series H Bonds	10/26/1994	\$ 1,390,384	0.000%	3/1/2014	75,254	152,459	-	77,205	75,254
1998F Series I Bonds	9/1/1998	\$ 1,376,618	Various	3/1/2014	119,852	236,990	-	117,138	119,852
1995 Series J Bonds	11/9/1995	\$ 583,043	0.000%	8/1/2014 8/1/2015	29,289 30,833	90,794	-	30,672	60,122

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY**  
**SCHEDULE OF BONDS PAYABLE**  
**OCTOBER 31, 2013**

SCHEDULE 4  
Page 2 of 2

	Original		Interest Rate	Maturities		Balance Nov. 1, 2012	Issued	Redeemed or Retired	Balance Oct. 31, 2013
	Date	Amount		Date	Amount				
1995 Series K	11/9/1995	\$ 630,000	5.250%	8/1/2014	45,000	140,000	-	45,000	95,000
			5.250%	8/1/2015	50,000				
2002 Series M	12/2/2002	\$ 10,400,000				835,000		835,000	-
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							
<b>GRAND TOTALS</b>									
						4,195,000		-	4,195,000
						5,650,243		1,105,015	4,545,228
<b>Analysis of Balance:</b>									
Current Portion						1,105,015		230,620	874,395
Long-Term Portion						4,545,228		874,395	3,670,833
						5,650,243		1,105,015	4,545,228

## 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, 2014.
- (2) Also serves as PRBRSA Member on the Two Bridges Sewerage Authority.

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

Charles J. Ferraioli, Jr., MBA, CPA, RMA  
Steven D. Wielkotz, CPA, RMA  
James J. Cerullo, CPA, RMA  
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## INDEPENDENT AUDITOR'S 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

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

We have audited, 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, the financial statements of the Pequannock River Basin Regional Sewerage Authority, as of and for the year ended October 31, 2013, and the related notes to the financial statements, and have issued our report thereon dated December 19, 2013.

### *Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements, we considered the Pequannock River Basin Regional Sewerage Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions 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. Accordingly, we do not express an opinion on the effectiveness of the Pequannock River Basin Regional Sewerage Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***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 is intended solely for the information of the governing body, management, 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.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

***Ferraioli, Wielkatz, Cerullo & Cura, P.A.***

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.  
Certified Public Accountants  
Pompton Lakes, New Jersey

December 19, 2013



**Comments and Recommendations**

## PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY

### GENERAL COMMENTS

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 \$36,000.00, 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 has the responsibility of determining whether the expenditures in any category will exceed the statutory thresholds within the contract year. Where question arises as to whether any contract or agreement might result in violation of the statute, the 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. No violations were discovered.

The results of our examination indicated that no individual payments, contracts, or agreements were made "for the performance of any work or the furnishing or hiring of any materials or supplies," in excess of the statutory thresholds where there had been no advertising for bids in accordance with the provision of N.J.S.A. 40A:11-4.

Resolutions were adopted authorizing the awarding of contract 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, 2013**

**Summary of Auditor's Results:**

- An unmodified 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 2013 as there were no grant expenditures for the year ended October 31, 2013.

**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, 2013**

There were no findings of noncompliance noted for the prior year ended October 31, 2012.

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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, Wielkatz, Cerullo & Cura, P.A.*

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