

**PEQUANNOCK RIVER BASIN
REGIONAL SEWERAGE AUTHORITY**

Financial Statements

Years Ended October 31, 2015 and 2014

(With Independent Auditors' Report Thereon)

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

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, 2015 and 2014, 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, 2015 and 2014, 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.



Honorable Chairperson 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 supplemental schedules and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the schedule of expenditures of state financial assistance as required by NJ OMB 04-04 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplemental information listed in the table of contents and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the schedule of expenditures of state financial assistance as required by NJ OMB 04-04 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules, schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the schedule of expenditures of state financial assistance as required by NJ OMB 04-04 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2016 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 & Cova, P.A.

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

January 28, 2016



**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
OCTOBER 31, 2015**

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, 2015 and 2014. 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 \$11,243,087 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities by \$10,440,885.
- Total net position are comprised of the following:
 - (1) Capital assets, net of related debt, of \$2,704,223 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 2,532,503 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted net position of \$6,006,361 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority increased by \$1,148,981 to \$5,211,482 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, 2015**

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, 2015**

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 \$11,243,087. This is a \$802,202 increase over the prior year's net position of \$10,440,885. 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 2015</u>	<u>FY 2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>FY 2013</u>
Current and Other Assets	9,836	8,656	1,180	13.63%	8,199
Capital Assets	6,294	5,412	882	16.30%	5,519
Deferred Outflow of Resources	<u>521</u>	<u>608</u>	<u>(87)</u>	(14.31)%	<u>692</u>
Total Assets and Deferred Outflows	<u>16,651</u>	<u>14,676</u>	<u>1,975</u>		<u>14,410</u>
Liabilities	5,211	4,062	1,149	28.29%	4,676
Deferred Inflows of Resources	<u>197</u>	<u>172</u>	<u>25</u>	14.53%	<u>197</u>
Total Liabilities and Deferred Inflows	<u>5,408</u>	<u>4,234</u>	<u>1,174</u>		<u>4,873</u>
Invested in Capital Assets, Net of Related Debt	2,704	2,777	(73)	(2.63)%	2,912
Restricted	2,533	2,368	165	6.97%	1,979
Unrestricted	<u>6,006</u>	<u>5,296</u>	<u>710</u>	<u>13.41%</u>	<u>4,646</u>
Net Position	<u>11,243</u>	<u>10,441</u>	<u>802</u>	<u>7.68%</u>	<u>9,537</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 \$802,202.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2015**

Net Position (Continued)

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

	<u>FY 2015</u>	<u>FY 2014</u>	<u>Dollar Change</u>	<u>Percent Change</u>	<u>FY 2013</u>
Operating Revenues	5,210	5,110	100	1.96%	4,810
Non-Operating Revenues	<u>66</u>	<u>73</u>	<u>(7)</u>	(9.59)%	<u>61</u>
Total Revenues	<u>5,276</u>	<u>5,183</u>	<u>93</u>		<u>4,871</u>
Depreciation Expense	299	299	0	0.00%	299
Amortization	62	60	2	3.33%	58
Other Operating Expenses	2,952	2,743	209	7.62%	2,678
Other Non-Operating Expense	<u>1,161</u>	<u>1,177</u>	<u>(16)</u>	(1.36)%	<u>1,242</u>
Total Expenses	<u>4,474</u>	<u>4,279</u>	<u>195</u>		<u>4,277</u>
Change in Net Position	802	904	(102)	(11.28)%	594
Beginning Net Position	<u>10,441</u>	<u>9,537</u>	<u>904</u>	9.48%	<u>8,943</u>
Ending Net Position	<u>11,243</u>	<u>10,441</u>	<u>802</u>	7.68%	<u>9,537</u>

The Authority's Operating Revenues increased by \$100,000 to \$5,210,000 in 2015 from \$5,110,000 in 2014 due to a net increase in municipal service contracts in 2015. Nonoperating Revenues decreased by \$6,846 to \$66,280 from \$73,126 mainly due to decreases in interest earned on the TBSA receivable and NJWWTT income 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, 2015**

The following table provides a 2015 budget comparison:

Budget vs. Actual FY 2015 (000's)			
	<u>Budget</u>	<u>Actual</u>	<u>Difference</u>
Revenues:			
Operating	5,262	5,210	(52)
Non-Operating		66	66
TBSA Loan Receivable	<u>603</u>	<u>603</u>	<u>0</u>
	<u>5,865</u>	<u>5,879</u>	<u>14</u>
Expenses:			
Operating	3,089	2,952	137
Capital Reserve	500	500	
2012 Series N Reserve	30	30	0
Debt Service	<u>2,246</u>	<u>2,208</u>	<u>38</u>
	<u>5,865</u>	<u>5,690</u>	<u>175</u>
Income Before Depreciation and Amortization	<u>-0-</u>	<u>189</u>	<u>189</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 2015 Annual Charges to the four towns served by the PRBRSA:

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2015**

**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%		\$968,000	\$968,000			
991,000	38.11%		1,010,000		\$1,010,000		
250,000	9.62%		255,000			\$255,000	
409,000	15.73%		417,000				\$417,000
2,600,000	100.00%	\$2,650,000	\$2,650,000	\$968,000	\$1,010,000	\$255,000	\$417,000

**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>
720,000	34.62%		701,000	\$701,000			
950,000	45.67%		925,000		\$925,000		
100,000	4.81%		97,500			\$97,500	
310,000	14.90%		301,500				\$301,500
2,080,000	100.00%	\$2,025,000	\$2,025,000	\$701,000	\$925,000	\$97,500	\$301,500

**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>
720,000	34.62%		185,000	\$185,000			
950,000	45.67%		244,500		\$244,500		
100,000	4.81%		26,000			\$26,000	
310,000	14.90%		79,500				\$79,500
2,080,000	100.00%	\$525,000	\$535,000	\$185,000	\$244,500	\$26,000	\$79,500

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2015**

**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>
	1,854,000	\$1,854,000			
	2,179,500		\$2,179,500		
	378,500			\$378,500	
	798,000				\$798,000
\$5,210,000	\$5,210,000	\$1,854,000	\$2,179,500	\$378,500	\$798,000

REVENUES

Total Annual Charges	\$5,210,000
Plus:	
Retained Earnings	0
Investment Income	30,000
Application Fees and Misc.	2,077
Interest: State Loan Bonds	9,000
TBSA Debt Service Credit	<u>613,923</u>

TOTAL FY 2015 BUDGETED REVENUES

\$5,865,000

APPROPRIATIONS

Debt Service:

TBSA Contract Payments	1,075,276
Direct PRBRSA	1,170,584
Capital Reserve Fund	500,000
2012 Series N Reserve	<u>30,000</u>
Total	2,775,860

Administrative:

TBSA Contract Payments	249,500
Direct PRBRSA	<u>306,500</u>
Total	556,000

Operation and Maintenance:

TBSA Contract Payments	2,210,000
Direct PRBRSA	169,000
System Improvements	150,000
Operating Reserve	<u>4,140</u>
Total	2,533,140

TOTAL FY 2015 BUDGETED APPROPRIATIONS

\$5,865,000

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2015**

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 on the DSF income.

The Authority has created a dedicated reserve, the "2012 Series N Arbitrage Rebate Reserve Fund" to accrue the arbitrage rebate due on the Bond Reserve Fund in 5 year cycles. The October 31, 2015 balance in the 2012 Series N Arbitrage Rebate Reserve Fund was \$53,788.

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

Capital Assets

At the end of 2015, the Authority had invested \$13,423,127 in capital assets. The Authority's net plant and equipment at fiscal year-end was \$6,294,102. This is a \$882,160 increase over last year's net plant, property and equipment of \$5,411,942. A summary of the Authority's capital assets is presented in the following table:

	Capital Assets (000's)			
	<u>FY 2015</u>	<u>FY 2014</u>	<u>Dollar Change</u>	<u>FY 2013</u>
Interceptor	<u>11,976</u>	<u>11,976</u>	<u>-0-</u>	<u>11,976</u>
Total Capital Assets	11,976	11,976	-0-	11,976
Less: Accumulated Depreciation	<u>(7,129)</u>	<u>(6,830)</u>	<u>(299)</u>	<u>(6,530)</u>
	4,847	5,146	(299)	5,446
Construction in Progress	<u>1,447</u>	<u>266</u>	<u>1,181</u>	<u>73</u>
Net Capital Assets	<u>6,294</u>	<u>5,412</u>	<u>882</u>	<u>5,519</u>

Debt Administration

At October 31, 2015, the Authority had outstanding bonds and loans payable in the amount of \$4,220,176. The debt payments extend to December 1, 2034. Interest rates range from 0% to 5.00%.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
OCTOBER 31, 2015**

Economic Factors, Future Years Budgets and Rates

The Authority's Board 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, 2015, the Capital Reserve Fund balance was \$3,750,000

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

	2015	2014
<u>CURRENT ASSETS:</u>		
Cash and Cash equivalents	\$ 5,570,284	4,891,070
Due From 2013 Project Fund	407,621	247,621
Prepaid Expenses	252,247	244,566
Total Current Assets	6,230,152	5,383,257
<u>NON-CURRENT ASSETS:</u>		
Restricted:		
Cash and Cash equivalents	1,244,678	1,064,776
Investments	1,277,474	1,308,089
Due From NJEIT	785,054	
Accrued Interest Receivable	46,747	44,346
	3,353,953	2,417,211
Capital Assets:		
Interceptor	11,975,978	11,975,978
Less: Accumulated Depreciation	(7,129,025)	(6,829,626)
	4,846,953	5,146,352
Construction in Progress	1,447,149	265,590
Net Capital Assets	6,294,102	5,411,942
Other Assets:		
Receivable from Two Bridges Sewerage Authority	251,845	855,099
	251,845	855,099
Total Non-current Assets	9,899,900	8,684,252
TOTAL ASSETS	16,130,052	14,067,509
<u>DEFERRED OUTFLOWS OF RESOURCES:</u>		
Unamortized Loss on Refunding of Debt	521,257	608,133
TOTAL DEFERRED OUTFLOWS OF RESOURCES	\$ 521,257	608,133

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

	2015	2014
<u>LIABILITIES:</u>		
Current Liabilities:		
Payable from Unrestricted Assets:		
Accounts Payable and Accrued Liabilities	\$ 170,003	52,146
Accrued Liabilities - Arbitrage Rebates	53,788	35,115
	223,791	87,261
Payable from Restricted Assets:		
Bonds Payable - Current Portion	1,093,756	1,065,833
Due to Unrestricted Funds	407,621	247,621
Accounts Payable	323,498	7,421
Accrued Interest Payable	36,396	49,365
	1,861,271	1,370,240
Total Current Liabilities	2,085,062	1,457,501
Non-Current Liabilities:		
Sewer Revenue Bonds Payable	3,126,420	2,605,000
Total Non-Current Liabilities	3,126,420	2,605,000
TOTAL LIABILITIES	5,211,482	4,062,501
<u>DEFERRED INFLOWS OF RESOURCES:</u>		
Unamortized Bond Premium	196,740	172,256
TOTAL DEFERRED INFLOWS OF RESOURCES	196,740	172,256
<u>NET POSITION:</u>		
Invested in Capital Assets, net of Related Debt	2,704,223	2,777,043
Restricted:		
Bond Reserve	439,540	495,494
Renewal and Replacement	50,000	50,000
Debt Service Reserve	948,750	902,917
Operating Requirement	771,250	753,000
Construction Funds	322,963	166,435
Unrestricted		
Designated	4,628,953	4,128,953
Undesignated	1,377,408	1,167,043
TOTAL NET POSITION	\$ 11,243,087	10,440,885

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>2015</u>	<u>2014</u>
<u>Operating Revenues:</u>		
Service Contracts with Municipalities	\$ 5,210,000	5,110,000
Total Operating Revenues	<u>5,210,000</u>	<u>5,110,000</u>
<u>Operating Expenses:</u>		
Cost of Providing Services	2,461,069	2,296,108
Administrative and General	491,020	446,718
Depreciation	<u>299,399</u>	<u>299,399</u>
Total Operating Expenses	<u>3,251,488</u>	<u>3,042,225</u>
Operating Income/(Loss)	<u>1,958,512</u>	<u>2,067,775</u>
<u>Non Operating Revenues (Expenses):</u>		
Interest Earned on Investments	49,821	47,080
Interest Earned on Receivable from Two Bridges Sewerage Authority	10,669	16,596
Income from NJ Wastewater Treatment Trust	3,141	9,450
Application Fees	2,564	
Miscellaneous	85	
Amortization of Bond Premiums	25,172	24,608
Two Bridges Sewerage Authority Debt Service Charges	(1,051,112)	(1,029,868)
Interest Expense	(91,781)	(132,452)
Arbitrage Reserve		(15,000)
Debt Issuance Costs	(17,993)	
Amortization of Loss on Advance Refundings	<u>(86,876)</u>	<u>(84,207)</u>
Total Non-Operating Revenues (Expenses)	<u>(1,156,310)</u>	<u>(1,163,793)</u>
Change in Net Position	802,202	903,982
Net Position - Beginning	<u>10,440,885</u>	<u>9,536,903</u>
Net Position - Ending	<u>\$ 11,243,087</u>	<u>10,440,885</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

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	2015	2014
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Cash Received from Customers	\$ 5,210,000	5,099,299
Other Receipts	2,649	
Cash Paid to Suppliers	(2,841,913)	(2,736,434)
Interest Received	76,762	59,200
Interest Paid	(104,750)	(145,763)
	<u>2,342,748</u>	<u>2,276,302</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Sale/(Purchase) of Investments	30,615	(240,610)
Purchase of Property, Plant and Equipment	(865,482)	(194,234)
	<u>(834,867)</u>	<u>(434,844)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Income from NJ Wastewater Treatment Trust	3,141	9,450
NJ Environmental Infrastructure Trust Loan Proceeds	861,785	
Two Bridges Sewerage Authority Debt Service (net)	(447,858)	(432,540)
Bonds Retired	(1,065,833)	(874,395)
	<u>(648,765)</u>	<u>(1,297,485)</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	859,116	543,973
CASH AND CASH EQUIVALENTS- BEGINNING OF YEAR	<u>5,955,846</u>	<u>5,411,873</u>
CASH AND CASH EQUIVALENTS- END OF YEAR	<u>\$ 6,814,962</u>	<u>5,955,846</u>
Classified As:	\$ 5,570,284	4,891,070
Unrestricted Assets	1,244,678	1,064,776
Restricted Assets	\$ 6,814,962	5,955,846

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

	2015	2014
OPERATING INCOME/(LOSS)	\$ 1,958,512	2,067,775
Adjustments to Reconcile Operating Income/(Loss) to		
Net Cash Provided by Operating Activities:		
Depreciation	299,399	299,399
Interest Income	60,490	83,791
Interest Expense	(91,781)	(132,452)
Other Income	2,649	
(Increase)/Decrease in:		
Accrued Interest Receivable	(2,401)	(24,591)
Prepaid Expenses	(7,681)	2,797
(Decrease)/Increase in:		
Prepaid Revenue		(10,701)
Accrued Liabilities - Arbitrage Rebates	18,673	
Accounts Payable	117,857	3,595
Accrued Interest Payable	(12,969)	(13,311)
	384,236	208,527
Total Adjustments		
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 2,342,748	2,276,302

See accompanying Notes to the Financial Statements.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
OCTOBER 31, 2015 AND 2014

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, 2015 and 2014, interest income from Two Bridges amounted to \$10,669 and \$16,596, respectively. The principal balance of this receivable due from Two Bridges at October 31, 2015 and 2014 is \$252,247 and \$855,099, 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, 2015 AND 2014**

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, 2015 and 2014, the charges between Two Bridges Sewerage Authority and the Pequannock River Authority for providing services were as follows:

	<u>2015</u>	<u>2014</u>
Operations and Maintenance	\$2,281,773	\$2,156,031
Administrative Expenses	240,643	234,742
Two Bridges Debt Service	<u>1,051,112</u>	<u>1,029,868</u>
	<u>\$3,573,528</u>	<u>\$3,420,641</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2015 AND 2014

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, 2015 AND 2014**

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, 2015 AND 2014

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
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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, 2015 AND 2014

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, 2015 AND 2014

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, this Statement does not have any impact on the Authority's financial reporting.

In November, 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.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2015 AND 2014

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

L. Recent Accounting Pronouncements, continued:

The Government Accounting Standards Board issued GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement also provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Authority is currently reviewing what effect, if any, this Statement might have on future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*. This Statement is effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for financial statements for fiscal years beginning after June 15, 2016. As the Authority has no employees, this Statement is not anticipated to have any impact on the Authority's financial reporting.

The Government Accounting Standards Board issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement applies to OPEB plans and basically parallels GASB Statement 67 and replaces GASB Statement 43 and is effective for fiscal years beginning after June 15, 2016. As the Authority has no employees, this Statement is not anticipated to have any impact on the Authority's financial reporting.

The Government Accounting Standards Board issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement applies to government employers who provided OPEB plans to their employees and basically parallels GASB Statement 68 and replaces GASB Statement 45. The Statement is effective for fiscal years beginning after June 15, 2017. As the Authority has no employees, this Statement is not anticipated to have any impact on the Authority's financial reporting.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2015 AND 2014

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, 2015, \$0- of the Authority's bank balance of \$7,136,647 was exposed to custodial credit risk.

As of October 31, 2015, 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	\$(708,724)		(\$708,724)
Trustee funds	1,049,270	\$5,229,738	6,279,008
Restricted:			
Trustee Funds	<u>55,489</u>	<u>1,189,189</u>	<u>1,244,678</u>
	<u>\$396,035</u>	<u>\$6,418,927</u>	<u>\$6,814,962</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2015 AND 2014

NOTE 3. CASH AND CASH EQUIVALENTS, (continued)

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, 2015, the Authority had \$6,418,927 on deposit with the New Jersey Cash Management Fund.

The carrying amount of the Authority's cash and cash equivalents at October 31, 2015 was \$6,814,962 and the bank balance was \$7,136,647. Of this amount, \$6,418,927 in the New Jersey Cash Management Fund is not covered by either the federal depository insurance or the collateral pool maintained by the banks as required by New Jersey Statutes.

NOTE 4. NEW JERSEY WASTEWATER TREATMENT TRUST

Unrestricted

The Authority issued bonds in 1987 through the New Jersey Wastewater Treatment Trust ("Trust") to advance refund other bonds (see Note 8). 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 2015 and 2014, these earnings aggregated \$3,141 and \$9,450, 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.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2015 AND 2014

NOTE 5. INVESTMENTS, (continued)

- (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.

As of October 31, 2015, 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	11/06/15	\$5,894	\$6,000
FHLMC Discount Note	11/12/15	5,968	6,000
FHLMC Discount Note	12/01/15	11,865	12,000
FHLMC Discount Note	11/06/15	81,583	83,000
FHLMC Discount Note	11/16/15	81,405	83,999
FHLMC Discount Note	12/01/15	162,196	163,995
FNMA Discount Note	11/04/15	81,659	84,000
FNMA Discount Note	11/12/15	162,837	163,998
FNMA Discount Note	11/23/15	163,629	165,997
FNMA Discount Note	11/25/15	81,316	83,998
<u>Bond Reserve Fund:</u>			
Federal Home Loan Bank	11/27/15	439,122	451,991
		<u>\$1,277,474</u>	<u>\$1,304,978</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2015 AND 2014

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</u> <u>10/31/14</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>10/31/15</u>
Capital Assets, Not Being Depreciated:				
Depreciated:				
Construction in Progress	\$265,590	1,181,559	_____	\$1,447,149
Total Capital Assets, Not Being Depreciated	<u>265,590</u>	<u>1,181,559</u>	_____	<u>1,447,149</u>
Capital Assets, Being Depreciated:				
Interceptor	11,975,978	_____	_____	11,975,978
Total Capital Assets, Being Depreciated	<u>11,975,978</u>	_____	_____	<u>11,975,978</u>
Less: Accumulated Depreciation:				
Interceptor	(6,829,626)	(299,399)	_____	(7,129,025)
Total Accumulated Depreciation	<u>(6,829,626)</u>	<u>(299,399)</u>	_____	<u>(7,129,025)</u>
Total Capital Assets, Being Depreciated, Net	<u>5,146,352</u>	<u>(299,399)</u>	_____	<u>4,846,953</u>
Capital Assets, Net	<u>\$5,411,942</u>	<u>\$882,160</u>	<u>\$ _____</u>	<u>\$6,294,102</u>

NOTE 7. PREMIUM ON BONDS PAYABLE

The Authority received premiums of \$225,574 in connection with the issuance of the Sewer Revenue Refunding Bonds (Series 2012 N) and \$49,656 in connection with the issuance of the Series 2015A-1 NJ Environmental Infrastructure Trust bonds. 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 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 had 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.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2015 AND 2014

NOTE 8. BONDS PAYABLE, (continued)

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.

On May 27, 2015, the Authority issued \$1,225,176 Subordinate Bonds Series 2015A-1 and \$390,000 Subordinate Bonds Series 2015B-1 to the State of New Jersey Environmental Infrastructure Trust. The Series 2015A-1 and 2015B-1 Bonds were issued to evidence a loan from the New Jersey Environmental Infrastructure Trust, and a 0% loan from the State of New Jersey. The bonds were issued to make various improvements to the Authority's wastewater system.

The following is a summary of the Authority's long-term debt transactions for the fiscal year ended October 31, 2015:

	Principal Balance <u>10/31/14</u>	Issued FY 2015	Refunded/ Retired FY 2015	Balance <u>10/31/15</u>	Principal Amount Due Within <u>One Year</u>
1995 Series J	\$30,833	\$	\$30,833	\$0	\$0
1995 Series K	50,000		50,000	0	0
2012 Series N	3,590,000		985,000	2,605,000	1,035,000
2015 Series A-1		1,225,176		1,225,176	43,756
2015 Series B-1	_____	<u>390,000</u>	_____	<u>390,000</u>	<u>15,000</u>
	<u>\$3,670,833</u>	<u>\$1,615,176</u>	<u>\$1,065,833</u>	<u>\$4,220,176</u>	<u>\$1,093,756</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2015 AND 2014

NOTE 8. BONDS PAYABLE, (continued)

As of October 31, 2015 and 2014, 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>2015</u>	<u>2014</u>
1995 Series J	0%	08/01/2015	\$583,043	\$0	\$30833
1995 Series K	4.60%-5.25%	08/01/2015	630,000	0	50,000
2012 Series N	3.00%-4.00%	12/01/2021	4,195,000	2,605,000	3,590,000
2015 Series A-1	0%	08/01/2034	1,225,176	1,225,176	0
2015 Series B-1	4.00%-5.00%	08/01/2034	390,000	<u>390,000</u>	<u>0</u>
				<u>\$4,220,176</u>	<u>\$3,670,833</u>

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

	<u>2015</u>	<u>2014</u>
1994 Series I Bonds	\$0	\$9,867
1995 Series K Bonds	1,969	4,172
2002 Series M Bonds		
2012 Series N Bonds	<u>89,812</u>	<u>118,413</u>
	<u>91,781</u>	<u>132,452</u>
Amortization of Deferred Losses/Gains		
Resulting from Refunding Transactions:		
1998 NJ Wastewater Treatment Trust		
Refunding of Series 1994 A		(2,669)
2012 Defeasance of Series 1996 L and 2002 M	86,876	86,876
Amortization of Bond Premium - 2012 Series N	<u>(25,172)</u>	<u>(24,608)</u>
	<u>61,704</u>	<u>59,599</u>
Total Interest Expense (Net)	<u>\$153,485</u>	<u>\$192,051</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2015 AND 2014

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>
2016	\$1,093,756	\$89,325	\$1,183,081
2017	730,634	63,300	793,934
2018	250,635	49,400	300,035
2019	255,634	41,750	297,384
2020	265,635	33,800	299,435
2021	270,634	25,550	296,184
2022	285,634	17,000	302,634
2023	85,634	12,000	97,634
2024	85,634	11,000	96,634
2025	85,634	10,000	95,634
2026	85,634	9,000	94,634
2027	85,634	8,000	93,634
2028	90,635	7,200	97,835
2029	90,635	6,200	96,835
2030	90,635	5,200	95,835
2031	90,635	4,200	94,835
2032	90,635	3,200	93,835
2033	95,634	2,200	97,834
2034	<u>90,635</u>	<u>1,000</u>	<u>91,635</u>
	<u>\$4,220,176</u>	<u>\$399,325</u>	<u>\$4,619,501</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2015 AND 2014

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 position:

	<u>2015</u>	<u>2014</u>
Invested in Capital Assets -		
Net of Related Debt	\$2,704,223	\$2,777,043
Restricted:		
Bond Reserve Fund	439,540	495,494
Renewal and Replacement Fund	50,000	50,000
Debt Service Reserve Fund	948,750	902,917
Operating Reserve Fund	771,250	753,000
Unexpended Construction funds	<u>322,963</u>	<u>166,435</u>
Subtotal Restricted	<u>2,532,503</u>	<u>2,367,846</u>
Unrestricted:		
Designated	4,628,953	4,128,953
Undesignated	<u>1,377,408</u>	<u>1,167,043</u>
Subtotal Unrestricted	<u>6,006,361</u>	<u>5,295,996</u>
	<u>\$11,243,087</u>	<u>\$10,440,885</u>

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.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2015 AND 2014

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

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

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

Simultaneously with the issuance of the 2012 Series N Refunding Bonds, the Forward Delivery Agreements/Guaranteed Investment Contracts 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.

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 of 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.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
OCTOBER 31, 2015 AND 2014

NOTE 12. DESIGNATION OF UNRESTRICTED NET POSITION

The Authority's Unrestricted Net Position – Designated at October 31, 2015 and 2014 includes the following amounts:

<u>Purpose</u>	<u>2015</u>	<u>2014</u>
Capital Reserve	\$3,750,000	\$3,250,000
Operating Reserve	550,245	550,245
Bond Service Reserve	211,000	211,000
Insurance Reserve	20,000	20,000
TBSA User Charge Reserve	<u>97,708</u>	<u>97,708</u>
	<u>\$4,628,953</u>	<u>\$4,128,953</u>

NOTE 13. DUE FROM 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 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. On September 16, 2015, in accordance with Resolution No. R-15-4-2, an additional \$160,000 was transferred from the Revenue Fund to the Project Construction Fund for additional projected cash flow needs. 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, 2015, the Authority had a liability of \$53,788 for estimated arbitrage earnings due to the IRS.

NOTE 15. SUBSEQUENT EVENTS

The Authority has evaluated subsequent events through January 28, 2016, the date which the financial statements were available to be issued and no additional items were noted for disclosure.

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, 2014			\$ <u>16,889</u>
Cash Receipts:			
Interest on Investments	\$	11	
Transfer from:			
Revenue Account		<u>2,553,478</u>	
			<u>2,553,489</u>
 TOTAL CASH AND CASH EQUIVALENTS AVAILABLE			 2,570,378
 Cash Disbursements:			
Operations	\$	3,226,956	
Accounts Payable		<u>52,146</u>	
			<u>3,279,102</u>
 CASH AND CASH EQUIVALENTS -			
OCTOBER 31, 2015			\$ <u><u>(708,724)</u></u>

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

	<u>Revenue Fund</u>	<u>General Fund</u>	<u>Bond Service Fund</u>	<u>2012 Series N Interest</u>	<u>2012 Series N Principal</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, NOVEMBER 1, 2014	\$ 1,284,616	\$ 4,336,861	\$ 208	\$ 47,994	\$ 801,091
<u>CASH RECEIPTS:</u>					
Interest on Investments	1,207	3,725		1,342	32,156
Service Contracts-Municipal	5,210,000				
Other	5,741				
Due From NJEIT					
Transfer From:					
Revenue Fund		500,000		77,452	982,783
Bond Reserve Fund	147,072				
	<u>5,364,020</u>	<u>503,725</u>	<u>-</u>	<u>78,794</u>	<u>1,014,939</u>
<u>CASH DISBURSEMENTS:</u>					
Bond Principal	80,834				985,000
Interest on Bonds	2,625			102,125	
Project Expenses					
Transfers To:					
Operating Account	2,553,478				
Revenue Fund					
2013 Project Fund	160,000				
General Fund	500,000				
Bond Service Fund (Principal)	982,783				
Bond Service Fund (Interest)	77,452				
	<u>4,357,172</u>	<u>-</u>	<u>-</u>	<u>102,125</u>	<u>985,000</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, OCTOBER 31, 2015	\$ 2,291,464	\$ 4,840,586	\$ 208	\$ 24,663	\$ 831,030
<u>Analysis of Balance:</u>					
Restricted	\$ 853,747	\$ -	\$ 208	\$ 24,663	\$ 831,030
Unrestricted	1,437,717	4,840,586	-	-	-
	<u>\$ 2,291,464</u>	<u>\$ 4,840,586</u>	<u>\$ 208</u>	<u>\$ 24,663</u>	<u>\$ 831,030</u>
Cash and Cash Equivalents	\$ 2,291,464	\$ 4,840,586	\$ 208	\$ 936	\$ 16,405
Investments	-	-	-	23,727	814,625
	<u>\$ 2,291,464</u>	<u>\$ 4,840,586</u>	<u>\$ 208</u>	<u>\$ 24,663</u>	<u>\$ 831,030</u>

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

	<u>Bond Reserve Fund</u>	<u>Bond Reserve Forward Delivery</u>	<u>Renewal and Replacement Fund</u>	<u>Const. Fund 2013 Project</u>	<u>Total</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, NOVEMBER 1, 2014	\$ 583	\$ 559,178	\$ 50,080	\$ 166,435	\$ 7,247,046
<u>CASH RECEIPTS:</u>					
Interest on Investments		27,435	42	176	66,083
Service Contracts-Municipal					5,210,000
Other				50	5,791
Due From NJEIT				857,264	857,264
Transfer From:					
Revenue Fund				160,000	1,720,235
Bond Reserve Fund					147,072
	<u>-</u>	<u>27,435</u>	<u>42</u>	<u>1,017,490</u>	<u>8,006,445</u>
<u>CASH DISBURSEMENTS:</u>					
Bond Principal					1,065,834
Interest on Bonds					104,750
Project Expenses				860,962	860,962
Transfers To:					
Operating Account					2,553,478
Revenue Fund		147,072			147,072
2013 Project Fund					160,000
General Fund					500,000
Bond Service Fund (Principal)					982,783
Bond Service Fund (Interest)					77,452
	<u>-</u>	<u>147,072</u>	<u>-</u>	<u>860,962</u>	<u>6,452,331</u>
CASH, CASH EQUIVALENTS AND INVESTMENTS, OCTOBER 31, 2015	\$ 583	\$ 439,541	\$ 50,122	\$ 322,963	\$ 8,801,160
<u>Analysis of Balance:</u>					
Restricted	\$ -	\$ 439,541	\$ 50,000	\$ 322,963	2,522,152
Unrestricted	<u>583</u>		<u>122</u>	<u>-</u>	<u>6,279,008</u>
	<u>\$ 583</u>	<u>\$ 439,541</u>	<u>\$ 50,122</u>	<u>\$ 322,963</u>	<u>\$ 8,801,160</u>
Cash and Cash Equivalents	\$ 583	\$ 419	\$ 50,122	\$ 322,963	7,523,686
Investments	<u>-</u>	<u>439,122</u>	<u>-</u>	<u>-</u>	<u>1,277,474</u>
	<u>\$ 583</u>	<u>\$ 439,541</u>	<u>\$ 50,122</u>	<u>\$ 322,963</u>	<u>\$ 8,801,160</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET
YEAR ENDED OCTOBER 31, 2015
WITH COMPARATIVE ACTUAL AMOUNTS
FOR THE YEAR ENDED OCTOBER 31, 2014

	<u>2015</u> <u>Budget</u>	<u>2015 Budget</u> <u>After</u> <u>Modifications</u>	<u>2015</u> <u>Actual</u>	<u>2014</u> <u>Actual</u>
<u>REVENUE:</u>				
Net Assets Utilized	\$	\$	\$	\$
Service Contracts with Municipalities	5,210,000	5,210,000	5,210,000	5,110,000
Two Bridges Sewerage Authority				
Annual Credit	613,923	613,923	613,923	613,923
Interest on Investments	30,000	30,000	49,821	47,080
Income from NJ Wastewater				
Treatment Trust	9,000	9,000	3,141	9,450
Application Fees	2,000	2,000	2,564	
Miscellaneous Income	77	77	85	
TOTAL OPERATING REVENUES	<u>5,865,000</u>	<u>5,865,000</u>	<u>5,879,534</u>	<u>5,780,453</u>
<u>EXPENSES:</u>				
Operations and Maintenance Expenses:				
Professional Services	57,000	57,000	84,624	41,697
Contract Services	252,000	252,000	94,672	98,380
State and Federal Compliance	10,000	10,000		
Operating Reserve	4,140	4,140		
Two Bridges Sewerage Authority	2,210,000	2,210,000	2,281,773	2,156,031
Total Operating Expenses	<u>2,533,140</u>	<u>2,533,140</u>	<u>2,461,069</u>	<u>2,296,108</u>
Administrative and General Expenses:				
Professional Services	243,000	243,000	211,921	172,555
Insurance	18,500	18,500	15,712	12,241
Office Expenses	12,000	12,000	10,040	9,427
Professional Expenses	10,000	10,000	4,500	4,500
Financial Services	23,000	23,000	8,204	13,253
Two Bridges Sewerage Authority	249,500	249,500	240,643	234,742
Total Administrative and General Expenses	<u>556,000</u>	<u>556,000</u>	<u>491,020</u>	<u>446,718</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES COMPARED TO BUDGET
YEAR ENDED OCTOBER 31, 2015
WITH COMPARATIVE ACTUAL AMOUNTS
FOR THE YEAR ENDED OCTOBER 31, 2014

	<u>2015 Budget</u>	<u>2015 Budget After Modifications</u>	<u>2015 Actual</u>	<u>2014 Actual</u>
Debt Service:				
Bond Principal	1,603,472	1,603,472	1,603,472	1,412,031
Interest on Bonds	<u>642,388</u>	<u>642,388</u>	<u>605,255</u>	<u>624,682</u>
Total Debt Service	<u>2,245,860</u>	<u>2,245,860</u>	<u>2,208,727</u>	<u>2,036,713</u>
Reserves:				
2012 Series N Reserve (BRR)	30,000	30,000	30,000	30,000
Capital Reserve Fund	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	<u>620,000</u>
Total Reserves	<u>530,000</u>	<u>530,000</u>	<u>530,000</u>	<u>650,000</u>
TOTAL COSTS FUNDED BY OPERATING REVENUE	<u>5,865,000</u>	<u>5,865,000</u>	<u>5,690,816</u>	<u>5,429,539</u>
EXCESS	\$ <u><u> </u></u>	\$ <u><u> </u></u>	\$ <u><u>188,718</u></u>	\$ <u><u>350,914</u></u>
 Reconciliation of Budgetary Basis				
To Change in Net Position:				
Depreciation Expense			(299,399)	(299,399)
Amortization of Bond Premium			25,172	24,608
Amortization of Deferred Gain/Loss on Early Extinguishment of Debt			(86,876)	(84,207)
Capital Reserve Fund Appropriation			500,000	620,000
Operating Reserve Fund Appropriation			30,000	30,000
Debt Issuance Costs			(17,993)	
Arbitrage Reserve				(15,000)
TBSA Debt Service Principal			(537,638)	(537,638)
Loan Principal Receipts			(603,254)	(597,327)
Bond Principal Payments			<u>1,603,472</u>	<u>1,412,031</u>
Total Adjustments			<u>613,484</u>	<u>553,068</u>
Change in Net Position			<u><u>802,202</u></u>	<u><u>903,982</u></u>

SCHEDULE 4

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF BONDS PAYABLE
OCTOBER 31, 2015

	<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>				
1995 Series J Bonds	11/9/1995	\$ 583,043	0.000%	8/1/2015	30,833	30,833	-	30,833	-
1995 Series K	11/9/1995	\$ 630,000	5.250%	8/1/2015	50,000	50,000	-	50,000	-
2012 Series N	9/6/2012	\$ 4,195,000	3.000%	12/1/2015	1,035,000	1,035,000	-	-	-
			3.000%	12/1/2016	650,000	650,000	-	-	-
			4.000%	12/1/2017	170,000	170,000	-	-	-
			4.000%	12/1/2018	175,000	175,000	-	-	-
			4.000%	12/1/2019	185,000	185,000	-	-	-
			4.000%	12/1/2020	190,000	190,000	-	-	-
			4.000%	12/1/2021	200,000	200,000	-	-	-
						<u>3,590,000</u>		<u>985,000</u>	<u>2,605,000</u>

SCHEDULE 4

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF BONDS PAYABLE
OCTOBER 31, 2015

<u>Date</u>	<u>Original Amount</u>	<u>Interest Rate</u>	<u>Maturities Date</u>	<u>Amount</u>	<u>Balance Nov. 1, 2014</u>	<u>Issued</u>	<u>Redeemed or Retired</u>	<u>Balance Oct. 31, 2015</u>
5/28/2015	\$ 390,000	5.000%	8/1/2016	15,000				
		5.000%	8/1/2017	15,000				
		5.000%	8/1/2018	15,000				
		5.000%	8/1/2019	15,000				
		5.000%	8/1/2020	15,000				
		5.000%	8/1/2021	15,000				
		5.000%	8/1/2022	20,000				
		5.000%	8/1/2023	20,000				
		5.000%	8/1/2024	20,000				
		5.000%	8/1/2025	20,000				
		5.000%	8/1/2026	20,000				
		4.000%	8/1/2027	20,000				
		4.000%	8/1/2028	25,000				
		4.000%	8/1/2029	25,000				
		4.000%	8/1/2030	25,000				
		4.000%	8/1/2031	25,000				
		4.000%	8/1/2032	25,000				
		4.000%	8/1/2033	30,000				
		4.000%	8/1/2034	25,000				
						390,000		390,000

New Jersey Environmental
Infrastructure Trust -
Series 2015A

SCHEDULE 4

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF BONDS PAYABLE
OCTOBER 31, 2015**

	<u>Original</u>		<u>Interest</u>	<u>Maturities</u>		<u>Amount</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>					
State of NJ - Fund										
Loan - Series 2015A	5/28/2015	1,225,176	0.000%	8/1/2016	43,756					
			0.000%	2/1/2017	21,878					
			0.000%	8/1/2017	43,756					
			0.000%	2/1/2018	21,879					
			0.000%	8/1/2018	43,756					
			0.000%	2/1/2019	21,878					
			0.000%	8/1/2019	43,756					
			0.000%	2/1/2020	21,879					
			0.000%	8/1/2020	43,756					
			0.000%	2/1/2021	21,878					
			0.000%	8/1/2021	43,756					
			0.000%	2/1/2022	21,879					
			0.000%	8/1/2022	43,756					
			0.000%	2/1/2023	21,878					
			0.000%	8/1/2023	43,756					
			0.000%	2/1/2024	21,879					
			0.000%	8/1/2024	43,756					
			0.000%	2/1/2025	21,878					
			0.000%	8/1/2025	43,756					
			0.000%	2/1/2026	21,879					
			0.000%	8/1/2026	43,756					
			0.000%	2/1/2027	21,878					
			0.000%	8/1/2027	43,756					
			0.000%	2/1/2028	21,879					
			0.000%	8/1/2028	43,756					
			0.000%	2/1/2029	21,878					

SCHEDULE 4

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF BONDS PAYABLE
OCTOBER 31, 2015

<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, 2014</u>	<u>Issued</u>	<u>Redeemed or</u> <u>Retired</u>	<u>Balance</u> <u>Oct. 31, 2015</u>
State of NJ - Fund								
Loan - Series 2015A								
5/28/2015	1,225,176	0.000%	8/1/2029	43,756				
		0.000%	2/1/2030	21,879				
		0.000%	8/1/2030	43,756				
		0.000%	2/1/2031	21,878				
		0.000%	8/1/2031	43,756				
		0.000%	2/1/2032	21,879				
		0.000%	8/1/2032	43,756				
		0.000%	2/1/2033	21,878				
		0.000%	8/1/2033	43,756				
		0.000%	2/1/2034	21,878				
		0.000%	8/1/2034	43,756				
						1,225,176		1,225,176
					3,670,833	1,615,176	1,065,833	4,220,176
GRAND TOTALS								
					1,065,833		(27,923)	1,093,756
					2,605,000	1,615,176	1,093,756	3,126,420
					3,670,833	1,615,176	1,065,833	4,220,176

Analysis of Balance:
 Current Portion
 Long-Term Portion

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, LLP	General Counsel	
Ferraioli, Wielkocz, 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, 2016.

(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

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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, 2015, and the related notes to the financial statements, and have issued our report thereon dated January 28, 2016.

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, Wielkottz, Cerullo & Cuvā, P.A.

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

January 28, 2016



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

Charles J. Ferraioli, Jr., MBA, CPA, RMA
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the Pequannock River Basin Regional Sewerage Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Pequannock River Basin Regional Sewerage Authority's major federal programs for the year ended October 31, 2015. The Pequannock River Basin Regional Sewerage Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Pequannock River Basin Regional Sewerage Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred



to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Pequannock River Basin Regional Sewerage Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Pequannock River Basin Regional Sewerage Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Pequannock River Basin Regional Sewerage Authority's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended October 31, 2015.

Report on Internal Control Over Compliance

Management of the Pequannock River Basin Regional Sewerage Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Pequannock River Basin Regional Sewerage Authority's internal control over compliance with the type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Pequannock River Basin Regional Sewerage Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, 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 3.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Pequannock River Basin Regional Sewerage Authority as of and for the year ended October 31, 2015, and have issued our report thereon dated January 28, 2016 which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

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

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

January 28, 2016



PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
 Schedule of Expenditures of Federal Awards
 Fiscal Year Ended October 31, 2015

Federal Grantor/Pass-Through Grantor/Program	Federal CFDA Number	Grant ID Number	Program Amount	Grant Period		Cash Received		Program Expenditures		(MEMO) Cumulative Expenditures
				From	To	Prior Years	Current Year	Prior Years	Current Year	
U.S. Department of Environmental Protection:										
<i>Pass Through New Jersey Department of Environmental Protection:</i>										
Capitalization Grants for Clean Water State Revolving Funds: NIDEP Loan	66.458	S340459-05	\$ 1,225,176	n/a	n/a	-	642,948	-	670,379	*
Subtotal						-	642,948	-	670,379	*
Total Federal Financial Assistance						-	642,948	-	670,379	*

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
 Schedule of Expenditures of State Financial Assistance
 Fiscal Year Ended October 31, 2015

State Grantor/Pass-Through Grantor/Program	Grant ID Number	Program Amount	Grant Period		Cash Received		Program Expenditures		(MEMO) Cumulative Expenditures
			From	To	Prior Years	Current Year	Prior Years	Current Year	
<u>New Jersey Department of Environmental Protection:</u>									
NJ Environmental Infrastructure Trust Program	S340459-05	\$ 408,392	n/a	n/a		214,316		223,459	*
Total State Financial Assistance					-	214,316	-	223,459	*

Note: This schedule was not subject to an audit in accordance with NJ OMB Circular 04-04.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
NOTES TO THE SCHEDULES OF EXPENDITURES
OF FEDERAL AND STATE AWARDS
OCTOBER 31, 2015**

NOTE 1. GENERAL

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance present the activity of all federal and state award programs of the Pequannock River Basin Regional Sewerage Authority. The Authority is defined in Note 1 to the Authority's basic financial statements. All federal and state awards received directly from federal and state agencies, as well as federal and state financial assistance passed through other government agencies is included on the Schedule of Expenditures of Federal Awards and State Financial Assistance.

NOTE 2. BASIS OF ACCOUNTING

The accompanying Schedules of Expenditures of Federal Awards and State Financial Assistance are presented on the accrual basis of accounting. This basis of accounting is described in Note 2(B) to the Authority's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Awards and financial assistance revenues are reported in the Authority's basic financial statements on a GAAP basis as follows:

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Enterprise Fund	<u>\$642,948</u>	<u>\$214,316</u>	<u>\$857,264</u>

NOTE 4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED OCTOBER 31, 2015**

Section I--Summary of Auditor's Results

Financial Statement Section

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

1) Material weakness(es) identified? _____ yes X no

2) Significant deficiency(ies) identified that are not considered to be material weaknesses reported? _____ yes X none

Noncompliance material to general-purpose financial statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:

1) Material weakness(es) identified? _____ yes X no

2) Significant deficiencies identified that are not considered to be material weaknesses reported? _____ yes X none

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133? _____ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>66.458</u>	<u>Capitalization Grants - Clean Water State Revolving Funds</u>
_____	_____
_____	_____
_____	_____

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ yes X no

State Awards

Not Applicable

**PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED OCTOBER 31, 2015**

Section II--Financial Statement Findings

No matters were reported.

Section III--Federal Awards and State Financial Assistance Findings and Questioned Costs

No matters were reported.

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED OCTOBER 31, 2015

Status of Prior Year Findings

No prior year audit findings were reported.

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.

Pursuant to N.J.A.C. 5:30-11.9(d), notice is hereby given that the Pequannock River Basin Regional Sewerage Authority has authorized change orders for the previous fiscal year exceeding the 20 percent limitation pursuant to N.J.A.C. 5:30-11.9 for Contract No. I-4A as follows:

Original Contract Price	\$387,702
Contract Modification No. A-1	42,693
Contract Modification No. A-2	<u>40,577</u>
Revised Contract Price	<u>\$470,972</u>

PEQUANNOCK RIVER BASIN REGIONAL SEWERAGE AUTHORITY
COMMENTS AND RECOMMENDATIONS
YEAR ENDED OCTOBER 31, 2015

COMMENTS

There were no comments for the fiscal year ended October 31, 2015.

RECOMMENDATIONS

There were no recommendations for the fiscal year ended October 31, 2015.

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

Very truly yours,

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

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