

**PEQUANNOCK RIVER BASIN
REGIONAL SEWERAGE AUTHORITY**

Financial Statements

Years Ended October 31, 2014 and 2013

(With Independent Auditors' Report Thereon)

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY

TABLE OF CONTENTS

<u>Page</u>		<u>Exhibits</u>
1	Independent Auditor's Report	
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>		
4	Management Discussion and Analysis	
<u>FINANCIAL STATEMENTS</u>		
13	Comparative Statement of Net Position	A
15	Comparative Statement of Revenues, Expenses and Changes in Net Position	B
16	Comparative Statement of Cash Flows	C
18	Notes to Financial Statements	
<u>REQUIRED SUPPLEMENTARY SCHEDULES</u>		
		<u>Schedules</u>
36	Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Cash Equivalents - Unrestricted Operating Account	1
37	Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Cash Equivalents and Investments - Trustee Restricted and Unrestricted Accounts	2
39	Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to Budget - Year Ended October 31, 2014 With Comparative Actual Amounts for Year Ended October 31, 2013	3
41	Schedule of Bonds Payable	4
43	Roster of Officials	
44	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	
46	General Comments	
47	Schedule of Findings and Questioned Costs	
48	Summary Schedule of Prior Audit Findings	

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INDEPENDENT AUDITOR'S REPORT

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

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, 2014 and 2013, 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, 2014 and 2013, 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.

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.

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 31, 2014 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, WIELKOTZ, CERULLO & CUVA, P.A.
Certified Public Accountants
Pompton Lakes, New Jersey

December 31, 2014



**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
OCTOBER 31, 2014**

As management of the Pequannock River Basin Regional Sewerage Authority, in connection with the Authority's Financial Statements we offer this narrative overview and analysis of the Authority's financial performance during the fiscal year ended October 31, 2014 and 2013. 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 \$10,440,885 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$9,536,903.
- Total net position are comprised of the following:
 - (1) Capital assets, net of related debt, of \$2,777,043 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 \$2,367,846 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net position of \$5,295,996 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority decreased by \$613,797 to \$4,062,501 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, 2014**

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, 2014**

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 \$10,440,885. This is a \$903,982 increase over the prior year's net position of \$9,536,903. 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 2014</u>	<u>FY 2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Restated FY 2012</u>
Current and Other Assets	8,656	8,199	457	5.57%	8,385
Capital Assets	5,412	5,519	(107)	(1.94)%	5,745
Deferred Outflow of Resources	<u>608</u>	<u>692</u>	<u>(84)</u>	(12.14)%	<u>775</u>
Total Assets and Deferred Outflows	<u>14,676</u>	<u>14,410</u>	<u>266</u>		<u>14,905</u>
Liabilities	4,062	4,676	(614)	(13.13)%	5,741
Deferred Inflows of Resources	<u>172</u>	<u>197</u>	<u>(25)</u>	(12.69)%	<u>221</u>
Total Liabilities and Deferred Inflows	<u>4,234</u>	<u>4,873</u>	<u>(639)</u>		<u>5,962</u>
Invested in Capital Assets, Net of Related Debt	2,777	2,912	(135)	(4.64)%	2,691
Restricted	2,368	1,979	389	19.66%	2,269
Unrestricted	<u>5,296</u>	<u>4,646</u>	<u>650</u>	<u>13.99%</u>	<u>3,983</u>
Net Position	<u>10,441</u>	<u>9,537</u>	<u>904</u>	<u>9.48%</u>	<u>8,943</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 \$903,982.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2014**

Net Position (Continued)

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

	<u>FY 2014</u>	<u>FY 2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Restated FY 2012</u>
Operating Revenues	5,110	4,810	300	6.24%	4,770
Non-Operating Revenues	<u>73</u>	<u>61</u>	<u>12</u>	19.67%	<u>119</u>
Total Revenues	<u>5,183</u>	<u>4,871</u>	<u>312</u>		<u>4,889</u>
Depreciation Expense	299	299	0	0.00%	299
Amortization	60	58	2	3.45%	55
Other Operating Expenses	2,743	2,678	65	2.43%	2,398
Other Non-Operating Expense	<u>1,177</u>	<u>1,242</u>	<u>(65)</u>	(5.23)%	<u>1,305</u>
Total Expenses	<u>4,279</u>	<u>4,277</u>	<u>2</u>		<u>4,057</u>
Change in Net Position	904	594	310	52.19%	832
Beginning Net Position	<u>9,537</u>	<u>8,943</u>	<u>594</u>	6.64%	<u>8,111</u>
Ending Net Position	<u>10,441</u>	<u>9,537</u>	<u>904</u>	9.48%	<u>8,943</u>

The Authority's Operating Revenues increased by \$300,000 to \$5,110,000 in 2014 from \$4,810,000 in 2013 due to a net increase in municipal service contracts in 2014. Nonoperating Revenues increased by \$11,800 to \$73,126 from \$61,326 mainly due to an increase in interest on investments.

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, 2014**

The following table provides a 2014 budget comparison:

Budget vs. Actual FY 2014 (000's)			
	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Revenues:			
Operating	5,163	5,110	(53)
Non-Operating		74	74
TBSA Loan Receivable	<u>597</u>	<u>597</u>	<u>0</u>
	<u>5,760</u>	<u>5,781</u>	<u>21</u>
Expenses:			
Operating	3,015	2,743	272
Capital Reserve	620	620	
2012 Series N Reserve	30	30	0
Debt Service	<u>2,095</u>	<u>2,037</u>	<u>58</u>
	<u>5,760</u>	<u>5,430</u>	<u>330</u>
Income Before Depreciation and Amortization	<u>-0-</u>	<u>351</u>	<u>351</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 2014 Annual Charges to the four towns served by the PRBRSA:

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2014**

**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&M Charge</u>	<u>Total</u>	<u>Bloomingtondale</u>	<u>Butler</u>	<u>Kinnelon</u>	<u>Riverdale</u>
770,000	36.16%		687,200	\$687,200			
980,000	46.01%		906,500		\$906,500		
130,000	6.10%		95,500			\$95,500	
250,000	11.73%		295,800				\$295,800
2,130,000	100.00%	\$1,985,000	\$1,985,000	\$687,200	\$906,500	\$95,500	\$295,800

**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%		181,800	\$181,800			
980,000	46.01%		239,800		\$239,800		
130,000	6.10%		25,200			\$25,200	
250,000	11.73%		78,200				\$78,200
2,130,000	100.00%	\$525,000	\$525,000	\$181,800	\$239,800	\$25,200	\$78,200

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2014**

**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>
	1,819,000	\$1,819,000			
	2,137,300		\$2,137,300		
	370,800			\$370,800	
	782,900				\$782,900
\$5,110,000	\$5,110,000	\$1,819,000	\$2,137,300	\$370,800	\$782,900

REVENUES

Total Annual Charges	\$5,110,000
Plus:	
Retained Earnings	0
Investment Income	30,000
Application Fees and Misc.	2,077
Interest: State Loan Bonds	4,000
TBSA Debt Service Credit	<u>613,923</u>

TOTAL FY 2014 BUDGETED REVENUES **\$5,760,000**

APPROPRIATIONS

Debt Service:

TBSA Contract Payments	1,075,276
Direct PRBRSA	1,020,158
Capital Reserve Fund	620,000
2012 Series N Reserve	<u>30,000</u>
Total	2,745,434

Administrative:

TBSA Contract Payments	240,000
Direct PRBRSA	<u>308,000</u>
Total	548,000

Operation and Maintenance:

TBSA Contract Payments	2,145,000
Direct PRBRSA	319,000
Operating Reserve	<u>2,566</u>
Total	2,466,566

TOTAL FY 2014 BUDGETED APPROPRIATIONS **\$5,760,000**

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2014**

Second and 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.

The Second Amendment to the Debt Service Reserve Fund Forward Delivery Agreement remains in effect.

Capital Assets

At the end of 2014, the Authority had invested \$12,241,568 in capital assets. The Authority's net plant and equipment at fiscal year-end was \$5,411,942. This is a \$106,887 decrease over last year's net plant, property and equipment of \$5,518,829. A summary of the Authority's capital assets is presented in the following table:

Capital Assets (000's)				
	<u>FY 2014</u>	<u>FY 2013</u>	<u>Dollar Change</u>	<u>FY 2012</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>(6,830)</u>	<u>(6,530)</u>	<u>(300)</u>	<u>(6,231)</u>
	<u>5,146</u>	<u>5,446</u>	<u>(300)</u>	<u>5,745</u>
Construction in Progress	<u>266</u>	<u>73</u>	<u>193</u>	<u> </u>
Net Capital Assets	<u>5,412</u>	<u>5,519</u>	<u>(107)</u>	<u>5,745</u>

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2014**

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 and other factors as noted above, a Capital Reserve Fund was created in FY 2007. As of October 31, 2014, the Capital Reserve Fund balance was \$3,250,000

Contacting the Authority

This financial report is designed to provide the Authority's Participants and the Borough of Riverdale, as well as System users, the general public, investors and creditors, with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the fees it receives. If you have any questions about this report or need additional information, it may be obtained from the Authority's website at PRBRSA.org or by contacting the Pequannock River Basin Regional Sewerage Authority, Municipal Building, One Ace Road, Butler, NJ 07405. (Authority @ prbrsa.org).

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

EXHIBIT A
Page 1 of 2

	<u>2014</u>	<u>2013</u>
<u>CURRENT ASSETS:</u>		
Cash and Cash equivalents	\$ 4,891,070	4,458,035
Due From 2013 Project Fund	247,621	
Prepaid Expenses	244,566	247,363
	<u>5,383,257</u>	<u>4,705,398</u>
<u>NON-CURRENT ASSETS:</u>		
Restricted:		
Cash and Cash equivalents	1,064,776	953,838
Investments	1,308,089	1,067,479
Accrued Interest Receivable	44,346	19,755
	<u>2,417,211</u>	<u>2,041,072</u>
Capital Assets:		
Interceptor	11,975,978	11,975,978
Less: Accumulated Depreciation	(6,829,626)	(6,530,226)
	<u>5,146,352</u>	<u>5,445,752</u>
Construction in Progress	265,590	73,077
Net Capital Assets	<u>5,411,942</u>	<u>5,518,829</u>
Other Assets:		
Receivable from Two Bridges Sewerage Authority	855,099	1,452,427
	<u>855,099</u>	<u>1,452,427</u>
Total Non-current Assets	<u>8,684,252</u>	<u>9,012,328</u>
TOTAL ASSETS	<u>14,067,509</u>	<u>13,717,726</u>
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>		
Unamortized Loss on Refunding of Debt	608,133	692,340
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 608,133</u>	<u>692,340</u>

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

	<u>2014</u>	<u>2013</u>
<u>LIABILITIES:</u>		
Current Liabilities:		
Payable from Unrestricted Assets:		
Accounts Payable and Accrued Liabilities	\$ 52,146	48,551
Accrued Liabilities - Arbitrage Rebates	35,115	
Prepaid Revenue		10,701
	<u>87,261</u>	<u>59,252</u>
Payable from Restricted Assets:		
Bonds Payable - Current Portion	1,065,833	874,395
Due to Unrestricted Funds	247,621	
Accounts Payable	7,421	9,142
Accrued Interest Payable	49,365	62,676
	<u>1,370,240</u>	<u>946,213</u>
Total Current Liabilities	<u>1,457,501</u>	<u>1,005,465</u>
Non-Current Liabilities:		
Sewer Revenue Bonds Payable	<u>2,605,000</u>	<u>3,670,833</u>
Total Non-Current Liabilities	<u>2,605,000</u>	<u>3,670,833</u>
TOTAL LIABILITIES	<u>4,062,501</u>	<u>4,676,298</u>
<u>DEFERRED INFLOWS OF RESOURCES:</u>		
Unamortized Bond Premium	<u>172,256</u>	<u>196,865</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>172,256</u>	<u>196,865</u>
<u>NET POSITION:</u>		
Invested in Capital Assets, net of Related Debt	2,777,043	2,912,361
Restricted:		
Bond Reserve	495,494	526,210
Renewal and Replacement	50,000	50,000
Debt Service Reserve	902,917	554,583
Operating Requirement	753,000	734,637
Construction Funds	166,435	112,966
Unrestricted		
Designated	4,128,953	3,230,624
Undesignated	1,167,043	1,415,522
TOTAL NET POSITION	<u>\$ 10,440,885</u>	<u>9,536,903</u>

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,

	<u>2014</u>	<u>2013</u>
<u>Operating Revenues:</u>		
Service Contracts with Municipalities	\$ 5,110,000	4,810,000
Total Operating Revenues	<u>5,110,000</u>	<u>4,810,000</u>
<u>Operating Expenses:</u>		
Cost of Providing Services	2,296,108	2,188,540
Administrative and General	446,718	489,856
Depreciation	<u>299,399</u>	<u>299,399</u>
Total Operating Expenses	<u>3,042,225</u>	<u>2,977,795</u>
Operating Income/(Loss)	<u>2,067,775</u>	<u>1,832,205</u>
<u>Non Operating Revenues (Expenses):</u>		
Interest Earned on Investments	47,080	28,951
Interest Earned on Receivable from Two Bridges Sewerage Authority	16,596	23,708
Income from NJ Wastewater Treatment Trust	9,450	8,247
Miscellaneous		420
Amortization of Bond Premiums	24,608	24,608
Two Bridges Sewerage Authority Debt Service Charges	(1,029,868)	(1,075,705)
Interest Expense	(132,452)	(165,821)
Arbitrage Reserve	(15,000)	
Amortization of Loss on Advance Refundings	<u>(84,207)</u>	<u>(82,873)</u>
Total Non-Operating Revenues (Expenses)	<u>(1,163,793)</u>	<u>(1,238,465)</u>
Change in Net Position	903,982	593,740
Net Position - Beginning	<u>9,536,903</u>	<u>8,943,163</u>
Net Position - Ending	<u>\$ 10,440,885</u>	<u>9,536,903</u>

See accompanying Notes to the Financial Statements.

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

EXHIBIT C
Page 1 of 2

	<u>2014</u>	<u>2013</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Cash Received from Customers	\$ 5,099,299	4,820,821
Cash Paid to Suppliers	(2,736,434)	(2,700,921)
Interest Received	59,200	72,470
Interest Paid	(145,763)	(148,703)
Net Cash Provided (Used) by Operating Activities	<u>2,276,302</u>	<u>2,043,667</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Sale/(Purchase) of Investments	(240,610)	(281,574)
Purchase of Property, Plant and Equipment	(194,234)	(63,935)
Net Cash Provided (Used) by Financing Activities	<u>(434,844)</u>	<u>(345,509)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Income from NJ Wastewater Treatment Trust	9,450	8,247
TBSA Debt Service (net)	(432,540)	(485,491)
Bonds Retired	(874,395)	(1,105,015)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,297,485)</u>	<u>(1,582,259)</u>
NET INCREASE / (DECREASE) IN CASH, CASH EQUIVALENTS AND INVESTMENTS	543,973	115,899
CASH, CASH EQUIVALENTS AND INVESTMENTS- BEGINNING OF YEAR	<u>5,411,873</u>	<u>5,295,974</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS- END OF YEAR	<u>\$ 5,955,846</u>	<u>5,411,873</u>
Classified As:	\$ 4,891,070	4,458,035
Unrestricted Assets	<u>1,064,776</u>	<u>953,838</u>
Restricted Assets	<u>\$ 5,955,846</u>	<u>5,411,873</u>

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

	<u>2014</u>	<u>2013</u>
OPERATING INCOME/(LOSS)	\$ 2,067,775	1,832,205
Adjustments to Reconcile Operating Income/(Loss) to		
Net Cash Provided by Operating Activities:		
Depreciation	299,399	299,399
Interest Income	83,791	52,659
Interest Expense	(132,452)	(165,821)
Other Income		420
(Increase)/Decrease in:		
Accrued Interest Receivable	(24,591)	19,811
Prepaid Expenses	2,797	(26,496)
(Decrease)/Increase in:		
Prepaid Revenue	(10,701)	10,401
Accounts Payable	3,595	3,971
Accrued Interest Payable	(13,311)	17,118
Total Adjustments	<u>208,527</u>	<u>211,462</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,276,302</u>	<u>2,043,667</u>

See accompanying Notes to the Financial Statements.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2014 AND 2013

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, 2014 and 2013, interest income from Two Bridges amounted to \$16,596 and \$23,708, respectively. The principal balance of this receivable due from Two Bridges at October 31, 2014 and 2013 is \$855,099 and \$1,452,427, 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, 2014 AND 2013

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, 2014 and 2013, the charges between Two Bridges Sewerage Authority and the Pequannock River Authority for providing services were as follows:

	<u>2014</u>	<u>2013</u>
Operations and Maintenance	\$2,156,031	\$2,069,583
Administrative Expenses	234,742	233,749
Two Bridges Debt Service	<u>1,029,868</u>	<u>1,075,705</u>
	<u>\$3,420,641</u>	<u>\$3,379,037</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2014 AND 2013

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, 2014 AND 2013

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, 2014 AND 2013

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 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

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, 2014 AND 2013

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. Estimates are used in budgeting to determine depreciation expense and may be used in the determination of certain claims and judgment liabilities, among other accounts. 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, 2014 AND 2013

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. 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 fiscal years beginning after June 15, 2014. As the Authority had no employees, it is not anticipated to have any impact on the Authority's financial reporting.

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, 2014 AND 2013

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

L. Recent Accounting Pronouncements, continued:

In November 2013, the Government Accounting Standards Board (GASB) issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68". The provisions of this statement are required to be applied simultaneously with the provisions of Statement 68 which is effective for periods beginning after June 15, 2014. Since the Authority has no employees, it is not anticipated to have any impact on the Authority's financial reporting.

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, 2014, \$-0- of the Authority's bank balance of \$6,233,410 was exposed to custodial credit risk.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2014 AND 2013

NOTE 3. CASH AND CASH EQUIVALENTS, (continued)

As of October 31, 2014, 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	\$16,889		\$16,889
Trustee funds	63,684	\$4,810,497	4,874,181
Restricted:			
Trustee Funds	<u>36,634</u>	<u>1,028,142</u>	<u>1,064,776</u>
	<u>\$117,207</u>	<u>\$5,838,639</u>	<u>\$5,955,846</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, 2014, the Authority had \$5,838,639 on deposit with the New Jersey Cash Management Fund.

The carrying amount of the Authority's cash and cash equivalents at October 31, 2014 was \$5,955,846 and the bank balance was \$6,233,410. Of this amount, \$5,838,639 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, 2014 AND 2013

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 2014 and 2013, these earnings aggregated \$9,450 and \$8,247, 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, 2014 AND 2013

NOTE 5. INVESTMENTS, (continued)

As of October 31, 2014, the Authority had the following investments:

Restricted Accounts:

<u>Investment</u>	<u>Maturity</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>Bond Service Fund:</u>			
FHLMC Discount Note	11/21/14	\$7,768	\$8,000
FHLMC Discount Note	11/24/14	7,907	8,000
FHLMC Discount Note	11/26/14	7,815	8,000
FHLMC Discount Note	11/12/14	7,890	8,000
FHLMC Discount Note	11/14/14	78,224	80,999
FHLMC Discount Note	11/21/14	78,843	80,999
FHLMC Discount Note	11/26/14	78,274	79,998
FHLMC Discount Note	11/12/14	157,972	159,998
Federal Farm Credit Bank	11/19/14	77,904	81,055
Federal Home Loan Bank	11/28/14	77,437	79,998
Federal Home Loan Bank Discount Note	11/26/14	237,411	239,995
<u>Bond Reserve Fund:</u>			
Federal Home Loan Bank	11/28/14	490,644	504,985
		<u>\$1,308,089</u>	<u>\$1,340,027</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 10/31/13</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 10/31/14</u>
Capital Assets, Not Being Depreciated:				
Depreciated:				
Construction in Progress	<u>\$73,077</u>	<u>192,513</u>		<u>\$265,590</u>
Total Capital Assets, Not Being Depreciated	<u>73,077</u>	<u>192,513</u>		<u>265,590</u>
Capital Assets, Being Depreciated:				
Interceptor	<u>11,975,978</u>			<u>11,975,978</u>
Total Capital Assets, Being Depreciated	<u>11,975,978</u>			<u>11,975,978</u>
Less: Accumulated Depreciation:				
Interceptor	<u>(6,530,226)</u>	<u>(299,400)</u>		<u>(6,829,626)</u>
Total Accumulated Depreciation	<u>(6,530,226)</u>	<u>(299,400)</u>		<u>(6,829,626)</u>
Total Capital Assets, Being Depreciated, Net	<u>5,445,752</u>	<u>(299,400)</u>		<u>5,146,352</u>
Capital Assets, Net	<u>\$5,518,829</u>	<u>(\$106,887)</u>	<u>\$</u>	<u>\$5,411,942</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2014 AND 2013

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 had 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, 2014 AND 2013

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, 2014:

	Principal Balance <u>10/31/13</u>	Issued <u>FY 2014</u>	Refunded/ Retired <u>FY 2014</u>	Balance <u>10/31/14</u>	Principal Amount Due Within <u>One Year</u>
1994 Series H	\$75,254	\$	\$75,254	\$0	\$0
1994 Series I	119,852		119,852	0	0
1995 Series J	60,122		29,289	30,833	30,833
1995 Series K	95,000		45,000	50,000	50,000
2012 Series N	<u>4,195,000</u>	<u> </u>	<u>605,000</u>	<u>3,590,000</u>	<u>985,000</u>
	<u>\$4,545,228</u>	<u>\$</u>	<u>\$874,395</u>	<u>\$3,670,833</u>	<u>\$1,065,833</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2014 AND 2013

NOTE 8. BONDS PAYABLE, (continued)

As of October 31, 2014 and 2013, the Authority had the following principal amounts of debt outstanding and unamortized gains and losses resulting from refunding transactions:

	Interest <u>Rate</u>	Maturity <u>Date</u>	Original Issue <u>Amount</u>	<u>2014</u>	<u>2013</u>
1994 Series H	0%	03/01/2014	\$1,390,384	\$0	\$75,254
1994 Series I	5.70-6.50%	03/01/2014	1,376,618	0	119,852
1995 Series J	0%	08/01/2015	583,043	30,833	60,122
1995 Series K	4.60-5.25%	08/01/2015	630,000	50,000	95,000
2012 Series N	3.00%-4.00%	12/01/2021	4,195,000	<u>3,590,000</u>	<u>4,195,000</u>
				<u>\$3,670,833</u>	<u>\$4,545,228</u>

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

	<u>2014</u>	<u>2013</u>
1994 Series I Bonds	\$9,867	\$20,308
1995 Series K Bonds	4,172	6,984
2002 Series M Bonds		3,479
2012 Series N Bonds	<u>118,413</u>	<u>135,050</u>
	<u>132,452</u>	<u>165,821</u>
Amortization of Deferred Losses/Gains		
Resulting from Refunding Transactions:		
1998 NJ Wastewater Treatment Trust		
Refunding of Series 1994 A	(2,669)	(4,003)
2012 Defeasance of Series 1996 L and 2002 M	86,876	86,876
Amortization of Bond Premium - 2012 Series N	<u>(24,608)</u>	<u>(24,608)</u>
	<u>59,599</u>	<u>58,265</u>
	<u>\$192,051</u>	<u>\$224,086</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2014 AND 2013

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>
2015	\$1,065,833	\$104,751	\$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	175,000	26,500	201,500
2020-2022	<u>575,000</u>	<u>35,100</u>	<u>610,100</u>
	<u>\$3,670,833</u>	<u>\$318,126</u>	<u>\$3,988,959</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>2014</u>	<u>2013</u>
Invested in Capital Assets -		
Net of Related Debt	<u>\$2,777,043</u>	<u>\$2,912,361</u>
Restricted:		
Bond Reserve Fund	495,494	526,210
Renewal and Replacement Fund	50,000	50,000
Debt Service Reserve Fund	902,917	554,583
Operating Reserve Fund	753,000	734,637
Unexpended Construction funds	<u>166,435</u>	<u>112,966</u>
Subtotal Restricted	<u>2,367,846</u>	<u>1,978,396</u>
Unrestricted:		
Designated	4,128,953	3,230,624
Undesignated	<u>1,167,043</u>	<u>1,415,522</u>
Subtotal Unrestricted	<u>5,295,996</u>	<u>4,646,146</u>
	<u>\$10,440,885</u>	<u>\$9,536,903</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2014 AND 2013

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, "DSRF 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, "DSF 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, 2014 AND 2013

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, 2014, 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, 2014 includes the following amounts:

<u>Purpose</u>	<u>Amount</u>
Capital Reserve	\$3,250,000
Operating Reserve	550,245
Bond Service Reserve	211,000
Insurance Reserve	20,000
TBSA User Charge Reserve	<u>97,708</u>
	<u>\$4,128,953</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2014 AND 2013

NOTE 13. DUE FROM 2013 PROJECT CONSTRUCTION FUND

On April 23, 2014, in accordance with Authority Resolution No. R-14-4-2, \$240,000 was transferred from the Authority's Revenue Fund to the 2013 Project Construction Fund. This transfer was made as an advance to cover project expenses until the Authority closes on loans from the New Jersey Environmental Infrastructure Trust and the State of New Jersey. Additionally, a payment of \$7,621 was made out of the operating account for an expense relating to the Boonton Interceptor Project. These funds will be repaid when the State loan funds become available.

NOTE 14. FEDERAL ARBITRAGE REGULATIONS

The Authority is subject to Section 148 of the Internal Revenue Code as it pertains to the arbitrage rebate on all tax-exempt obligations, both long and short-term debt. Under the 1986 Tax Reform Act, the Internal Revenue Service (IRS) required that all excess earnings from investment proceeds be rebated to the IRS. Arbitrage, for purposes of these regulations, is defined as the difference between the yield on the investment and the yield on the obligations issued. If there are excess earnings, this amount may be required to be rebated to the IRS. At October 31, 2014, the Authority had a liability of \$35,115 for estimated arbitrage earnings due to the IRS.

NOTE 15. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through December 31, 2014, the date which the financial statements were available to be issued and no additional items were noted for disclosure, with the exception of the following:

On August 20, 2014, the Authority passed Resolution No. R-14-8-2 authorizing the issuance of not to exceed \$2,700,000 Subordinate Bonds (Series 2015) and providing for their sale to the New Jersey Environmental Infrastructure Trust and the State of New Jersey for improvements to the Authority's system.

SCHEDULE 1

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

CASH AND CASH EQUIVALENTS -
NOVEMBER 1, 2013

\$ (673,725)

Cash Receipts:

Interest on Investments

\$ 10

Transfer from:

Revenue Account

3,866,872

3,866,882

TOTAL CASH AND CASH EQUIVALENTS AVAILABLE

3,193,157

Cash Disbursements:

Operations

\$ 3,127,717

Accounts Payable

48,551

3,176,268

CASH AND CASH EQUIVALENTS -
OCTOBER 31, 2014

\$ 16,889

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	General Fund	Bond Service Fund	2012 Series N Interest	2012 Series N Principal
CASH, CASH EQUIVALENTS AND INVESTMENTS, NOVEMBER 1, 2013	<u>\$ 2,520,061</u>	<u>\$ 3,359,747</u>	<u>\$ 208</u>	<u>\$ 550,284</u>	<u>\$ -</u>
<u>CASH RECEIPTS:</u>					
Interest on Investments	883	2,114		7,929	9,421
Service Contracts-Municipal	5,099,299				
Other	14,443				
Transfer From:					
Revenue Fund		975,000		220,756	791,670
Construction Funds	1,825				
Bond Reserve Fund	22,147				
Bond Service Fund (Principal)					
Bond Service Fund (Interest)					
	<u>5,138,597</u>	<u>977,114</u>	<u>-</u>	<u>228,685</u>	<u>801,091</u>
<u>CASH DISBURSEMENTS:</u>					
Bond Principal	269,394			605,000	
Interest on Bonds	10,338			125,975	
Project Expenses					
Transfers To:					
Operating Account	3,866,872				
Revenue Fund					
Construction Funds	240,000				
General Fund	975,000				
Bond Reserve Fund FDA	12				
Bond Service Fund (Principal)	791,670				
Bond Service Fund (Interest)	220,756				
	<u>6,374,042</u>	<u>-</u>	<u>-</u>	<u>730,975</u>	<u>-</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, OCTOBER 31, 2014	<u>\$ 1,284,616</u>	<u>\$ 4,336,861</u>	<u>\$ 208</u>	<u>\$ 47,994</u>	<u>\$ 801,091</u>
<u>Analysis of Balance:</u>					
Restricted	\$ 811,643	\$ -	\$ 208	\$ 47,994	\$ 801,091
Unrestricted	<u>472,973</u>	<u>4,336,861</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,284,616</u>	<u>\$ 4,336,861</u>	<u>\$ 208</u>	<u>\$ 47,994</u>	<u>\$ 801,091</u>
 Cash and Cash Equivalents	 \$ 1,284,616	 \$ 4,336,861	 \$ 208	 \$ 16,614	 \$ 15,026
Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,380</u>	<u>786,065</u>
	<u>\$ 1,284,616</u>	<u>\$ 4,336,861</u>	<u>\$ 208</u>	<u>\$ 47,994</u>	<u>\$ 801,091</u>

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

	Bond Reserve Fund	Bond Reserve Forward Delivery	Renewal and Replacement Fund	Const. Fund 2013 Project	Total
CASH, CASH EQUIVALENTS AND INVESTMENTS, NOVEMBER 1, 2013	<u>\$ 582</u>	<u>\$ 559,178</u>	<u>\$ 50,051</u>	<u>\$ 112,966</u>	<u>\$ 7,153,077</u>
<u>CASH RECEIPTS:</u>					
Interest on Investments	1	22,135	29	81	42,593
Service Contracts-Municipal					5,099,299
Other					14,443
Transfer From:					
Revenue Fund		12		240,000	2,227,438
Construction Funds					1,825
Bond Reserve Fund					22,147
Bond Service Fund (Principal)					-
Bond Service Fund (Interest)					-
	<u>1</u>	<u>22,147</u>	<u>29</u>	<u>240,081</u>	<u>7,407,745</u>
<u>CASH DISBURSEMENTS:</u>					
Bond Principal					874,394
Interest on Bonds					136,313
Project Expenses				184,787	184,787
Transfers To:					
Operating Account					3,866,872
Revenue Fund		22,147		1,825	23,972
Construction Funds					240,000
General Fund					975,000
Bond Service Fund					12
Bond Service Fund (Principal)					791,670
Bond Service Fund (Interest)					220,756
	<u>-</u>	<u>22,147</u>	<u>-</u>	<u>186,612</u>	<u>7,313,776</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, OCTOBER 31, 2014	<u>\$ 583</u>	<u>\$ 559,178</u>	<u>\$ 50,080</u>	<u>\$ 166,435</u>	<u>\$ 7,247,046</u>
<u>Analysis of Balance:</u>					
Restricted	\$ -	\$ 495,494	\$ 50,000	\$ 166,435	2,372,865
Unrestricted	583	63,684	80	-	4,874,181
	<u>\$ 583</u>	<u>\$ 559,178</u>	<u>\$ 50,080</u>	<u>\$ 166,435</u>	<u>\$ 7,247,046</u>
Cash and Cash Equivalents	\$ 583	\$ 68,534	\$ 50,080	\$ 166,435	5,938,957
Investments	-	490,644	-	-	1,308,089
	<u>\$ 583</u>	<u>\$ 559,178</u>	<u>\$ 50,080</u>	<u>\$ 166,435</u>	<u>\$ 7,247,046</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET
YEAR ENDED OCTOBER 31, 2014
WITH COMPARATIVE ACTUAL AMOUNTS
FOR THE YEAR ENDED OCTOBER 31, 2013

	<u>2014</u>	<u>2014 Budget</u>	<u>After</u>	<u>2014</u>	<u>2013</u>
	<u>Budget</u>	<u>Modifications</u>	<u>Actual</u>	<u>Actual</u>	
<u>REVENUE:</u>					
Net Assets Utilized	\$	\$	\$	\$	200,000
Service Contracts with Municipalities	5,110,000	5,110,000	5,110,000	4,810,000	
Two Bridges Sewerage Authority					
Annual Credit	613,923	613,923	613,923	613,923	
Interest on Investments	30,000	30,000	47,080	28,951	
Income from NJ Wastewater					
Treatment Trust	4,000	4,000	9,450	8,247	
Application Fees	2,000	2,000			
Miscellaneous Income	77	77		420	
TOTAL OPERATING REVENUES	<u>5,760,000</u>	<u>5,760,000</u>	<u>5,780,453</u>	<u>5,661,541</u>	
<u>EXPENSES:</u>					
Operations and Maintenance Expenses:					
Professional Services	57,000	57,000	41,697	48,213	
Contract Services	252,000	252,000	98,380	70,744	
State and Federal Compliance	10,000	10,000			
Operating Reserve	2,568	2,568			
Two Bridges Sewerage Authority	2,145,000	2,145,000	2,156,031	2,069,583	
Total Operating Expenses	<u>2,466,568</u>	<u>2,466,568</u>	<u>2,296,108</u>	<u>2,188,540</u>	
Administrative and General Expenses:					
Professional Services	241,000	241,000	172,555	193,069	
Insurance	15,000	15,000	12,241	12,272	
Office Expenses	12,000	12,000	9,427	8,540	
Professional Expenses	10,000	10,000	4,500	4,500	
Financial Services	30,000	30,000	13,253	37,726	
Two Bridges Sewerage Authority	240,000	240,000	234,742	233,749	
Total Administrative and General Expenses	<u>548,000</u>	<u>548,000</u>	<u>446,718</u>	<u>489,856</u>	

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET
YEAR ENDED OCTOBER 31, 2014
WITH COMPARATIVE ACTUAL AMOUNTS
FOR THE YEAR ENDED OCTOBER 31, 2013

SCHEDULE 3
Page 2 of 2

	<u>2014 Budget</u>	<u>2014 Budget After Modifications</u>	<u>2014 Actual</u>	<u>2013 Actual</u>
Debt Service:				
Bond Principal	1,412,031	1,412,031	1,412,031	1,642,653
Interest on Bonds	<u>683,401</u>	<u>683,401</u>	<u>624,682</u>	<u>703,889</u>
Total Debt Service	<u>2,095,432</u>	<u>2,095,432</u>	<u>2,036,713</u>	<u>2,346,542</u>
Reserves:				
2012 Series N Reserve (BRR)	30,000	30,000	30,000	30,500
Capital Reserve Fund	<u>620,000</u>	<u>620,000</u>	<u>620,000</u>	<u>355,000</u>
Total Reserves	<u>650,000</u>	<u>650,000</u>	<u>650,000</u>	<u>385,500</u>
TOTAL COSTS FUNDED BY OPERATING REVENUE	<u>5,760,000</u>	<u>5,760,000</u>	<u>5,429,539</u>	<u>5,410,438</u>
EXCESS	\$ <u> </u>	\$ <u> </u>	\$ <u>350,914</u>	\$ <u>251,103</u>

Reconciliation of Budgetary Basis

To Change in Net Position:

Depreciation Expense	(299,399)	(299,399)
Amortization of Bond Premium	24,608	24,608
Amortization of Deferred Gain/Loss on Early Extinguishment of Debt	(84,207)	(82,873)
Capital Reserve Fund Appropriation	620,000	355,000
Operating Reserve Fund Appropriation	30,000	30,500
Net Assets Utilized		(200,000)
Arbitrage Reserve	(15,000)	
TBSA Debt Service Principal	(537,638)	(537,638)
Loan Principal Receipts	(597,327)	(590,214)
Bond Principal Payments	<u>1,412,031</u>	<u>1,642,653</u>
Total Adjustments	<u>553,068</u>	<u>342,637</u>
Change in Net Position	<u>903,982</u>	<u>593,740</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF BONDS PAYABLE
OCTOBER 31, 2014

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

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF BONDS PAYABLE
OCTOBER 31, 2014

	<u>Original</u>		<u>Interest</u>	<u>Maturities</u>	<u>Balance</u>	<u>Issued</u>	<u>Redeemed or</u>	<u>Balance</u>
	<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Date</u>	<u>Nov. 1, 2013</u>		<u>Retired</u>	<u>Oct. 31, 2014</u>
1995 Series K	11/9/1995	\$ 630,000	5.250%	8/1/2015	50,000	-	45,000	50,000
2012 Series N	9/6/2012	\$ 4,195,000	3.000%	12/1/2014	985,000			
			3.000%	12/1/2015	1,035,000			
			3.000%	12/1/2016	650,000			
			4.000%	12/1/2017	170,000			
			4.000%	12/1/2018	175,000			
			4.000%	12/1/2019	185,000			
			4.000%	12/1/2020	190,000			
			4.000%	12/1/2021	200,000			
					4,195,000		605,000	3,590,000
GRAND TOTALS					4,545,228	-	874,395	3,670,833
Analysis of Balance:								
Current Portion					874,395		(191,438)	1,065,833
Long-Term Portion					3,670,833		1,065,833	2,605,000
					4,545,228	-	874,395	3,670,833

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, Wielkottz, 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, 2015.

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

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

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

Certified Public Accountants
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973-835-7900
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Newton Office
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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, 2014, and the related notes to the financial statements, and have issued our report thereon dated December 31, 2014.

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.

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 & Cuva P.A.

FERRAIOLI, WIELKOTZ, CERULLO & CUVA, P.A.

Certified Public Accountants

Pompton Lakes, New Jersey

December 31, 2014



PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY

GENERAL COMMENTS

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

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, 2014

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 2014 as there were no grant expenditures for the year ended October 31, 2014.

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, 2014

There were no findings of noncompliance noted for the prior year ended October 31, 2013.

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