

ROCKAWAY VALLEY REGIONAL
SEWERAGE AUTHORITY
REPORT OF AUDIT
FOR THE YEARS ENDED
DECEMBER 31, 2014 AND 2013

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

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INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members of the
Rockaway Valley Regional Sewerage Authority
99 Green Bank Road
Boonton, New Jersey 07005

Report on the Financial Statements

We have audited the accompanying statements of net position of the Rockaway Valley Regional Sewerage Authority as of December 31, 2014 and 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rockaway Valley Regional Sewerage Authority as of December 31, 2014 and 2013, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the Rockaway Valley Regional Sewerage Authority's financial statements. The schedule of revenues, expenses and changes in net position - restricted and unrestricted; schedule of cash receipts, cash disbursements and changes in cash and investments - unrestricted and restricted; schedule of operating revenue and costs funded by operating revenue compared to budget; schedule of capital budget program funded by financing services; schedule of revenue and revenue refunding bonds; analysis of miscellaneous revenues; and roster of officials (collectively referred to as the "Supplementary Schedules") are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis and is not a required part of the financial statements.

The supplemental schedules and schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental schedules are fairly stated in all material respects in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 19, 2015 on our consideration of the Rockaway Valley 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 Rockaway Valley Regional Sewerage Authority's internal control over financial reporting and compliance.

Very truly yours,

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

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

June 19, 2015



Required Supplementary Information

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Rockaway Valley Regional Sewerage Authority, we offer the Authority's financial statements this narrative overview and analysis of the Authority's financial performance during the fiscal year ended December 31, 2014 and 2013. Please read this analysis in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

- The Authority's assets exceeded its liabilities and deferred inflows of resources by \$44,838,299 (net position) for the fiscal year reported. This compares to the previous year when assets exceeded liabilities and deferred inflows of resources by \$46,152,896.
- Total net position is comprised of the following:
 - (1) Net investment in capital assets of \$38,880,389 includes property and equipment, net of accumulated depreciation, and reduced for outstanding debt and unexpended funds related to the purchase or construction of capital assets.
 - (2) Restricted of \$141,659 are restricted by constraints imposed from outside the Authority such as debt covenants, grantors, laws, or regulations.
 - (3) Unrestricted of \$5,816,251 represent the portion available to maintain the Authority's continuing obligations to citizens and creditors.
- Total liabilities of the Authority decreased by \$2,715,410 to \$16,392,415 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, deferred outflows of resources, liabilities and deferred inflows of resources, and provides information about the nature and amounts of investments in resources (assets), the consumption of net assets that is applicable to a future period (deferred outflows of resources), the acquisition of net assets that is applicable to a future reporting period (deferred inflows of resources) 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.

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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's operations over the past year and can be used to determine whether the Authority has recovered all its costs through user fees and other charges, operational stability and credit worthiness.

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

Notes to the Financial Statements

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

Other Information

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

Financial Analysis of the Authority

One of the most important questions asked about the Authorities 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 the position. The reader can think of the Authority's net position – the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources – 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 need to consider the non-financial factors such as changes in economic conditions, population growth, development, and new or changed government regulation.

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

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 is \$44,838,299. This is a \$1,314,597 decrease under last year's net position of \$46,152,896. A summary of the Authority's statement of net position is presented in the following table:

**Condensed Statement of Net Position at December 31, 2014
With Comparative Prior Year Balances**

	<u>FY 2014</u>	<u>FY 2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	12,150,270	14,683,138	(2,532,868)	(17.25)%
Capital Assets	49,384,738	50,901,624	(1,516,886)	(2.98)%
Total Assets	<u>61,535,008</u>	<u>65,584,762</u>	<u>(4,049,754)</u>	<u>(6.17)%</u>
Long-term Debt Outstanding	12,296,220	15,362,674	(3,066,454)	(19.96)%
Other Liabilities	<u>4,096,195</u>	<u>3,745,151</u>	<u>351,044</u>	<u>9.37%</u>
Total Liabilities	<u>16,392,415</u>	<u>19,107,825</u>	<u>(2,715,410)</u>	<u>(14.21)%</u>
Deferred Inflows of Resources	<u>304,294</u>	<u>324,041</u>	<u>(19,747)</u>	<u>(6.09)%</u>
Net Investment in Capital Assets	38,880,389	40,251,868	(1,371,479)	(3.41)%
Restricted	141,659	120,895	20,764	17.18%
Unrestricted	<u>5,816,251</u>	<u>5,780,133</u>	<u>36,118</u>	<u>0.62%</u>
Total Net Position	<u>44,838,299</u>	<u>46,152,896</u>	<u>(1,314,597)</u>	<u>(2.85)%</u>

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Net Position (Continued)

The Authority's net position at the FY 2013 year end was \$46,152,896. This is a \$554,745 decrease under FY 2012's net position of \$46,707,641, as restated. A summary of the Authority's statement of net position is presented in the following table:

**Condensed Statement of Net Position at December 31, 2013
With Comparative Prior Year Balances**

	<u>FY 2013</u>	<u>Restated FY 2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current and Non-current Assets	14,683,138	15,228,991	(545,853)	(3.58)%
Capital Assets	<u>50,901,624</u>	<u>51,308,493</u>	<u>(406,869)</u>	(0.79)%
Total Assets	<u>65,584,762</u>	<u>66,537,484</u>	<u>(952,722)</u>	(1.43)%
Long-term Debt Outstanding	15,362,674	16,302,324	(939,650)	(5.76)%
Other Liabilities	<u>3,745,151</u>	<u>3,183,731</u>	<u>561,420</u>	17.63%
Total Liabilities	<u>19,107,825</u>	<u>19,486,055</u>	<u>(378,230)</u>	(1.94)%
Deferred Inflows of Resources	<u>324,041</u>	<u>343,788</u>	<u>(19,747)</u>	(5.74)%
Net Investment in Capital Assets	40,251,868	41,236,175	(984,307)	(2.39)%
Restricted	120,895	100,168	20,727	20.69%
Unrestricted	<u>5,780,133</u>	<u>5,371,298</u>	<u>408,835</u>	7.61%
Total Net Position	<u>46,152,896</u>	<u>46,707,641</u>	<u>(554,745)</u>	(1.19)%

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Net Position (Continued)

**Condensed Statement of Revenues, Expenses
And Changes in Net Position for the Year Ending
December 31, 2014 with Comparative Prior Year Balances**

	<u>FY 2014</u>	<u>FY 2013</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	8,344,564	8,168,032	176,532	2.16%
Non-operating Revenues	<u>64,777</u>	<u>298,262</u>	<u>(233,485)</u>	<u>(78.28)%</u>
Total Revenues	<u>8,409,341</u>	<u>8,466,294</u>	<u>(56,953)</u>	<u>(0.67)%</u>
Depreciation	2,536,672	1,913,209	623,463	32.59%
Other Operating Expenses	6,796,876	6,755,201	41,675	0.62%
Other Non-operating Expense	<u>390,390</u>	<u>352,629</u>	<u>37,761</u>	<u>10.71%</u>
Total Expenses	<u>9,723,938</u>	<u>9,021,039</u>	<u>702,899</u>	<u>7.79%</u>
Change in Net Position	(1,314,597)	(554,745)	(759,852)	136.97%
Beginning Net Position	<u>46,152,896</u>	<u>46,707,641</u>	<u>(554,745)</u>	<u>(1.19)%</u>
Ending Net Position	<u>44,838,299</u>	<u>46,152,896</u>	<u>(1,314,597)</u>	<u>(2.85)%</u>

The Authority's operating revenues increased by \$176,532 to \$8,344,564 in fiscal year 2014 from \$8,168,032 in 2013. This increase is due to an increase in revenue from service agreements in the amount of \$83,371.

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Net Position (Continued)

A summary of the Authority's prior year statement of revenues, expenses and changes in net position is presented with comparative fiscal year figures in the following table:

**Condensed Statement of Revenues, Expenses
And Changes in Net Position for the Year Ending
December 31, 2013 with Comparative Prior Year Balances**

	<u>FY 2013</u>	<u>FY 2012</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Operating Revenues	8,168,032	7,978,288	189,744	2.38%
Non-operating Revenues	<u>298,262</u>	<u>64,724</u>	<u>233,538</u>	360.82%
Total Revenues	<u>8,466,294</u>	<u>8,043,012</u>	<u>423,282</u>	5.26%
Depreciation	1,913,209	1,873,962	39,247	2.09%
Other Operating Expenses	6,755,201	7,141,016	(385,815)	(5.40)%
Other Non-operating Expense	<u>352,629</u>	<u>356,073</u>	<u>(3,444)</u>	(0.97)%
Total Expenses	<u>9,021,039</u>	<u>9,371,051</u>	<u>(350,012)</u>	(3.74)%
Change in Net Position	(554,745)	(1,328,039)	773,294	(58.23)%
Beginning Net Position	46,707,641	47,220,357	(512,716)	(1.09)%
Capital Contributions	<u> </u>	<u>815,323</u>	<u>(815,323)</u>	100.00%
Ending Net Position	<u>46,152,896</u>	<u>46,707,641</u>	<u>(554,745)</u>	(1.19)%

The Authority's operating revenues increased by \$189,744 to \$8,168,032 in fiscal year 2013 from \$7,978,288 in 2012. This increase is due to an increase in revenue from service agreements in the amount of \$148,418.

Budgetary Highlights

The State of New Jersey requires local authorities to prepare and adopt annual budgets in accordance with the Local Authorities Fiscal Control Law and regulations adopted by the Local Finance Board pursuant to this statute and codified as N.J.A.C. 5:31-1 et seq. The statutory budget was designed to demonstrate to the Bureau of Authority Regulation of the Division of Local Government Services that the cash flows of the Authority for the coming year will be sufficient to cover operating expenses, interest accruing on bonded indebtedness and cash payments of maturing bond and loan principal.

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Budgetary Highlights (Continued)

The following tables provide a budget comparison for FY 2014 and FY 2013:

**Budget vs. Actual
FY 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	<u>8,663,871</u>	<u>8,848,830</u>	<u>184,959</u>
Expenses:			
Operating	<u>7,129,284</u>	<u>6,796,876</u>	<u>332,408</u>
Non-Operating	<u>1,534,587</u>	<u>1,530,040</u>	<u>4,547</u>
	<u>8,663,871</u>	<u>8,326,916</u>	<u>336,955</u>
Income before Depreciation	<u>0</u>	<u>521,914</u>	<u>521,914</u>

**Budget vs. Actual
FY 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Revenues:			
Operating	<u>8,647,000</u>	<u>8,771,907</u>	<u>124,907</u>
Expenses:			
Operating	<u>7,185,553</u>	<u>6,755,201</u>	<u>430,352</u>
Non-Operating	<u>1,461,447</u>	<u>1,430,036</u>	<u>31,411</u>
	<u>8,647,000</u>	<u>8,185,237</u>	<u>461,763</u>
Income before Depreciation	<u>0</u>	<u>586,670</u>	<u>586,670</u>

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets

During fiscal year 2014, the Authority had an increase of \$1,019,786 in capital assets (before depreciation). The Authority's net property, plant and equipment at fiscal year end was \$49,384,738. This is a \$1,516,886 decrease over last year's net property, plant and equipment of \$50,901,624. A summary of the Authority's capital assets is presented in the following table:

CAPITAL ASSETS

	<u>FY 2014</u>	<u>FY 2013</u>	<u>Dollar Change</u>
Land	859,400	859,400	0
Buildings and Interceptors	90,855,230	76,617,403	14,237,827
Machinery and Equipment	11,481,564	11,053,296	428,268
Less: Accumulated Depreciation	(56,589,379)	(54,052,707)	2,536,672
Construction in Progress	<u>2,777,923</u>	<u>16,424,232</u>	<u>(13,646,309)</u>
	<u>49,384,738</u>	<u>50,901,624</u>	<u>(1,516,886)</u>

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

The Authority's on going capital plan is reviewed each year by the Authority's consulting engineer. Notable future capital improvements are listed below.

Computer Plotter & Software	\$2,000
File Cabinet/Furniture	15,000
Security Surveillance	17,000
Miscellaneous	10,000
Clarifiers Repair, Equipments	270,000
Odor Control Equipments	400,000
Infrastructure Upgrade	206,000
Generator Services	15,000
Building Misc. Upgrade	77,700
De Nitrification Automation Process	130,000
Filtration, P Removal & Plan Upgrade	2,000,000
Laboratory Equipment	8,000
Oxidation Equipment	43,500
Pumping Equipment	134,000
Facilities Building Repair	10,000
Miscellaneous Equipment	54,500
CCT Automated monitoring	80,000
Trunkline Equipment	75,000
Meter Chamber Misc. Equip	55,600
NJEIT-Debt Authorized, Interceptor	800,000
NJEIT-Debt Authorized Jersey City Trunk	
Sewer Rehab	8,000,000
NJEIT-Debt Authorized Final Clarifiers D & C	<u>3,500,000</u>
	<u>\$15,903,300</u>

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**

Debt Administration

At December 31, 2014, the Authority had outstanding New Jersey Environmental Infrastructure Fund bonds of \$13,258,403 (gross). The debt service schedule has a final maturity in 2031. Full details of the specific bond issues outstanding are found in Note 6 to the financial statements and the supplementary schedules.

Economic Factors, Future Years' Budgets and Rates

The Commissioners and management of the Authority consider many factors when preparing each year's budget and annual charges. Two of the main factors are growth in the Authority's system and new regulations issued by the State and Federal governments.

Contacting the Authority

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the fees it receives. If you have any questions about this report or need additional information, contact the Rockaway Valley Regional Sewerage Authority, 99 Green Bank Road, Boonton, New Jersey 07005.

Financial Statements

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

EXHIBIT A

Page 1 of 3

STATEMENT OF NET POSITION

DECEMBER 31,

	2014	2013
ASSETS		
Current Assets:		
<u>Unrestricted:</u>		
Cash and Cash equivalents	\$ 5,629,113	\$ 5,942,296
Accounts Receivable, net	3,243,661	2,419,794
Total Unrestricted Assets	8,872,774	8,362,090
<u>Restricted:</u>		
State Unemployment Insurance:		
Cash and Cash equivalents	141,659	120,895
New Jersey Environmental Infrastructure Trust:		
NJEIT Receivable	3,135,837	6,200,153
Total Restricted Assets	3,277,496	6,321,048
Non-Current Assets:		
<u>Capital Assets:</u>		
Land	859,400	859,400
Buildings, and Interceptors	90,855,230	76,617,403
Machinery and Equipment	11,481,564	11,053,296
Less: Accumulated Depreciation	(56,589,379)	(54,052,707)
Construction in Progress	2,777,923	16,424,232
Total Capital Assets	49,384,738	50,901,624
TOTAL ASSETS	\$ 61,535,008	\$ 65,584,762

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

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

EXHIBIT A

Page 2 of 3

STATEMENT OF NET POSITION

DECEMBER 31,

	<u>2014</u>	<u>2013</u>
<u>LIABILITIES</u>		
Current Liabilities:		
<u>Payable from Unrestricted Assets:</u>		
Accounts Payable	\$ 837,828	\$ 1,063,931
Accrued Interest on NJEIT Bonds	141,553	146,055
Bonds Payable - Current Portion	962,183	939,650
Advances of Revenue	<u>2,077,142</u>	<u>1,518,026</u>
Total Payable from Unrestricted Assets	<u>4,018,706</u>	<u>3,667,662</u>
<u>Payable from Restricted Assets:</u>		
Accounts Payable - Construction Fund	<u>77,489</u>	<u>77,489</u>
Total Payable from Restricted Assets	<u>77,489</u>	<u>77,489</u>
Total Current Liabilities	<u>4,096,195</u>	<u>3,745,151</u>
Non-Current Liabilities:		
NJEIT Bonds Payable	<u>12,296,220</u>	<u>15,362,674</u>
Total Non-Current Liabilities	<u>12,296,220</u>	<u>15,362,674</u>
TOTAL LIABILITIES	\$ <u>16,392,415</u>	\$ <u>19,107,825</u>

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

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

EXHIBIT A

Page 3 of 3

STATEMENT OF NET POSITION

DECEMBER 31,

	<u>2014</u>	<u>2013</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Deferred Inflows:		
Unamortized Premium on Bonds	\$ <u>304,294</u>	\$ <u>324,041</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ <u>304,294</u>	\$ <u>324,041</u>
 <u>NET POSITION</u>		
Net Investment in Capital Assets	38,880,389	40,251,868
Restricted:		
State Unemployment Insurance	141,659	120,895
Unrestricted:		
Designated	4,364,888	3,853,590
Undesignated	<u>1,451,363</u>	<u>1,926,543</u>
TOTAL NET POSITION	\$ <u><u>44,838,299</u></u>	\$ <u><u>46,152,896</u></u>

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

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET POSITION

DECEMBER 31,

	<u>2014</u>	<u>2013</u>
Operating Revenue:		
Service Agreements	\$ 7,745,621	\$ 7,662,250
User Charges and Fees	152,258	149,559
Sewer Permits	20,496	16,113
IPP Surcharge	349,508	274,821
Industrial Annual Fees	30,000	32,000
Miscellaneous	34,285	22,397
Interest Income	12,396	10,892
Total Operating Revenue	<u>8,344,564</u>	<u>8,168,032</u>
Operating Expenses:		
Cost of Providing Services	4,035,619	3,200,737
Employee Benefits	1,127,010	1,090,659
Administrative and General	1,634,247	2,463,805
Depreciation Expense	2,536,672	1,913,209
Total Operating Expenses	<u>9,333,548</u>	<u>8,668,410</u>
Operating Income\ (Loss)	<u>(988,984)</u>	<u>(500,378)</u>
Non-Operating Revenue (Expenses):		
Interest on Investments	5,030	4,033
Interest Expense and NJEIT Fees	(390,390)	(329,300)
Amortization of Bond Premium	19,747	19,747
Unemployment Expenditures (Net)	20,000	20,569
Hurricane Sandy FEMA Grant		61,514
Hurricane Sandy - Insurance Reimbursement		67,195
ITI Settlement		125,000
Cancellation of Accounts Payable		204
Gain (Loss) on Disposal of Building and Equipment	20,000	(23,329)
Non-Operating Income (Loss)	<u>(325,613)</u>	<u>(54,367)</u>
Change In Net Position	(1,314,597)	(554,745)
Net Position - January 1	<u>46,152,896</u>	<u>46,707,641</u>
Net Position - December 31	<u>\$ 44,838,299</u>	<u>\$ 46,152,896</u>

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

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,

	<u>2014</u>	<u>2013</u>
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 8,067,417	\$ 8,097,196
Cash Paid to Vendors and Employees	(7,022,979)	(6,768,831)
Interest Received	<u>12,396</u>	<u>10,892</u>
Net Cash Provided by Operating Activities	<u>1,056,834</u>	<u>1,339,257</u>
Cash Flow from Investing Activities:		
Interest Received	<u>5,030</u>	<u>4,033</u>
Net Cash Provided by (used in) Investing Activities	<u>5,030</u>	<u>4,033</u>
Cash Flow from Financing Activities:		
Capital Expenditures	(979,786)	(1,265,453)
Interest Paid	(394,892)	(324,065)
NJEIT Receipts	960,045	2,029,443
Principal Payment on Bonds	<u>(939,650)</u>	<u>(900,736)</u>
Net Cash Used in Financing Activities	<u>(1,354,283)</u>	<u>(460,811)</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(292,419)	882,479
Cash and Cash Equivalents at Beginning of Year	<u>6,063,191</u>	<u>5,180,712</u>
Cash and Cash Equivalents at End of Year	<u>\$ 5,770,772</u>	<u>\$ 6,063,191</u>
Classified as:		
Unrestricted Assets	5,629,113	5,942,296
Restricted Assets	<u>141,659</u>	<u>120,895</u>
	<u>5,770,772</u>	<u>6,063,191</u>

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

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	<u>2014</u>	<u>2013</u>
Operating Income\Loss	\$ (988,984)	\$ (500,378)
Adjustments to Reconcile Change in Operating Income\Loss) to		
Net Cash Provided by Operating Activities:		
Depreciation	2,536,672	1,913,209
(Increase) Decrease in Receivables	(823,867)	(601,110)
Increase (Decrease) in Payables	(226,103)	(13,426)
Increase (Decrease) in Advanced Revenues	559,116	541,166
Cancellation of Accounts Payable		(204)
Total Adjustments	<u>2,045,818</u>	<u>1,839,635</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,056,834</u>	<u>\$ 1,339,257</u>

Notes to Financial Statements

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 1. GENERAL

The Rockaway Valley Regional Sewerage Authority (the "Authority") is a public body corporate and politic of the State of New Jersey, governed by ten members appointed by its participant municipalities and the City of Jersey City.

The Authority was created and organized in 1971 under and pursuant to the State Municipal Utilities Authorities Law (P.L. 1957, Chapter 183).

The Rockaway Valley Regional Sewerage Authority was created to operate a wastewater collection and treatment system to serve nine member municipalities (Denville, Randolph, Boonton Township, Town of Boonton, Rockaway Borough, Rockaway Township, Dover, Wharton, and Victory Gardens) in Morris County, New Jersey. The Authority bills and collects its revenue from users of the system, and the City of Jersey City under a stipulation of settlement. The Authority has entered into an agreement with its member municipalities and Jersey City, obligating each municipality to guarantee its proportionate share of the Authority's debt service, to the extent not met by other sources.

As a public body, under existing statute, the Authority is exempt from both federal and state taxes.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the more significant accounting policies:

A. Basis of Presentation

The financial statements of the Rockaway Valley Regional Sewerage Authority have been prepared in accordance with generally accepted accounting principles (GAAP) applicable to enterprise funds of state and local governmental units. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and or net income is appropriate for capital maintenance, public policy, accountability or other purposes. The Governmental Accounting Standards Board GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant of the Authority's accounting policies are described below.

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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

A. Basis of Presentation, (continued)

On January 1, 2012, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which amends the net asset reporting requirement of Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and other pronouncements by incorporating deferred outflows from resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The classifications of net position are defined as follows:

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

B. Basis of Accounting

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

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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

C. Reporting Entity

The Authority's financial statements include the accounts of all Authority operations. The primary criterion for including activities within the Authority's reporting entity, is set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards. Based on this criteria, the Authority is a legally separate organization and has no component units.

D. Risks of Loss

The Authority purchases commercial insurance policies on an annual basis to handle risks of loss associated with property, auto, liability, workers compensation, flood damage, and employee crime coverage. Any potential liability of the Authority with respect to loss claims would be equal to the deductibles associated with the policies and an event, which may exceed policy coverage limits.

E. Grants

Contributions received from the U.S. Environmental Protection Agency and N.J. Department of Environmental Protection are recorded in the period in which they are awarded.

Grants receivable, if any, represent the total grant awards less amounts collected to date. Grants, if any, not internally restricted and utilized to finance operations are identified as non-operating revenue. Grants externally restricted for non-operating purposes are recorded as contributed capital and identified as grants-in-aid.

F. Inventories of Materials and Supplies

The cost of inventories, primarily chemicals for the treatment of sewerage and sludge, are recorded as expenditures at the time individual items are purchased, since they are not material to the results of operations and financial position.

G. Advances of Revenue

Advances of revenue arise when assets are recognized before revenue recognition criteria has been satisfied. The Authority's participating municipalities are advancing funds to offset the loss of revenue that the City of Jersey has been withholding for their portion of the debt service charge. These advances will be either be returned to the participants or realized as revenue when the final disposition of the litigation is resolved (See Note 9 – Jersey City Municipal Utilities Authority, et al., v. Town of Dover, et als.).

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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

H. Property, Plant and Equipment

Property, Plant and Equipment is stated at cost which includes direct construction costs and other expenditures related to construction. Land is stated at approximate fair market value as of the date it was donated to the Authority or at the purchase price if purchased by the Authority.

System construction costs are charged to construction in progress until such time as given segments of the system are completed and placed into operation.

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

Building and Improvements	20-50 Years
Sewer Mains and Interceptors	50 Years
Machinery and Equipment	10-20 Years
Furniture and Fixtures	5 Years
Vehicles	3-10 Years

Depreciation on assets acquired with grants-in-aid and contributed capital assets is recorded as a reduction of contributed capital.

A summary of the changes in property, plant and equipment at December 31, 2014 is as follows:

	<u>Balance</u> <u>FY 2013</u>	<u>Net</u> <u>Additions</u>	<u>Disposals</u>	<u>Balance</u> <u>FY 2014</u>
Land	\$859,400	\$	\$	\$859,400
Buildings and Interceptors	76,617,403	14,237,827		90,855,230
Machinery and Equipment	11,053,296	428,268		11,481,564
Construction in Progress	<u>16,424,232</u>		<u>13,646,309</u>	<u>2,777,923</u>
	104,954,331	14,666,095	13,646,309	105,974,117
Accumulated Depreciation	<u>(54,052,707)</u>	<u>(2,536,672)</u>		<u>(56,589,379)</u>
Property, Plant and Equipment, Net	<u>\$50,901,624</u>	<u>\$12,129,423</u>	<u>\$13,646,309</u>	<u>\$49,384,738</u>

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

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

I. Restricted Accounts

State Unemployment Insurance

The Authority is a participant in the New Jersey State Unemployment Fund. The Authority has selected the reimbursement method for payment of unemployment compensation claims. The employer and employee contribute to a restricted fund of the Authority. The State Fund is then reimbursed from the Authority's restricted fund based on actual payments made by the State.

The Authority has established the following designated unrestricted accounts:

Capital Replacement Reserve

The Authority established this account in order to provide funds for capital projects to be funded on an ongoing basis.

Renewal and Replacement

Pay for emergency and non-recurring repairs, etc. Holds amounts needed for replacement of assets at the Authority's discretion.

Construction Reserve

The Authority established this account to provide funds for future construction projects.

J. Unamortized Premium on Bonds

Premiums paid in connection with the Series 2007, 2010 and 2012 bond issues are being amortized over the life of the issues.

K. Operating Fund Budget

The budget amounts included in the statement of budget revenues and statement of budget expenditures were approved in accordance with the requirements of the "Local Finance Board" of the State of New Jersey, and were adopted by the Commissioners after legal advertisement and public hearing.

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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

L. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of net position, and reported amounts of revenues and expenses during the reporting period. These estimates and assumptions include depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results may differ from those estimates.

M. Risk of Loss

The Authority purchases commercial insurance policies on an annual basis to handle risks of loss associated with property, auto, liability, workers compensation, flood damage and employee crime coverage. Any potential liability of the Authority with respect to loss claims would be equal to the deductibles associated with policies and an event, which may exceed policy coverage limits.

N. Sick and Vacation Leave

Authority employees are granted varying amounts of sick leave in accordance with the Authority's personnel policy and union agreements. Any unused sick leave is generally paid in full to the employee at the end of the year and not accumulated into future periods.

O. Net Position

Net position represent the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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

P. Recent Accounting Pronouncements

The Government Accounting Standards Board issued GASB Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local government pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision - useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013. 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. 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. 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. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term “government combinations” includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. This Statement is effective for financial statements beginning after December 15, 2013. The Authority does not believe this Statement will materially affect its current practice.

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

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

P. Recent Accounting Pronouncements, (continued)

The Government Accounting Standards Board issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Guarantees*. This Statement requires a state or local government grantor that offers a nonexchange financial guarantee to another organization to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The Authority has not offered a nonexchange financial guarantee to any other organizations and does not believe this Statement will apply to future financial statements.

The Government Accounting Standards Board issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. This Statement requires a state or local government employer to recognize a net pension liability measured as of a date no earlier than the end of its prior fiscal year. This Statement is effective for financial statements with fiscal years beginning after June 15, 2014. 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. 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.

Q. Reclassifications

Certain reclassifications have been made to the 2014 amounts to conform to the 2014 financial statement presentation. These reclassifications had no effect on the previously reported results of operations for 2014.

NOTE 3. CASH AND CASH EQUIVALENTS

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

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 3. CASH AND CASH EQUIVALENTS, (continued)

N.J.S.A. 17:9-41 et. seq. establishes the requirements for the security of deposits of governmental units. The statute requires that no governmental unit shall deposit public funds in a public depository unless such funds are secured in accordance with the Act. Public depositories include Savings and Loan institutions, banks (both state and national banks) and savings banks the deposits of which are federally insured. All public depositories must pledge collateral, having a market value at least equal to five percent of the average daily balance of collected public funds, to secure the deposits of Governmental Units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories, is available to pay the full amount of their deposits to the Governmental Units.

In addition to the above collateral requirement, if the public funds deposited exceed 75% of the capital funds of the depository, the depository must provide collateral having a market value at least equal to 100% of the amount exceeding 75%.

All collateral must be deposited with the Federal Reserve Bank of New York, The Federal Reserve Bank of Philadelphia, the Federal Home Loan Bank of New York, or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.00.

As of December 31, 2014, the Authority's cash and cash equivalents are summarized as follows:

	Money Market/ Checking <u>Accounts</u>	NJ Cash Management <u>Fund</u>	<u>Total</u>
Unrestricted	\$5,449,393	\$179,720	\$5,629,113
Restricted	<u>141,659</u>	<u> </u>	<u>141,659</u>
	<u><u>\$5,591,052</u></u>	<u><u>\$179,720</u></u>	<u><u>\$5,770,772</u></u>

New Jersey Cash Management Fund – All investments in the Fund are governed by the regulations of the Investment Council, which prescribes 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

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 3. CASH AND CASH EQUIVALENTS, (continued)

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 December 31, 2014, the Authority had \$179,720 on deposit with the New Jersey Cash Management Fund.

The carrying amount of the Authority's cash and cash equivalents at December 31, 2014 was \$5,770,772 and the bank balance was \$6,069,301. This entire amount was covered by federal depository insurance and the collateral pool maintained by the banks as required by New Jersey Statutes.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the government's deposit may not be returned to it. The Authority's policy is based on New Jersey statutes requiring cash be deposited only in New Jersey based on banking institutions that participate in New Jersey Governmental Depository Protection Act (GUDPA) or in a qualified investment established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. As of December 31, 2014, \$-0- of the Authority's bank balance of \$6,069,301 was exposed to custodial risk.

NOTE 4. INVESTMENTS

Investments are stated at fair value, which is determined using selected bases. The Authority classifies certificates of deposit that have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments.

The Authority had no investments at December 31, 2014.

Interest Rate Risk

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, New Jersey Statutes 40A:5-15.1(a) limits the length of time for most investments to 397 days.

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 4. INVESTMENTS, (continued)

Credit Risk

New Jersey Statutes 40A:5-15.1(a) limits municipal investment maturities to those specified in the Statutes. The type of allowance investments are Bonds of the United States of America or the local unit or school districts of which the local unit is part of: obligations of federal agencies not exceeding 397 days; government money market mutual funds; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

Concentration of Credit Risk

The Authority places no limit on the amount it may invest in any one issuer.

NOTE 5. NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST

The Authority issued bonds in 2007 and 2010 through the Trust to finance the improvement to the treatment facilities. The proceeds of the Bonds are held by the Trust until the Authority expends funds on the project. The Authority then submits for reimbursement of these expenditures from the Trust. The following is the remaining amount of funds to be received by the Trust:

	Balance <u>Dec.31,2013</u>	Less: Amounts Received and <u>Cancelled</u>	Balance <u>Dec.31, 2014</u>
NJEIT - Fund Portion	\$3,467,866	\$643,218	\$2,824,648
NJEIT - Trust Portion	<u>2,732,287</u>	<u>2,421,098</u>	<u>311,189</u>
	<u>\$6,200,153</u>	<u>\$3,064,316</u>	<u>\$3,135,837</u>

These funds shall be disbursed to the Authority under the terms of its loan agreements with the New Jersey Environmental Infrastructure Trust.

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 6. LONG-TERM DEBT

The Authority has issued and has outstanding the following bonds as of December 31, 2014 and 2013.

	<u>2014</u>	<u>2013</u>
Series 2007 NJ Environmental Infrastructure Trust and Fund Bonds	\$8,134,494	\$10,903,135
Series 2010 NJ Environmental Infrastructure Trust and Fund Bonds	2,213,856	2,346,780
Series 2012 NJ Environmental Infrastructure Trust and Fund Bonds	<u>2,910,053</u>	<u>3,052,409</u>
Net Carrying Amount of Debt	<u>13,258,403</u>	<u>16,302,324</u>
Current Portion	962,183	939,650
Long-Term Portion	<u>12,296,220</u>	<u>15,362,674</u>
	<u>\$13,258,403</u>	<u>\$16,302,324</u>

Presented below is a summary of debt service requirements to maturity.

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$962,183	\$339,727	\$1,301,910
2016	981,553	320,026	1,301,579
2017	995,450	298,776	1,294,226
2018	1,027,026	276,777	1,303,803
2019	1,044,820	253,276	1,298,096
2020-2024	4,566,260	920,631	5,486,891
2025-2029	3,286,399	255,932	3,542,331
2030-2031	<u>394,712</u>	<u>10,670</u>	<u>405,382</u>
	<u>\$13,258,403</u>	<u>\$2,675,815</u>	<u>\$15,934,218</u>

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 6. LONG-TERM DEBT, (continued)

Series 2007 NJ Environmental Infrastructure Trust Bonds

On November 8, 2007, the Authority issued \$13,459,315 Series 2007 Subordinate Bonds through the New Jersey Environmental Infrastructure Trust Program. These bonds are being used for improvements to the treatment facilities. On December 1, 2014, the State of New Jersey Department of Environmental Protection deobligated \$2,104,271 of Fund Principal based on the final project costs.

Principal and interest due on outstanding 2007A bonds to maturity is as follows:

<u>NJEIT SERIES 2007A</u>				
<u>Year</u>	<u>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Debt Service</u>
2015	\$320,000	\$254,225	\$361,904	\$936,129
2016	335,000	238,225	361,273	934,498
2017	350,000	221,475	360,170	931,645
2018	370,000	203,975	361,746	935,721
2019	385,000	185,475	359,540	930,015
2020	405,000	170,075	362,439	937,514
2021	420,000	153,875	361,683	935,558
2022	440,000	132,875	60,738	633,613
2023	460,000	110,875		570,875
2024	480,000	91,325		571,325
2025	505,000	69,725		574,725
2026	525,000	47,000		572,000
2027	550,000	23,375		573,375
	<u>\$5,545,000</u>	<u>\$1,902,500</u>	<u>\$2,589,494</u>	<u>\$10,036,994</u>

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

NOTE 6. LONG-TERM DEBT, (continued)

Series 2010 NJ Environmental Infrastructure Trust Bonds

On March 10, 2010, the Authority issued \$2,817,500 Series 2010 Subordinate Bonds through the New Jersey Environmental Infrastructure Trust Program. These bonds are being used for improvements to the treatment facilities.

Principal and interest due on outstanding 2010A bonds to maturity is as follows:

<u>Year</u>	<u>NJEIT SERIES 2010A</u>			
	<u>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Debt Service</u>
2015	\$30,000	\$24,775	\$107,924	\$162,699
2016	30,000	23,275	107,924	161,199
2017	30,000	21,775	107,924	159,699
2018	35,000	20,275	107,924	163,199
2019	35,000	18,525	107,924	161,449
2020	35,000	17,125	107,924	160,049
2021	40,000	15,375	107,924	163,299
2022	40,000	14,175	107,924	162,099
2023	40,000	12,575	107,924	160,499
2024	45,000	10,975	107,924	163,899
2025	45,000	9,175	107,924	162,099
2026	45,000	7,375	107,924	160,299
2027	45,000	5,800	107,924	158,724
2028	50,000	4,000	107,924	161,924
2029	50,000	2,000	107,924	159,924
	<u>\$595,000</u>	<u>\$207,200</u>	<u>\$1,618,856</u>	<u>\$2,421,056</u>

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 6. LONG-TERM DEBT, (continued)

Series 2012 NJ Environmental Infrastructure Trust Bonds

On May 3, 2012, the Authority issued \$3,165,646 Series 2012 Subordinate Bonds through the New Jersey Environmental Infrastructure Trust Program. These bonds are being used for replacing existing screenings removal and grit removal equipment, installing cover channels, providing odor control systems, installing new HVAC system, installing motorized operators on influent sluice gates, replacing all gas detection and oxygen monitoring instrumentation, replacing existing temporary truck dewatering pad with permanent structure, and replacing corroded piping.

Principal and interest due on outstanding 2014 bonds to maturity is as follows:

<u>Year</u>	<u>NJEIT SERIES 2012</u>			
	<u>Trust Portion</u>		<u>Fund Portion</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Debt Service</u>
2015	\$55,000	\$60,726	\$87,356	\$203,082
2016	60,000	58,527	87,356	205,883
2017	60,000	55,526	87,356	202,882
2018	65,000	52,526	87,356	204,882
2019	70,000	49,276	87,356	206,632
2020	70,000	45,777	87,356	203,133
2021	75,000	42,276	87,356	204,632
2022	80,000	38,526	87,356	205,882
2023	85,000	34,526	87,356	206,882
2024	90,000	30,277	87,356	207,633
2025	90,000	25,776	87,356	203,132
2026	95,000	21,276	87,356	203,632
2027	100,000	16,526	87,356	203,882
2028	105,000	13,527	87,356	205,883
2029	105,000	10,376	87,356	202,732
2030	110,000	7,095	87,356	204,451
2031	110,000	3,575	87,357	200,932
	<u>\$1,425,000</u>	<u>\$566,114</u>	<u>\$1,485,053</u>	<u>\$3,476,167</u>

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 7. PENSION PLAN

Description of Plan - All required employees of the Authority are covered by the Public Employees' Retirement System which has been established by state statute and is administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the System terminate.

Public Employees' Retirement System (PERS) - Established in January 1955, under provisions of N.J.S.A. 43:15A to provide coverage, including post-retirement health care, to substantially all full time employees of the state or any county, municipality, school district, or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 8 to 10 years of service for pension benefits and 25 years for post-retirement health care coverage.

Defined Contribution Retirement Program (DCRP) - Established under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2008 to provide coverage to elected and certain appointed officials, effective July 1, 2007. Membership is mandatory for such individuals with vesting occurring after one (1) year of membership.

Other Pension Funds

The State established and administers a Supplemental Annuity Collective Trust Fund (SACT) which is available to active members of the State-administered retirement systems to purchase annuities to supplement the guaranteed benefits provided by their retirement system. The state or local government employers do not appropriate funds to SACT.

The cost of living increase for PERS is funded directly by the respective system and are considered in the annual actuarial calculation of the required State contribution for the system.

According to state law, all obligations of each retirement system will be assumed by the State of New Jersey should any retirement system be terminated.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issued publicly available financial reports that include the financial statements and required supplementary information of each of the above systems. The financial reports may be accessed via the New Jersey, Division of Pensions and Benefits, website at www.state.nj.us/treasury/pensions.

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 7. PENSION PLAN, (continued)

Basis of Accounting

The financial statements of the retirement systems are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the retirement systems. Benefits or refunds are recognized when due and payable in accordance with the terms of the retirement systems.

Investment Valuation

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

Funding Status and Funding Progress

The funded status and funding progress of the retirement system is based on actuarial valuations which involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. These amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the probability of future events.

Actuarial calculations reflect a long-term perspective and are based on the benefits provided under the terms of the retirement systems in effect at the time of each valuation and also consider the pattern of the sharing of costs between the employer and members at that point in time. The projection of benefits for financing reporting purposes does not explicitly incorporate the potential effects of legal or contractual limitations on the pattern of cost sharing between the employer and members in the future.

Actuarial Methods and Assumptions

In the July 1, 2010 actuarial valuation, the projected unit credit was used as the actuarial cost method, and the five year average of market value was used as the asset valuation method for the retirement systems. The actuarial assumptions included (1) 8.25 percent for investment rate or return for the retirement systems and (2) 5.45 percent for projected salary increased for the PERS.

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 7. PENSION PLAN, (continued)

Employer and Employee Pension Contributions

The contribution policy is set by laws of the State of New Jersey and contributions are required by active members and participating employers. Plan member and employer contributions may be amended by State of New Jersey legislation with the amount of contributions by the State of New Jersey contingent upon the Annual Appropriations Act. As defined, the retirement systems require employee contributions based on 6.92% for PERS and 5.50% for DCRP of the employee's annual compensation.

Annual Pension Costs (APC)

Per the requirements of GASB Statement No. 27 for the year ended June 30, 2012 for PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost equals contributions made. PERS employer contributions are made annually by the Authority to the pension system in accordance with Chapter 114, P.L. 1997. In the DCRP, which is a defined contribution plan, member contributions are matched by a 3% employer contribution.

<u>Three Year Trend Information for PERS</u>			
<u>Year</u>	<u>Annual</u>	<u>Percentage</u>	<u>Net</u>
<u>Funding</u>	<u>Pension</u>	<u>of APC</u>	<u>Pension</u>
	<u>Cost (APC)</u>	<u>Contributed</u>	<u>Obligation</u>
12/31/14	206,201	100%	\$ 0
12/31/13	203,525	100%	0
12/31/12	195,068	100%	0

NOTE 8. OTHER POST EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 7, the Authority provides post employment health care benefits in accordance with the provisions of Ch. 88, P.L. 1974 as amended by Chapter 436, P.L. 1981, at its cost. On May 13, 2010, the Authority adopted the provisions of N.J.S.A. 52:14-17.38 and adhered to the rules and regulations promulgated by the State Health Benefits Commission to implement the provisions of that law. This resolution affects employees as shown in Chapter 48, P.L. 1999. It is effective on the 1st day of July, 2010.

Chapter 48, P.L. 1999, provides eligible participating local employers considerable flexibility in managing their postretirement medical costs. It also brings State Health Benefits Program (SHBP) and School Employees' Health Benefits Program (SEHBP) eligibility standards for employer-paid coverage into alignment with local government laws.

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 8. OTHER POST EMPLOYMENT BENEFITS, (continued)

Adoption of this Resolution does not free RVRSA of the obligation to pay for postretirement medical benefits of retirees or employees who qualified for those payments under any Chapter 88 or Chapter 48 Resolution previously adopted by the governing body.

The Resolution will remain in effect until properly amended or revoked with the State Health Benefits Program. RVRSA recognizes that, while it remains in the State Health Benefits Program, it is responsible for providing the payment for postretirement medical coverage as listed in the Chapter 48 Resolution Addendum for all employees who qualify for this coverage while this Resolution is in force.

Plan Description

The Rockaway Valley Regional Sewerage Authority contributes to the State Health Benefits Program (SHBP) a cost-sharing, multi-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. The SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq. to provide health benefits to State employees, retirees, and their dependents.

The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at <http://www.state.nj.us/treasury/pensions/gasb-43-sept2008.pdf>

Plan Coverage

Any employee who retires after twenty-five (25) years or more of service within the Authority shall be entitled to be continued in the above health insurance coverage on a family-plan basis, with the cost thereof to be paid by the Authority. This includes dental benefits and the full cost of Medicare charges.

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 8. OTHER POST EMPLOYMENT BENEFITS, (continued)

Funding Policy

Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the plan have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Contributions to pay for the health premiums of participating employees in the SHBP are billed to the Authority on a monthly basis.

The Authority had two employees receiving retiree SHBP and contributed \$29,024 to SHBP for post-retirement benefits for the year ended December 31, 2014.

NOTE 9. COMMITMENTS AND CONTINGENT LIABILITIES

Various legal actions, proceedings and claims are pending or may be instituted or asserted against the Authority. They are as follows:

Rockaway Valley Regional Sewerage Authority v. NJDEP, OAL Docket No. EWR 07237-01N. RVRSA brought this action against the NJDEP to challenge the terms and conditions of the NJPDES Permit issued to RVRSA in July, 2007. NJDEP and RVRSA have executed a settlement agreement disposing of all issues raised, with the exception of the flow condition contained in the permit and winter ammonia action levels. With respect to flow limitations and winter ammonia action levels, these issues will be raised and addressed as part of the Wastewater Management Plan currently being prepared by the County of Morris. A stay of the other contested issues, which are Copper, Nickel and Zinc has been granted by NJDEP pending modification of RVRSA's NJPDES discharge permit in accordance with the terms of settlement. Other issues resolved are Bis (2-Ethylhexyl Phthalate), Thallium, TTO and PCE.

Jersey City Municipal Utilities Authority, et al., v. Town of Dover, et als., Docket No. HUD-L-0131-10. As a member of the RVRSA, the City of Jersey City ("City") shares a portion of the RVRSA's capital and operating costs and is billed together with the RVRSA's members. The City's participation in the RVRSA's construction program and operations dates back to a Stipulation of Settlement approved by Order of the Chancery Division of the Superior Court of New Jersey, Hudson County, Docket No. C658-68, July 1971 (City of Jersey City vs. Town of Dover, et. al.) (the "Stipulation of Settlement"), which provided that the City would, among other things, transfer to the RVRSA all rights and title to its wastewater treatment plant located in Parsippany and its trunkline utilized for sewage transmission and pay a share of the cost of the RVRSA's capital improvement program, all in accordance with the formula set forth in the Stipulation of Settlement. The formula for determining the amount due to the RVRSA from the City is based upon sewage flow and system capacity. On July 27, 1984, an Amendment to the Stipulation of Settlement (the "Amendment")

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 9. COMMITMENTS AND CONTINGENT LIABILITIES, (continued)

was accepted by the Superior Court in full settlement of litigation which was reinstated by Jersey City in 1981. The Amendment reduced the City's capital share of project costs for Segment I of the new treatment plant by the total sum of \$500,000. The City's financial obligation to pay a percentage share of the system's operations and maintenance costs, and capital expenses for all the RVRSA's construction projects has been reaffirmed. The Amendment foreclosed the City from challenging the terms of the Stipulation of Settlement or its Amendment in the future and provided for the dismissal of the litigation with prejudice.

Notwithstanding the provisions of the Amendment which bars future challenges to the terms of the Stipulation Agreement, on January 7, 2010, the City and Jersey City Municipal Utilities Authority, filed the above referenced litigation in the Superior Court of New Jersey. The RVRSA has not consented to any change in the obligation of the City, nor have any of the nine (9) municipalities and Authorities which, together with the City of Jersey City, comprise the parties to the Amended Stipulation. The RVRSA filed a Counterclaim, Answer and Separate Defenses. The Counterclaim seeks an Order to compel the City to continue to make payments for capital costs, which payments the City has withheld since February 1, 2010. The RVRSA will vigorously prosecute the Counterclaim and aggressively defend the legality of the Amended Stipulation.

Discovery has been completed and Motions for Summary Judgment have been filed by both the RVRSA and Jersey City. While the Motions for Summary Judgment were pending, the parties engaged in mediation with retired Judge B. Theodore Bozonelis (ret.) acting as mediator, but that effort concluded without a settlement on or about March 27, 2014. On August 18, 2014, the Court filed a Partial Summary Judgment Order dismissing the Second Count of Jersey City's Complaint (which sought a declaratory judgment voiding the Amendment) "to the extent that it includes rights or claims that were or could have been raised at the time of the 1984 Settlement Agreement." In the Statement of Reasons accompanying the Court's Partial Summary Judgment Order, the Court concluded that "the 1984 Settlement Agreement is still valid," and that the waiver and release provisions of the 1984 Settlement Agreement bar Jersey City from "any further litigation on issues it raised or could have raised in 1984."

Shortly after the issuance of the August 18, 2014 Partial Summary Judgment Order, the Court directed the parties back to mediation.

While mediation was underway, on March 9, 2015, Plaintiffs filed an Amended Complaint against the Defendants, which includes an additional claim that Jersey City's obligation to pay a share of the RVRSA's operating, maintenance, repair and upkeep costs has expired, because the RVRSA Treatment Plant and Interceptor allegedly are no longer "maintained in operation."

Mediation ended on or about May 18, 2015 without settlement. RVRSA then filed its Counterclaim, Separate Defenses and Answer to Plaintiff's Amended Complaint on or about June 5, 2015.

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 9. COMMITMENTS AND CONTINGENT LIABILITIES, (continued)

Even in the unlikely event that the Plaintiffs are successful in this litigation, there is not expected to be any material financial impact on the financial condition of the RVRSA due to the fact that the payments now made by the Jersey City parties, will instead become the responsibility of the participant municipalities.

Jasodra Deowdhat, et al., v. Insituform Technologies, et al., Docket No. MRS-L-2978-11. On or about January 31, 2012, Plaintiffs, residents of Boonton, filed a lawsuit against RVRSA and its contractor Insituform Technologies, Inc. ("Defendants") regarding incidents on May 19, 2011 and September 2 through 5, 2011. Plaintiffs allege that Defendants are responsible for sewerage, which entered Plaintiffs' properties on the above dates. Plaintiffs seek damage from Defendants for claims of negligence, nuisance, property damage, emotional distress, bodily injuries, breach of contract, and relocation from homes. Plaintiffs are also seeking punitive damages, which are prohibited against public entities, against Defendants. The majority of claims are being handled by the attorneys for the Joint Insurance Fund (JIF), the Authority's insurance provider; however, Counsel for the Authority will be defending the punitive damage claims. Under the provisions of the New Jersey Tort Claims Act, punitive damages are not recoverable against a public entity.

Given that the major claims are covered under the Authority's insurance contract, and the punitive damage claims are not allowable, it is anticipated that the Authority is not exposed to a claim that will have a material impact upon its financial condition.

Interceptor Sewer Rehabilitation Project - Contract No. 35 Rebid

On August 12, 2010, RVRSA awarded Interceptor Sewer Rehabilitation Project Contract No. 35 - Rebid to Insituform Technologies, Inc. ("ITI") in the amount of \$1,143,082. A breach of contract has arisen due to certain work that is not completed by the contractor, including the lining of approximately 120 feet of 48" diameter pipeline; playground restoration and installation of playground equipment; resolving issues at two residential properties in order for residents to return to their homes; final pavement at two manholes; replacing a STP Meter flume and certain work in the chamber; and failure to provide a contractually required insurance policy. These failures resulted in RVRSA issuing a notice of intent to terminate the contract on January 4, 2012 and January 20, 2012. The notice was served on ITI and Travelers Casualty and Surety Company of America. In the event that further negotiations fail to resolve the matter, RVRSA reserves all of its legal rights and remedies to pursue all of its claims against ITI and Travelers Casualty and Surety Company of America to ensure that the work is completed.

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 10. RISK MANAGEMENT

The Rockaway Valley Regional Sewerage Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Property and Liability Insurance

The Authority is currently a member of the New Jersey Utility Authorities Joint Insurance Fund, a public entity risk pool currently composed of 46 member authorities. The Fund provides members with Property, Liability and Worker's Compensation Insurance. The Authority continues to carry Public Officials Liability and Public Employee Dishonesty insurance through outside policies.

New Jersey Unemployment Compensation Insurance

The Authority has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". Under this plan, the Authority is required to reimburse the New Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The Authority is billed quarterly for amounts due to the State. The following is a summary of Authority contributions, employee contributions, reimbursements to the State for benefits paid and the ending balance of the Authority's expendable trust fund for the current and prior year:

<u>Fiscal Year</u>	<u>Employee Contributions/ Interest Earnings/ Authority Contributions</u>	<u>Amount Reimbursed</u>	<u>Ending Balance</u>
2014	\$20,764	\$ -0-	\$141,659
2013	23,572	2,845	120,985
2012	22,947	2,297	100,168

NOTE 11. DEFERRED COMPENSATION PLAN

Employees of the Rockaway Valley Regional Sewerage Authority may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans with Respect to Service for State and Local Government). The deferred compensation plan is available to all employees of the Authority. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 11. DEFERRED COMPENSATION PLAN, (continued)

until termination, retirement, death, or unforeseeable emergency. The deferred compensation plan is administered by an unrelated financial institution. The employees' contributions to the Plan and all income attributable to those amounts have been transferred to the exclusive benefit of the participating employees and their beneficiaries.

NOTE 12. DESIGNATION OF UNRESTRICTED NET ASSETS

The Authority maintains funds that, although may be spent for any lawful purpose by the Authority, have been designated by the Board as follows:

	<u>2014</u>	<u>2013</u>
Designated for Construction	\$ -0-	\$1,233,389
Designated for Renewal and Replacement	1,224,219	1,428,221
Designated for Subsequent Year's Budget	1,865,300	1,150,000
Designated for Capital Replacements	<u>1,275,369</u>	<u>41,980</u>
Total Designated - Unrestricted	<u>\$4,364,888</u>	<u>\$3,853,590</u>

NOTE 13. OTHER MATTERS

At December 31, 2014, the Authority had an accounts receivable balance of \$3,243,661, of which \$3,104,733 was under dispute by Jersey City. The Authority has not consented to any change in the obligation of Jersey City as further detailed in Note 9. There has been no allowance for doubtful accounts set aside for this dispute.

The Authority has been collecting from the remaining participating municipalities the amount in dispute by the City of Jersey. These advanced payments have been recorded on the Authority's financial statements until such time as the litigation is concluded. Depending on the outcome of the litigation, the advanced revenue will either be refunded to the municipalities or used to offset the loss in revenues from the uncollected receivable balance.

The Authority has received authorization from the Local Finance Board to issue up to \$8,000,000 in loans or bonds for the financing of a new force main and pumping station to permanently replace a trunk sewer line that was destroyed by Hurricane Irene. The Authority anticipates receiving grant funding from the Federal Emergency Management Agency ("FEMA"). This will reduce the need to borrow the full \$8,000,000 in authorization to finance the project.

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS, CONTINUED
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013**

NOTE 14. SUBSEQUENT EVENTS

The Rockaway Valley Regional Sewerage Authority has evaluated subsequent events through June 19, 2015, the date which the financial statements were available to be issued. On June 5, 2015, the Authority received \$581,187.34 from the Jersey City MUA for a partial payment of the City of Jersey City's obligation to the Authority. This amount represents payment for the unpaid balance of Jersey City's operating, maintenance, repair and upkeep (O&M) since January 2010 through March 2015 net of contested debt service and credit for legal fees related to the Jersey City litigation.

At the Authority's May 14, 2015 meeting, a contract was awarded to Tomar Construction service in the amount of \$4,359,223 for the Monroe Street Pumping Station and Force Main and the Morris Avenue Gravity Sewer. This project has been authorized and will be funded by FEMA grants and loans through the NJEIT.

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

SUPPLEMENTAL SCHEDULE OF REVENUES, EXPENSES AND CHANGE IN NET POSITION

FOR YEAR ENDED DECEMBER 31, 2014

	Invested in Capital Assets	Restricted State Unemployment Insurance	Subsequent Year's Budget Appropriation	Designated Capital Replacements	Unrestricted Renewal and Replacement	Undesignated	Total
Operating Revenue:							
Service Agreements						7,745,621	7,745,621
User Charges and Fees						152,258	152,258
Sewer Permits						20,496	20,496
Sewer Use Permits						3,000	3,000
IPP Surcharge						349,508	349,508
Industrial Annual Fees						30,000	30,000
Miscellaneous						31,285	31,285
Interest Income						12,396	12,396
Total Operating Revenue	-	-	-	-	-	8,344,564	8,344,564
Operating Expense:							
Cost of Providing Services						4,035,619	4,035,619
Employee Benefits						1,127,010	1,127,010
Administrative and General						1,634,247	1,634,247
Depreciation						2,536,672	2,536,672
Total Operating Expense	-	-	-	-	-	9,333,548	9,333,548
Operating Income	-	-	-	-	-	(988,984)	(988,984)
Non-Operating Revenue (Expense):							
Interest Income		764			4,266		5,030
Interest Expense and NJEIT Fees						(390,390)	(390,390)
Unemployment Ins. Claims - Net						19,747	19,747
Amortization on Bond Premium						20,000	20,000
Gain (Loss) on Disposal of Building and Equipment	20,000	764	-	-	4,266	(370,643)	(345,613)
Net Income (Loss) Before Transfers	20,000	764	-	-	4,266	(1,359,627)	(1,334,597)
Transfers:							
Other Transfers	(1,391,479)	20,000	715,300		(408,268)	1,084,447	-
Budget Appropriation					200,000	(220,000)	-
Increase/(Decrease) in Net Position	(1,371,479)	20,764	715,300	-	(204,002)	(495,180)	(1,334,597)
Net Position - January 1, 2014	40,251,868	120,895	1,150,000	1,275,369	1,428,221	1,926,543	46,152,896
Net Position - December 31, 2014	38,880,389	141,659	1,865,300	1,275,369	1,224,219	1,431,363	44,818,299

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

SCHEDULE 2

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SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH

FOR THE YEAR ENDED DECEMBER 31, 2014

	Trustee/ Treasurer Revenue	Revenue Operating	General Account
Cash, Cash Equivalents and Investments - January 1, 2014	332,213	542,660	2,294,783
Cash Receipts:			
Revenues	8,174,594	3,856	7,309
Other		35,127	
Transfers		9,413,273	
Total Cash Receipts	8,174,594	9,452,256	7,309
Cash and Investments Available	8,506,807	9,994,916	2,302,092
Cash Disbursements:			
Bond Interest Payments		353,606	
Bond Principal Payments		939,650	
Operations		8,189,433	
Other			
Transfers	8,323,273	200,000	
Total Cash Disbursements	8,323,273	9,682,689	-
Cash, Cash Equivalents and Investments - December 31, 2014	183,534	312,227	2,302,092
Analysis of Balance:			
Cash and Cash Equivalents	183,534	312,227	2,302,092
Investments	-	-	-
	183,534	312,227	2,302,092
Unrestricted	163,534	312,227	2,302,092
Restricted	20,000		-
	183,534	312,227	2,302,092

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

SCHEDULE 2

Page 2 of 3

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH

FOR THE YEAR ENDED DECEMBER 31, 2014

	Renewal and Replacement Account	Construction Account	Unemployment Insurance Account
Cash, Cash Equivalents and Investments - January 1, 2014	1,228,547	1,233,389	120,895
Cash Receipts:			
Revenues	4,266	3,321	764
Other			
Transfers	200,000		
Total Cash Receipts	204,266	3,321	764
Cash and Investments Available	1,432,813	1,236,710	121,659
Cash Disbursements:			
Bond Interest Payments			
Bond Principal Payments			
Operations			
Other			
Transfers	620,000		
Total Cash Disbursements	620,000	-	-
Cash, Cash Equivalents and Investments - December 31, 2014	812,813	1,236,710	121,659
Analysis of Balance:			
Cash and Cash Equivalents	812,813	1,236,710	121,659
Investments	-	-	-
	812,813	1,236,710	121,659
Unrestricted	812,813	1,236,710	-
Restricted	-	-	121,659
	812,813	1,236,710	121,659

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

SCHEDULE 2

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SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH

FOR THE YEAR ENDED DECEMBER 31, 2014

	Capital Replacement Account	Whitlock Pkg. Escrow Account	Total
Cash, Cash Equivalents and Investments - January 1, 2014	300,654	10,050	6,063,191
Cash Receipts:			
Revenues		15	8,194,125
Other	961,018		996,145
Transfers			9,613,273
Total Cash Receipts	961,018	15	18,803,543
Cash and Investments Available	1,261,672	10,065	24,866,734
Cash Disbursements:			
Bond Interest Payments			353,606
Bond Principal Payments			939,650
Operations			8,189,433
Other			-
Transfers	470,000		9,613,273
Total Cash Disbursements	470,000	-	19,095,962
Cash, Cash Equivalents and Investments - December 31, 2014	791,672	10,065	5,770,772
Analysis of Balance:			
Cash and Cash Equivalents	791,672	10,065	5,770,772
Investments	-	-	-
	791,672	10,065	5,770,772
Unrestricted	791,672	10,065	5,629,113
Restricted	-	-	141,659
	791,672	10,065	5,770,772

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2014**

	FY 2014 Adopted Budget	FY 2014 Budget as Amended	Realized	Excess / (Deficit)
Revenues:				
Retained Earnings Appropriated	500,000	500,000	500,000	-
Service Agreements	7,745,621	7,745,621	7,745,621	-
User Charges and Fees	130,000	130,000	152,258	22,258
Sewer Connection Permits	2,750	2,750	20,496	17,746
Sewer Use Permits - IPP	5,000	5,000	3,000	(2,000)
IPP Surcharge	221,000	221,000	349,508	128,508
Industrial Annual Fees	30,000	30,000	30,000	-
Unused Capacity Charge	15,000	15,000	19,867	4,867
Miscellaneous	1,500	1,500	11,418	9,918
Interest Income from Operating and Non-operating Investments (1)	13,000	13,000	16,662	3,662
Total Operating Revenues	8,663,871	8,663,871	8,848,830	184,959

(1) Interest earned on Unemployment Account is not included in this amount.

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2014**

EXPENSES		Adopted 2014 Budget	Amended 2014 Budget	Paid or Charged 2014	Excess / (Deficit) 2014
Administration					
01-501-010	Salary & Wages	227,260	227,260	216,056	11,204
01-501-011	S&W Overtime	15,300	15,300	15,041	259
01-501-020	Professional Services	640,000	640,000	613,959	26,041
01-501-030	Materials & Supplies	46,400	56,400	41,459	14,941
01-501-040	Maintenance Equipment	7,600	7,600	6,347	1,253
01-501-050	Conference/Travel/Seminars	20,750	20,750	11,665	9,085
01-501-060	Dues/Memberships	9,150	9,150	8,252	898
01-501-070	Miscellaneous	66,200	66,900	64,613	2,287
01-501-080	Uniforms & Clothing	500	500	190	310
01-501-090	Utilities	425,682	405,682	383,200	22,482
01-501-100	Fringe Benefits	1,221,507	1,221,507	1,127,010	94,497
		<u>2,680,349</u>	<u>2,671,049</u>	<u>2,487,792</u>	<u>183,256</u>
Safety					
01-501-110	Salary & Wages	60,787	60,787	60,755	32
01-501-111	S&W Overtime	-	-	-	-
01-501-120	Professional Services	2,400	2,400	1,117	1,284
01-501-130	Materials & Supplies	10,100	10,100	6,699	3,401
01-501-140	Maintenance Equipment	3,700	3,700	1,446	2,254
01-501-150	Conference/Travel/Seminar	1,800	1,800	1,180	620
01-501-160	Dues/Memberships	250	250	215	35
01-501-170	Miscellaneous	750	750	664	86
01-501-180	Uniforms & Clothing	500	500	148	352
		<u>80,287</u>	<u>80,287</u>	<u>72,223</u>	<u>8,064</u>
Finance					
01-502-010	Salary & Wages	149,560	149,560	152,330	(2,770)
01-502-011	S&W Overtime	3,200	3,200	1,116	2,084
01-502-020	Professional Services	43,000	43,000	43,000	-
01-502-030	Materials & Supplies	1,500	1,500	1,009	491
01-502-040	Maintenance Equipment	4,000	-	-	-
01-502-050	Conference/Travel/Seminar	3,500	3,550	3,507	43
01-502-060	Dues/Memberships	250	300	280	20
01-502-070	Miscellaneous	-	-	-	-
01-502-080	Uniforms & Clothing	195	195	-	195
		<u>205,205</u>	<u>201,305</u>	<u>201,242</u>	<u>63</u>
Engineering					
01-503-010	Salary & Wages	182,371	182,371	183,733	(1,362)
01-503-011	S&W Overtime	-	-	-	-
01-503-020	Professional Services	172,000	177,000	161,550	15,450
01-503-030	Materials & Supplies	1,000	1,000	26	974
01-503-040	Maintenance Equipment	-	-	-	-
01-503-050	Conference/Travel/Seminar	3,000	3,000	1,561	1,439
01-503-060	Dues/Memberships	480	480	280	200
01-503-070	Miscellaneous	500	500	240	260
01-503-080	Uniforms & Clothing	610	610	169	441
		<u>359,961</u>	<u>364,961</u>	<u>347,559</u>	<u>17,402</u>
IPP					
01-503-110	Salary & Wages	120,129	120,129	119,987	142
01-503-111	S&W Overtime	500	500	-	500
01-503-120	Professional Services	65,500	67,700	64,090	3,610
01-503-130	Materials & Supplies	3,000	3,000	1,448	1,552
01-503-140	Maintenance Equipment	3,000	-	-	-
01-503-150	Conference/Travel/Seminars	2,500	2,500	1,658	842
01-503-160	Dues/Memberships	350	350	322	28
01-503-180	Uniforms & Clothing	1,510	1,510	556	954
		<u>196,489</u>	<u>195,689</u>	<u>188,062</u>	<u>7,627</u>

**ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2014**

EXPENSES		Adopted 2014 Budget	Amended 2014 Budget	Paid or Charged 2014	Excess / (Deficit) 2014
Electrical					
01-503-210	Salary & Wages	79,400	79,400	79,362	38
01-503-211	S&W Overtime	-	-	-	-
01-503-220	Professional Services	20,000	20,100	20,080	20
01-503-230	Materials & Supplies	33,200	33,200	24,814	8,386
01-503-240	Maintenance Equipment	138,000	138,000	124,332	13,668
01-503-250	Conference/Travel/Seminars	3,100	3,100	341	2,759
01-503-270	Miscellaneous	11,500	11,500	198	11,302
01-503-280	Uniforms & Clothing	655	655	634	21
		<u>285,855</u>	<u>285,955</u>	<u>249,761</u>	<u>36,194</u>
Laboratory					
01-505-010	Salary & Wages	147,862	147,862	153,776	(5,914)
01-505-011	S&W Overtime	1,600	1,600	1,679	(79)
01-505-020	Professional Services	21,000	21,000	20,070	930
01-505-030	Materials & Supplies	26,000	32,000	29,597	2,403
01-505-040	Maintenance Equipment	8,900	8,900	5,602	3,298
01-505-050	Conference/Travel/Seminars	3,340	3,340	1,330	2,010
01-505-060	Dues/Memberships	160	260	222	38
01-505-070	Miscellaneous	3,500	3,500	855	2,645
01-505-080	Uniforms & Clothing	500	500	300	200
		<u>212,862</u>	<u>218,962</u>	<u>213,432</u>	<u>5,531</u>
Operations/Maintenance					
01-506-010/011	Salary & Wages	995,795	1,064,795	1,052,078	12,717
01-506-012	S&W Overtime	97,113	69,113	57,711	11,402
01-506-013	Unused Sick Time	34,000	34,000	21,456	12,544
01-506-030	Materials & Supplies	898,102	913,102	918,579	(5,477)
01-506-040	Maintenance Equipment	430,800	383,800	369,586	14,214
01-506-050	Conference/Travel/Seminars	15,650	6,650	5,594	1,056
01-506-060	Dues/Memberships	800	800	709	91
01-506-070	Miscellaneous	5,900	5,900	991	4,909
01-506-080	Uniforms & Clothing	13,650	20,650	18,370	2,280
		<u>2,491,810</u>	<u>2,498,810</u>	<u>2,445,074</u>	<u>53,736</u>
Trunkline					
01-507-010/011	Salary & Wages	314,605	314,605	310,744	3,862
01-507-012	S&W Overtime	2,887	12,887	8,235	4,652
01-507-020	Professional Services	58,000	58,000	54,000	4,000
01-507-030	Materials & Supplies	187,724	187,724	183,698	4,026
01-507-040	Maintenance Equipment	55,000	38,000	34,513	3,487
01-507-050	Conference/Travel/Seminars	3,550	550	143	407
01-507-080	Uniforms/Clothing	500	500	400	100
		<u>622,266</u>	<u>612,266</u>	<u>591,732</u>	<u>20,534</u>
Total Operating Expenses		<u>7,135,084</u>	<u>7,129,284</u>	<u>6,796,876</u>	<u>332,408</u>
Debt Service and Reserves					
01-502-090	Debt Service-Principal	939,650	939,650	939,650	-
01-502-090	Debt Service-Interest	347,823	347,823	349,104	(1,281)
01-502-090	Debt Service-Admin. Fees NJEIT	41,314	47,114	41,286	5,828
01-502-100	Reserve- R&R	200,000	200,000	200,000	-
		<u>1,528,787</u>	<u>1,534,587</u>	<u>1,530,040</u>	<u>4,547</u>
TOTAL		<u>8,663,871</u>	<u>8,663,871</u>	<u>8,326,916</u>	<u>336,955</u>

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
 SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
 BY OPERATING REVENUE COMPARED TO BUDGET
 FOR THE YEAR ENDED DECEMBER 31, 2014

	Adopted 2014 Budget	Amended 2014 Budget	Paid or Charged 2014	Excess / (Deficit) 2014
Excess of Revenues Over Expenses:			521,914	
Reconciliation of Budgetary Basis to GAAP:				
Retained Earnings Appropriated:				
Unrestricted Accounts			(500,000)	
Renewal and Replacement			200,000	
Depreciation Expense			(2,536,672)	
Amortization			19,747	
Bond Principal			939,650	
Unemployment Fund - Net			20,764	
Gain (Loss) on Disposal of Building and Equipment			<u>20,000</u>	
Total Adjustments			<u>(1,836,511)</u>	
Change in Net Position			<u><u>(1,314,597)</u></u>	

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2013

	FY 2013 Adopted Budget	FY 2013 Budget as Amended	Realized	Excess / (Deficit)
Revenues:				
Retained Earnings Appropriated	600,000	600,000	600,000	-
Service Agreements	7,662,250	7,662,250	7,662,250	-
User Charges and Fees	130,000	130,000	149,559	19,559
Sewer Connection Permits	4,250	4,250	9,935	5,685
Sewer Use Permits - IPP	5,000	5,000	6,178	1,178
IPP Surcharge	200,000	200,000	274,821	74,821
Industrial Annual Fees	28,000	28,000	32,000	4,000
Miscellaneous	1,500	1,500	22,397	20,897
Interest Income from Operating and Non-operating Investments (1)	16,000	16,000	14,767	(1,233)
Total Operating Revenues	8,647,000	8,647,000	8,771,907	124,907

(1) Interest earned on Unemployment Account is not included in this amount.

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>FY 2013 Adopted Budget</u>	<u>FY 2013 Budget as Amended</u>	<u>Paid or Charged</u>	<u>Excess / (Deficit)</u>
Expenses:				
Operating:				
Cost of Providing Services:				
Supervision and Engineering:				
Salaries and Wages	236,880	236,880	237,622	(742)
Other Expenses	4,400	4,400	3,382	1,018
Laboratory:				
Salaries and Wages	102,964	102,964	100,336	2,628
Other Expenses	69,000	69,000	50,771	18,229
Industrial Pretreatment Program:				
Salaries and Wages	121,372	121,372	119,940	1,432
Other Expenses	41,000	41,000	26,070	14,930
Consulting Engineering	167,500	167,500	168,266	(766)
Direct Labor	1,331,000	1,331,000	1,198,345	132,655
Sludge Removal:				
Sludge Treatment - Contractual	783,000	783,000	733,559	49,441
Chemicals	169,000	169,000	171,030	(2,030)
Utilities	433,500	433,500	386,559	46,941
Garbage Service	10,000	10,000	4,857	5,143
Sub-total Cost of Providing Services	<u>3,469,616</u>	<u>3,469,616</u>	<u>3,200,737</u>	<u>268,879</u>
Employee Benefits:				
Public Employees' Retirement System	222,262	222,262	203,525	18,737
Social Security Tax	188,539	188,539	178,673	9,866
Unemployment Insurance	15,000	15,000	15,000	-
Worker's Compensation Insurance	58,000	58,000	56,503	1,497
Group Insurance Plans	596,000	596,000	543,644	52,356
Disability Insurance	5,000	5,000	5,000	-
Temporary Disability Insurance	9,700	9,700	10,896	(1,196)
Long-Term Disability Insurance	7,300	7,300	10,355	(3,055)
Dental Insurance	65,000	65,000	67,063	(2,063)
Sub-total Employee Benefits	<u>1,166,801</u>	<u>1,166,801</u>	<u>1,090,659</u>	<u>76,142</u>

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
BY OPERATING REVENUE COMPARED TO BUDGET
FOR THE YEAR ENDED DECEMBER 31, 2013

	FY 2013 Adopted Budget	FY 2013 Budget as Amended	Paid or Charged	Excess / (Deficit)
Administrative Expenses:				
Salaries and Wages	682,784	682,784	682,564	220
Overtime	20,000	20,000	20,049	(49)
Other Expenses:				
Members' Expenses	11,000	11,000	14,334	(3,334)
Office Supplies and Printing	40,000	40,000	45,002	(5,002)
Travel	2,500	2,500	2,488	12
Legal Services and Costs	500,000	500,000	544,721	(44,721)
Auditing	40,000	40,000	29,184	10,816
Trustee Fees	44,852	44,852	44,852	-
General Insurance	75,000	75,000	65,467	9,533
Labor Relations Consultant	2,500	2,500	-	2,500
Special Counsel	85,000	85,000	83,198	1,802
Contract and Licenses Fees	340,000	340,000	288,569	51,431
Bypass Pumping Service	200,000	200,000	193,437	6,563
Training and Education	8,200	8,200	8,286	(86)
Authority Association	6,700	6,700	-	6,700
Arbitrator	2,500	2,500	-	2,500
Computer Service	45,200	45,200	45,200	-
Operating and Maintenance Expenses:				
Building and Grounds - Other Expense	74,000	74,000	72,692	1,308
Clarifier Maintenance	20,000	20,000	1,466	18,534
Equipment, Supplies and Maintenance	146,300	146,300	146,311	(11)
Vehicle Maintenance	23,000	23,000	19,544	3,456
Trunk Line Maintenance	129,000	129,000	112,465	16,535
Safety Equipment and Training	28,000	28,000	23,346	4,654
Physical Exams	5,000	5,000	4,135	865
Security	2,000	2,000	-	2,000
Protective Clothing	15,600	15,600	16,495	(895)
	<u>2,549,136</u>	<u>2,549,136</u>	<u>2,463,805</u>	<u>85,331</u>
Sub-total Operating	<u>7,185,553</u>	<u>7,185,553</u>	<u>6,755,201</u>	<u>430,352</u>
Other Costs Funded by Operating Revenues:				
Debt Service:				
Interest Expense - Bonds	355,711	355,711	329,300	26,411
Bond Principal	900,736	900,736	900,736	-
Reserves:				
Renewal and Replacement	200,000	200,000	200,000	-
Dep. Inspection Fees	2,500	2,500	-	2,500
Contingency	2,500	2,500	-	2,500
	<u>1,461,447</u>	<u>1,461,447</u>	<u>1,430,036</u>	<u>31,411</u>
Sub-total Other Costs	<u>1,461,447</u>	<u>1,461,447</u>	<u>1,430,036</u>	<u>31,411</u>
Total Costs Funded by Operating Revenues	<u>8,647,000</u>	<u>8,647,000</u>	<u>8,185,237</u>	<u>461,763</u>
Add: Excess / (Deficit)	<u>-</u>	<u>-</u>	<u>586,670</u>	<u>586,670</u>
	<u>8,647,000</u>	<u>8,647,000</u>	<u>8,771,907</u>	<u>(124,907)</u>

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
 SCHEDULE OF OPERATING REVENUE AND COSTS FUNDED
 BY OPERATING REVENUE COMPARED TO BUDGET
 FOR THE YEAR ENDED DECEMBER 31, 2013

	FY 2013 Adopted Budget	FY 2013 Budget as Amended	Paid or Charged	Excess / (Deficit)
Excess of Revenues Over Expenses:			586,670	
Reconciliation of Budgetary Basis to GAAP:				
Retained Earnings Appropriated:				
Unrestricted Accounts			(600,000)	
Interest Earned on Unemployment Account			158	
Renewal and Replacement			200,000	
Depreciation Expense			(1,913,209)	
Amortization			19,747	
Bond Principal			900,736	
Cancellation of Accounts Payable			204	
Unemployment Fund - Net			20,569	
Hurricane Sandy - Insurance Reimbursement			67,195	
Gain (Loss) on Disposal of Building and Equipment			(23,329)	
Hurricane Sandy FEMA Grant			61,514	
ITI Settlement			125,000	
Total Adjustments			(1,141,415)	
Change in Net Position			(554,745)	

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

SCHEDULE 5

SCHEDULE OF CAPITAL BUDGET PROGRAM
FUNDED BY FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2014

			FY 2014 Adopted Budget	FY 2014 Budget as Amended	FY 2014 Actual	Excess / (Deficit)
Financing Sources:						
	Renewal and Replacement Fund		1,135,200	1,135,200	408,268	726,932
	Capital Replacement Fund					
	Proceeds of NJEIT Loans		9,000,000	9,607,000	653,265	8,953,735
	Unrestricted - Undesignated Net Position		650,000	686,000	24,100	661,900
	Total Financing Sources		10,785,200	11,428,200	1,085,633	10,342,567
Capital Improvements and Replacements						
Administration						
14-551-001	Computers Plotter and Software	(1)	6,000	6,000	2,242	3,758
14-551-002	File Cabinet/Furniture	(1)	35,000	35,000	21,171	13,829
14-551-003	Security Surveillance	(1)	19,000	19,000	19,000	0
14-551-004	Miscellaneous Equipment	(1)	10,000	10,000	10,000	0
			<u>70,000</u>	<u>70,000</u>	<u>52,413</u>	<u>17,587</u>
Engineering/Electrical						
14-553-001	Clarifiers Repair, Equipment	(1)	500,000	500,000	0	500,000
14-553-002	Odor Control Equipment	(3)	400,000	400,000	24,100	375,900
14-553-003	Infrastructure Upgrade	(1)	75,000	75,000	44,456	30,544
14-553-004	Generator Services	(1)	27,000	27,000	10,312	16,688
14-553-005	Building Misc Upgrade	(1)	135,000	135,000	109,616	25,384
14-553-006	Computers Plotter and Software	(1)	33,000	33,000	2,121	30,879
			<u>1,170,000</u>	<u>1,170,000</u>	<u>190,606</u>	<u>979,394</u>
Laboratory						
14-555-001	Laboratory Equipment	(1)	11,200	11,200	11,192	8
			<u>11,200</u>	<u>11,200</u>	<u>11,192</u>	<u>8</u>
Operations/Maintenance						
14-556-001	Oxidation Equipment	(1)	35,500	35,500	32,261	3,239
14-556-002	Pumping Equipment	(1)	74,000	74,000	63,705	10,295
14-556-003	Vehicles	(3)	250,000	250,000	0	250,000
14-556-004	Facilities Bldg Repair	(1)	7,000	43,000	0	43,000
14-556-005	Miscellaneous Equipment	(1)	72,500	72,500	67,191	5,309
			<u>439,000</u>	<u>475,000</u>	<u>163,157</u>	<u>311,843</u>
Trunkline						
14-557-001	Trunkline Equip/Repairs	(1)	90,000	90,000	15,000	75,000
14-557-002	Meter Chamber Exhaust Fans	(1)	5,000	5,000	0	5,000
			<u>95,000</u>	<u>95,000</u>	<u>15,000</u>	<u>80,000</u>
NJEIT						
14-EIT-035	NJEIT Debt Auth- Interceptor	(2)	800,000	1,321,000	511,581	809,419
14-EIT-036	NJEIT Debt Auth- PT Facility	(2)	200,000	37,000	72,669	(35,669)
14-EIT-037	NJEIT Debt Auth- Bio Solid Facility	(2)	0	249,000		249,000
14-EIT-038	NJEIT Debt Auth- JC Trunk Sewer	(2)	8,000,000	8,000,000	69,015	7,930,985
			<u>9,000,000</u>	<u>9,607,000</u>	<u>653,265</u>	<u>8,953,735</u>
	TOTAL Capital Improvements and Replacements		10,785,200	11,428,200	1,085,633	10,342,567

(1) Funded by Renewal and Replacement Fund.

(2) Funded by Proceeds of NJEIT Loans.

(3) Funded by Unrestricted - Undesignated Net Position

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

**SCHEDULE OF CAPITAL BUDGET PROGRAM
FUNDED BY FINANCING SOURCES
FOR THE YEAR ENDED DECEMBER 31, 2013**

	FY 2013 Adopted Budget	FY 2013 Budget as Amended	FY 2013 Actual	Excess or (Deficit)
Financing Sources:				
Renewal and Replacement Fund	934,000	934,000	198,398	(735,602)
Proceeds of NJEIT Loans	10,000,000	10,000,000	721,795	(9,278,205)
Unrestricted - Undesignated Net Position	318,000	617,290	609,476	(7,814)
Total Financing Sources	11,252,000	11,551,290	1,529,669	(10,021,621)
Capital Outlays:				
Oxidation Equipment ⁽¹⁾	459,000	459,000	6,899	452,101
Pumping Equipment ⁽¹⁾	62,000	62,000	-	62,000
Odor Control Equipment ⁽¹⁾	5,000	5,000	-	5,000
Laboratory Equipment ⁽¹⁾	10,500	10,500	10,052	448
Trunkline Equipment ⁽¹⁾	190,000	190,000	21,835	168,165
Jersey City Trunk Sewer Project ⁽³⁾	8,000,000	8,000,000	165,197	7,834,803
Radios/Communications Upgrade ⁽¹⁾	-	-	-	-
Generator Upgrade ⁽¹⁾	27,000	27,000	22,900	4,100
Infrastructure Upgrade ⁽¹⁾	30,000	30,000	26,416	3,584
Vehicles ⁽³⁾	140,000	140,000	27,451	112,549
Facilities Bldg Repair ⁽¹⁾	10,000	10,000	4,080	5,920
Computers and Peripherals ⁽¹⁾	15,000	15,000	13,280	1,720
File Cabinets/Furniture ⁽³⁾	10,000	10,000	9,075	925
Building Misc. Structural Repairs ⁽¹⁾	82,000	82,000	74,587	7,413
THM / Ammonia Control Facility ⁽³⁾	10,000	10,000	5,316	4,684
Security and Surveillance ⁽³⁾	4,000	4,000	3,351	649
Interceptor Odor / Gas Control ⁽³⁾	50,000	50,000	-	50,000
Miscellaneous Equipment ⁽¹⁾	27,500	27,500	7,460	20,040
Auto Shop Equipment ⁽³⁾	4,000	4,000	-	4,000
Interceptor Rehabilitation Project ⁽³⁾	1,500,000	1,500,000	20,788	1,479,212
Pretreatment Facility ⁽²⁾	500,000	500,000	721,795	(221,795)
Building Misc. Upgrades ⁽¹⁾	11,000	11,000	10,889	111
Building Demolition / Modifications ⁽¹⁾	5,000	5,000	-	5,000
Miscellaneous Pumps ⁽³⁾	50,000	349,290	342,184	7,106
Phosphorous Control Equipment ⁽³⁾	50,000	50,000	36,114	13,886
Total Capital Improvements and Replacements	11,252,000	11,551,290	1,529,669	10,021,621

⁽¹⁾ Funded by Renewal and Replacement Fund.⁽²⁾ Funded by Proceeds of NJEIT Loans.⁽³⁾ Funded by Unrestricted - Undesignated Net Position

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2014	2014 Issued	2014 Redeemed	Balance Dec. 31, 2014
			Date	December 31, 2014 Amount				
New Jersey Environmental Infrastructure Fund - Series 2007A Bio-solids Building	11/8/2007	5.000%	2015	320,000				
		5.000%	2016	335,000				
		5.000%	2017	350,000				
		5.000%	2018	370,000				
		4.000%	2019	385,000				
		4.000%	2020	405,000				
		5.000%	2021	420,000				
		5.000%	2022	440,000				
		4.250%	2023	460,000				
		4.500%	2024	480,000				
		4.500%	2025	505,000				
		4.500%	2026	525,000				
		4.250%	2027	550,000				
					5,850,000		305,000	5,545,000

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY
SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2014	2014 Issued	2014 Redeemed	Balance Dec. 31, 2014
			Date	Amount				
New Jersey Environmental Infrastructure Trust - Series 2007A Bio-solids Building	11/8/2007	0.000%	2015	361,904				
		0.000%	2016	361,273				
		0.000%	2017	360,170				
		0.000%	2018	361,746				
		0.000%	2019	359,540				
		0.000%	2020	362,439				
		0.000%	2021	361,683				
		0.000%	2022	60,738				
					5,053,135		2,463,641	2,589,494

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2014	2014 Issued	2014 Redeemed	Balance Dec. 31, 2014
			Date	Amount				
New Jersey Environmental Infrastructure Fund - Series 2010A Incinerceptor	3/10/2010	0.000%	2015	107,924				
		0.000%	2016	107,924				
		0.000%	2017	107,924				
		0.000%	2018	107,924				
		0.000%	2019	107,924				
		0.000%	2020	107,924				
		0.000%	2021	107,924				
		0.000%	2022	107,924				
		0.000%	2023	107,924				
		0.000%	2024	107,924				
		0.000%	2025	107,924				
		0.000%	2026	107,924				
		0.000%	2027	107,924				
		0.000%	2028	107,924				
		0.000%	2029	107,924				
					1,726,780		107,924	1,618,856

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2014	2014 Issued	2014 Redeemed	Balance Dec. 31, 2014
			Date	Amount				
New Jersey Environmental Infrastructure Trust - Series 2010B Incceptor	3/10/2010	5.000%	2015	30,000				
		5.000%	2016	30,000				
		5.000%	2017	30,000				
		5.000%	2018	35,000				
		4.000%	2019	35,000				
		5.000%	2020	35,000				
		3.000%	2021	40,000				
		4.000%	2022	40,000				
		4.000%	2023	40,000				
		4.000%	2024	45,000				
		4.000%	2025	45,000				
		3.500%	2026	45,000				
		4.000%	2027	45,000				
		4.000%	2028	50,000				
		4.000%	2029	50,000				
					620,000		25,000	595,000

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2014	2014 Issued	2014 Redeemed	Balance Dec. 31, 2014
			Date	Amount				
New Jersey Environmental Infrastructure Fund - Series 2012A P-T Building	5/3/2012	0.000%	2015	87,356				
		0.000%	2016	87,356				
		0.000%	2017	87,356				
		0.000%	2018	87,356				
		0.000%	2019	87,356				
		0.000%	2020	87,356				
		0.000%	2021	87,356				
		0.000%	2022	87,356				
		0.000%	2023	87,356				
		0.000%	2024	87,356				
		0.000%	2025	87,356				
		0.000%	2026	87,356				
		0.000%	2027	87,356				
		0.000%	2028	87,356				
		0.000%	2029	87,356				
		0.000%	2030	87,356				
		0.000%	2031	87,356				
					1,572,409		87,356	1,485,053

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

SCHEDULE OF REVENUE AND REVENUE REFUNDING BONDS

Description	Date of Issue	Interest Rate	Outstanding Maturities		Balance Jan. 1, 2014	2014 Issued	2014 Redeemed	Balance Dec. 31, 2014
			Date	December 31, 2013 Amount				
New Jersey Environmental Infrastructure Trust - Series 2012B P-T Building	5/3/2012	4.000%	2015	55,000				
		5.000%	2016	60,000				
		5.000%	2017	60,000				
		5.000%	2018	65,000				
		5.000%	2019	70,000				
		5.000%	2020	70,000				
		5.000%	2021	75,000				
		5.000%	2022	80,000				
		5.000%	2023	85,000				
		5.000%	2024	90,000				
		5.000%	2025	90,000				
		5.000%	2026	95,000				
		3.000%	2027	100,000				
		3.000%	2028	105,000				
		3.125%	2029	105,000				
		3.200%	2030	110,000				
		3.250%	2031	110,000				
					1,480,000		55,000	1,425,000
					16,302,324		3,043,921	13,258,403
						Paid De-obligated Total	939,650 2,104,271 3,043,921	
						Short-Term Long-Term Total	962,183 12,296,220 13,258,403	

SCHEDULE 8

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

**ANALYSIS OF ACCOUNTS RECEIVABLE - SEWER FEES
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Balance Jan. 1, 2014	Increased	Decreased	Balance Dec. 31, 2014
City of Jersey City	2,377,987	3,457,603	2,730,857	3,104,733
Town of Boonton	-	218,059	218,059	-
Boonton Township	-	65,369	59,928	5,441
Town of Dover	-	1,136,233	1,041,546	94,687
Denville Township	-	684,765	684,765	
Randolph Township	-	738,095	738,095	-
Rockaway Borough	1	114,184	114,184	1
Rockaway Township	-	1,413,214	1,413,214	-
Victory Gardens	-	96,011	96,011	-
Borough of Wharton	34,804	381,205	384,239	31,770
Picatinny Arsenal	7,008	84,423	84,396	7,035
Township of Mine Hill	(6)	67,835	67,835	(6)
	<u>2,419,794</u>	<u>8,456,996</u>	<u>7,633,129</u>	<u>3,243,661</u>

SCHEDULE 9

ROSTER OF OFFICIALS AND REPORT ON SURETY BONDS

The following officials were in office at December 31, 2014:

<u>Name</u>	<u>Office</u>
Hector R. Schorno	Chairman
John Cegelka	Vice Chairman
Michael Guadagno	Secretary
Joseph Lowell	Treasurer
Anthony Recchia, Jr.	Member
Glen Corbett	Member
Edward Secco, Jr.	Member
Robert Schaefer	Member
Aurelio Vincitore	Member
Thomas M. Andes	Member
JoAnn Mondsini	Executive Director
Carrie Feuer, PE	Manager of Engineering
Maria C. Brush	Manager of Safety
Bart Brophy	Manager of Maintenance and Operations
Mario Bonaccorso	Licensed Operator
Malgorzata Wachowiak	Laboratory Manager
Sandy Thai, CMFO	Chief Financial Officer

All members and employees are covered by insurance policies provided through the New Jersey Utility Authorities Joint Insurance Fund.

Single Audit Section

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

Charles J. Ferraioli, Jr., MBA, CPA, RMA
Steven D. Wielkottz, CPA, RMA
James J. Cerullo, CPA, RMA
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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Chairman and Members of the
Rockaway Valley Regional Sewerage Authority
99 Green Bank Road
Boonton, New Jersey 07005

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 Rockaway Valley Regional Sewerage Authority, as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated June 19, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit on the financial statements, we considered the Rockaway Valley 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 Rockaway Valley Regional Sewerage Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rockaway Valley Regional Sewerage Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.



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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. (Findings 2014-001, 2014-002 and 2014-003)

Compliance and Other Matters

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

Purpose of this Report

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

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

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

June 19, 2015

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

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Chairman and Members of the
Rockaway Valley Regional Sewerage Authority
99 Green Bank Road
Boonton, New Jersey 07005

Report on Compliance for Each Major Federal Program

We have audited the Rockaway Valley Regional Sewerage Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplements* that could have a direct and material effect on each of the Rockaway Valley Regional Sewerage Authority's major federal programs for the year ended December 31, 2014. The Rockaway Valley 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 Rockaway Valley 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* and Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid. 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 Rockaway Valley Regional Sewerage Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.



We believe that our 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 Rockaway Valley Regional Sewerage Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Rockaway Valley Regional Sewerage Authority 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 December 31, 2014.

Report on Internal Control Over Compliance

Management of the Rockaway Valley 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 Rockaway Valley 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 Rockaway Valley 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.

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 Rockaway Valley Regional Sewerage Authority as of and for the year ended December 31, 2014, and have issued our report there dated June 19, 2015 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.

This report is intended solely for the information of the management and the New Jersey State Department of Community Affairs, other state and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

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

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

June 19, 2015

SCHEDULE A

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2014

Federal Grantor/Pass-Through Grantor/Program Title/Cluster Title	CFDA Number	State Agency Account Number	Grant Award	Grant Receipts	Grant Period		Grant Expenditures	Cumulative Grant Expenditures
					From	To		
<u>U.S. Department of Environmental Protection:</u>								
<i>Pass Through New Jersey Department of Environmental Protection:</i>								
(1) NJ Environmental Infrastructure Fund 2007 BioSolid Project	66.458	42-4860-711-006	\$ 6,293,894	\$ 121,112	01/01/14	12/31/14	\$ 121,112	\$ 4,390,044
NJ Environmental Infrastructure Fund 2010 Interceptor Project	66.458	42-4860-711-006	\$ 2,122,500	\$ 457,063	01/01/14	12/31/14	\$ 457,063	\$ 1,201,703
NJ Environmental Infrastructure Fund 2012 PT Facilities Mod. Project	66.458	42-4860-711-006	\$ 1,630,646	\$ 43,361	01/01/14	12/31/14	\$ 43,361	\$ 1,630,646
NJ Environmental Infrastructure Fund 2012 Principal Forgiveness	66.458	42-4860-711-006	\$ 815,323	\$ 21,682	01/01/14	12/31/14	\$ 21,682	\$ 815,323
Total Federal Financial Assistance				<u>\$ 643,218</u>			<u>\$ 643,218</u>	<u>\$ 8,037,716</u>

(1) The remaining balance of the 2007 BioSolid Project was deobligated and subtracted of the end of the Fund loan in the amount of \$2,104,271.

See accompanying notes to Schedule of Expenditure of Federal Awards.

SCHEDULE B

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

SCHEDULE OF EXPENDITURES OF STATE AWARDS

DECEMBER 31, 2014

State Funding Department	State Grant Account Number	Grant Award	Grant Receipts	Grant Period		Grant Expenditures	Cumulative Grant Expenditures
				From	To		
<u>New Jersey Department of Environmental Protection:</u> NJ Environmental Infrastructure Fund 2007 BioSolid Project	526-042-4860-510-017	\$ 6,494,315	\$ 121,112	01/01/14	12/31/14	\$ 121,112	\$ 4,390,044
	526-042-4860-510-017	\$ 538,056	\$ -	01/01/14	12/31/14	\$ -	\$ 538,056
NJ Environmental Infrastructure Grant 2007 BioSolid Project (non-cash)	526-042-4860-510-017	\$ 711,755	\$ 152,354	01/01/14	12/31/14	\$ 152,354	\$ 400,566
	526-042-4860-510-017	\$ 1,630,646	\$ 43,361	01/01/14	12/31/14	\$ 43,361	\$ 1,630,646
NJ Environmental Infrastructure Fund 2010 Interceptor Project	526-042-4860-510-017	\$ 52,544	\$ -	01/01/14	12/31/14	\$ -	\$ 52,544
	526-042-4860-510-017	\$ 52,544	\$ -	01/01/14	12/31/14	\$ -	\$ 52,544
Total State Financial Assistance		\$ 316,827	\$ 316,827			\$ 316,827	\$ 7,011,856

This schedule is being generated for management purposes only, a single audit is not required by NJ OMB Circular 04-04.

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS DECEMBER 31, 2014

NOTE 1. GENERAL

The accompanying Schedule of Expenditures of Federal and State Awards present the activity of all federal and state award programs of the Rockaway Valley 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 and State Financial Assistance.

NOTE 2. BASIS OF ACCOUNTING

The accompanying Schedules of Expenditures of Awards and Financial Assistance are presented on the accrual basis of accounting. These bases of accounting are described in Notes 2(A) 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* and Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid.

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Amounts reported in the accompanying schedules agree with amounts reported in the Authority's financial statements.

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.

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: unmodified

Internal control over financial reporting:

1. Reportable condition(s) identified that are
not considered to be material weaknesses? _____ yes X none
reported

2. Material weakness(es) identified? _____ yes X no

Noncompliance material to basic financial
statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:

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

2. Material weakness(es) identified? _____ yes X no

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 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>Department of Environmental Protection Fund Loan</u>

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

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

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014
(continued)**

Section II - Financial Statement Findings

None

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

GENERAL COMMENTS

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

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

N.J.S.A. 40A:11-3 was amended with P.L. 1999, c.440 to raise the bid threshold and require award by governing body resolution. "When the cost or price of any contract awarded by the purchasing agent in the aggregate does not exceed in a contract year the sum of \$36,000, the contract may be awarded by a purchasing agent when so authorized by ordinance or resolution as appropriate to the contracting unit, of the governing body of the contracting unit without public advertising for bids and bidding therefore, except that the governing body may adopt an ordinance or resolution to set a lower threshold for the receipt of public bids or the solicitation of competitive quotations."

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

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

Inasmuch as the system of records did not provide for an accumulation of payments for categories for the performance of any work or the furnishing or hiring of any materials or supplies, the results of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear-cut violations existed.

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.

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

GENERAL COMMENTS, CONTINUED

During the conducting of our audit, we noted the following conditions that we consider required reporting:

Finding 2014-001:

Conditions:

The subsidiary ledger accounts were not reconciled to the general ledger control accounts. This resulted in material journal entries being made to the financial statements.

Criteria:

N.J. Administrative Code Section 5:31-7.1 Accounting and Financial Reporting system requires a properly functioning system of accounting and accounting controls.

Cause:

The transition from the old accounting software to the new accounting software resulted in an inadvertent omission of account reconciliations.

Effect:

The Authority's general ledger required material journal entries to correctly reflect the financial statement balances at the end of the year.

Recommendation:

That the Authority establish a properly functioning accounting and financial reporting system of accounting and accounting controls in accordance with the N.J. Administrative Code.

Authority Response:

The Authority will work with its software vendor and its accounting staff to establish an accounting system and internal controls that will be in accordance with N.J. Administrative Code and good accounting practices.

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

GENERAL COMMENTS, CONTINUED

Finding 2014-002:

Conditions:

The Authority is maintaining its books on a modified accrual accounting basis. Encumbrances entered into during the year are not being closed out as of December 31, and were shown as open.

Criteria:

N.J. Administrative Code Section 5:31-7.1 Accounting and Financial Reporting system. Generally Accepted Accounting Principles ("GAAP") requires the Authority Enterprise Fund accounting be maintained on an accrual basis, expenditures are recorded when the invoice is received, all open invoices are shown as accounts payable at December 31.

Cause:

The Authority switched to an encumbrance system in order to establish control over the expenditure of budgetary line items. These open encumbrances were not closed out at the end of the year leaving open encumbrances.

Effect:

Encumbrances were shown as open at year end on the Authority's books.

Recommendation:

That the Authority close out all its open encumbrances at year end to bring their accounting records into compliance with Generally Accepted Accounting Principles ("GAAP").

Authority Response:

The Authority will close out all open encumbrances at the end of the year.

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

GENERAL COMMENTS, CONTINUED

Finding 2014-003:

Conditions:

There were old opened accounts payable at year end that should be reviewed for disposition.

Criteria:

Accounts payable should be established when an invoice is received from the vendor and cancelled upon disposition or payments.

Cause:

The new accounting software is setup on a modified accrual basis of accounting similar to New Jersey Municipal Accounting.

Effect:

The accounts payable at year end may be overstated.

Recommendation:

That all old open accounts payable be cancelled at year end.

Authority Response:

The Authority will review all open accounts payable at year end for its disposition.

ROCKAWAY VALLEY REGIONAL SEWERAGE AUTHORITY

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

Should any questions arise as to our comments and recommendations, or should you desire assistance in implementing our recommendations, do not hesitate to call us.

We wish to thank Rockaway Valley Regional Sewerage Authority for their cooperation during the performance of our audit.

Respectfully submitted,

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

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Certified Public Accountants
Pompton Lakes, New Jersey