

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY

COUNTY OF MONMOUTH, NEW JERSEY

COMPONENT UNIT

REPORT OF AUDIT

FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

Prepared by:
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TOWNSHIP OF OCEAN SEWERAGE AUTHORITY

COMPONENT UNIT

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INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and Members of the
Township of Ocean Sewerage Authority
Township of Ocean, New Jersey

We have audited the accompanying financial statements of the Township of Ocean Sewerage Authority, County of Monmouth, State of New Jersey (the "Authority"), as of and for the years ended November 30, 2010 and 2009, as listed in the table of contents, which collectively comprise the Authority's financial statements. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in United States of America 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of November 30, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 24, 2011 on our consideration of the Authority's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 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 financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures, which consisted principally of inquiries of management regarding 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 assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's financial statements. The information included in the supplementary schedules is presented for purposes of additional analysis and is not a required part of the financial statements, but is presented as additional analytical data as required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, respectively and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



David A. Kaplan
Certified Public Accountant
Registered Municipal Accountant #433

DAK CPA

DAK CPA, Certified Public Accountants

Long Branch, New Jersey
February 24, 2011

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section presents management's analysis of the Authority's financial condition and activities of the Authority for the year.

This information should be read in conjunction with the financial statements and notes, which immediately follow this section.

Management's Discussion and Analysis (MD&A) is Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34, *Basic Financial Statements-Management's Discussion and Analysis for Local Governments*.

Discussion of Financial Statements Included in Annual Audit

The Authority prepares and presents its financial statements on several different bases, because of accounting requirements and for internal use purposes.

The first set of statements which consist of the Comparative Statement of Net Assets, the Comparative Statement of Revenues, Expenses and Changes in Net Assets, and the Comparative Statement of Cash Flows is prepared on an accrual basis and is in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to enterprise funds of state and local governments. These statements are the official financial statements of the Township of Ocean Sewerage Authority.

After the first set of statements and the "Notes to the Financial Statements" that follow is the second set of statements. These statements are considered "Supplemental Information".

The Authority has historically presented its financial statements on a "GAAP Basis", and continues to do so because it relates more fairly to the annual budget for the same period. The annual budget records all encumbrances as charges against the adopted appropriation even if the items or services have not been received.

Contained in the supplemental information are statements that report the Schedule of Operating Revenues and Expenditures Funded by Revenues Compared to Budget. This statement compares the "Budget" revenues and expenses to "Actual" revenues and expenses. This includes operating revenues and expenses, non-operating revenues and non-operating expenses. Principal and Interest are reported in this statement as Debt Service expense, and depreciation is not reported as an expense. On the "GAAP" based statements, Depreciation Expense is included, and only the Interest Expense component of Debt Service expense is reported.

The Budget to Actual statement is a very important statement to the Authority management staff, because it is how we measure our financial performance, particularly as it compares to the approved and adopted annual budget and how it relates to the operational performance.

Other information or statements incorporated within the annual audit report are the Schedules of Cash Receipts, Cash Disbursements and Changes in Cash and Cash Equivalents – Restricted and Unrestricted, the Schedule of Revenue Serial Bonds Payable and the Analysis of Service Charges Receivable.

For the purpose of the Management Discussion and Analysis, the ensuing discussion will review the financial statements of the Authority those prepared on an accrual basis and in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to enterprise funds of state and local governments. This is the first set of statements included in the annual audit report.

Financial Condition

The Authority's financial condition remained good at year end, as depicted by the financial data which follows.

Comparative Statement of Net Assets

The Authority's total assets increased by \$5,223,358. Total liabilities increased by \$2,510,725. Assets exceeded liabilities by \$19,912,857. This compares to 2009 where assets exceeded liabilities by \$17,200,224.

The Authority's Net Assets of \$19,912,857 are comprised of the following:

1. Invested in Capital Assets, Net of Related Debt of \$16,742,028, as depicted below, include property plant and equipment, net of accumulated depreciation, and net of unspent proceeds of long-term debt related to the purchase or construction of capital assets.

Capital Assets - Net	\$	35,823,004
Less:		
Bonds Payable - Current		(3,083,228)
Bonds Payable - Long Term		(21,833,658)
Add:		
Due from NJ EIT		5,229,614
Unexpended Bond Proceeds		134,381
Unamortized Bond Issue Costs		471,915
		471,915
Invested in Capital Assets, Net	\$	16,742,028

Invested in Capital Assets, Net of Related Debt increased by \$3,297,879.

2. Net Assets of \$500,000 reserved for the purpose of Renewal and Replacement of "the System", which is determined each year by an independent consulting engineer.
3. Net assets of \$909,881 restricted for the purpose of providing a Debt Service Reserve Fund, in accordance with the Authority's debt covenants, which remains unchanged from the prior years amount.
4. Net assets of \$950,778 reserved for the working capital requirement as stipulated in the Bond Resolution, equal to one quarter of the subsequent year's operating budget.

5. Unreserved net assets of \$810,169 represents the portion available to maintain the Authority's continuing obligations to the contractual customers of its service area, its creditors and current liabilities. This amount decreased by \$315,421 from 2009.

Comparative Condensed Statements of Net Assets

	As of November 30,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total Current Assets	\$ 2,897,077	\$ 2,801,080	\$ 3,505,815
Total Restricted Assets	8,795,965	7,352,207	8,356,059
Capital Assets, Net	35,823,004	32,103,447	31,911,751
Deferred Costs	<u>471,915</u>	<u>507,869</u>	<u>557,272</u>
Total Assets	<u>\$ 47,987,962</u>	<u>\$ 42,764,603</u>	<u>\$ 44,330,897</u>
Total Current Liabilities Payable from Unrestricted Assets	\$ 943,162	\$ 852,270	\$ 769,351
Total Current Liabilities Payable from Restricted Assets	3,887,196	3,156,619	3,152,318
Accrued Noncurrent Employee Benefits	992,002	594,379	409,095
Compensated Absences Payable	86,437	64,697	59,164
Non Current Obligations, Net	<u>22,166,308</u>	<u>20,896,415</u>	<u>23,622,233</u>
Total Liabilities	<u>\$ 28,075,105</u>	<u>\$ 25,564,380</u>	<u>\$ 28,012,161</u>
Net Assets	<u>\$ 19,912,857</u>	<u>\$ 17,200,223</u>	<u>\$ 16,318,735</u>

Total Current Assets an increased because Customer Accounts Receivable have increased, in part due to the 2010 rate increase.

Total Restricted Assets have increased because of the amounts receivable from the 2010 New Jersey Environmental Infrastructure Trust Loan.

Capital Assets, Net have increased because assets capitalized exceeded depreciation expense.

Total Current Liabilities Payable from Unrestricted Assets have increased mainly due to an increase in deferred revenue.

Total Current Liabilities Payable from Restricted Assets have increased because of a increase in the current portion of bonds payable.

Long-Term Liabilities increased because of the issuance of 2010 NJEIT bonds.

Total Net Assets have increased as a result of the reported positive change in Net Assets for the 2010 fiscal year.

Comparative Condensed Statements of Revenues, Expenses and Changes in Net Assets

	Fiscal Years Ended November 30,		
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total Operating Revenues	\$ 7,093,684	\$ 6,197,383	\$ 6,237,781
Operating Expenses	3,828,250	3,714,833	3,991,823
Depreciation	<u>791,621</u>	<u>803,920</u>	<u>816,010</u>
Total Operating Expenses	<u>4,619,871</u>	<u>4,518,753</u>	<u>4,807,833</u>
Operating Income	2,473,813	1,678,630	1,429,948
Non-Operating Revenues/ (Expenses) - Net	<u>238,819</u>	<u>(797,141)</u>	<u>(776,781)</u>
Change in Net Assets	2,712,632	881,489	653,167
Net Assets, Beginning	<u>17,200,225</u>	<u>16,318,736</u>	<u>15,665,568</u>
Net Assets, Ending	<u>\$ 19,912,857</u>	<u>\$ 17,200,225</u>	<u>\$ 16,318,736</u>

Total Operating Revenues increased from the prior year. Revenues from user charges increased by \$904,193 or 15%, commensurate with the 2010 rate increase.

Operating Income increased by \$795,183 from the prior year.

Operating Expenses decreased by \$101,118. The most significant change was due to the expense created by the other post employment benefit accrual.

Total Net Assets as of November 30, 2010, increased by \$2,712,632, from \$17,200,225 to \$19,912,857. The recognition of \$967,342 in ARRA principal forgiveness as a non-operating revenue was a contributing factor to this increase.

Statement of Cash Flows

Cash and Cash Equivalents increased by \$254,144. This compares to a net decrease of \$768,615 in 2009.

Core Competencies

The Authority provides wastewater conveyance and treatment services under contracts with four customer municipalities and for the Township of Ocean.

The System consists of a wastewater treatment plant, a wastewater collection system of approximately 146 miles of gravity interceptor and force mains, eleven (11) pumping stations and an ocean outfall line discharging into the Atlantic Ocean through a diffuser system.

The wastewater treatment plant provides primary and secondary wastewater treatment and is situated on about 6.4 acres located on Roosevelt Avenue in Oakhurst, NJ.

The treatment plant has a capacity of 7.5 million gallons per day. The Authority is presently upgrading its treatment plant which is designed to serve the treatment needs of the service area based on current zoning ordinances.

The Township of Ocean Sewerage Authority owns and operates the regional piping and pumping systems that receive, meter, and transport the municipal wastewater to the Authority's Regional Plant on Roosevelt Avenue for treatment and discharge.

The User Charges billed to the Township of Ocean residents is the major source of revenue for the Authority in addition to the bulk discounted customer town charges paid by the four customer municipalities. This is collectively shown on the Comparative Statement of Revenues, Expenses and Changes in Net Assets as "User Charges" and reported as Operating Revenues. Initial service charge or connection fee revenue was significant this year and was slightly more than last year's realized amount.

Accountability

The Township of Ocean Sewerage Authority's mission statement is:

The Chairman's Statement:

"Our mission for the Township of Ocean Sewerage Authority is to provide the ultimate wastewater collection and water reclamation system. Always responsive to the customers' needs and the growing community, in compliance with the applicable laws, rules and regulations, Township of Ocean Sewerage Authority will continue to set and exceed the standards for the protection of the environment, while operating the most efficient system and maintaining a cost effective budget.

As the mission reads, this is who and what the Authority is accountable to. The Authority's accountability, first and foremost, is to protect the environment. The goal is to provide a cost effective and reliable service, and at the same time to protect the environment. This means the Authority is accountable to its customers, the agencies and people served using the same principals: cost effective, efficient, reliable and protective. This is what the employees of the Authority strive for each and every day. And each and every day, the Authority is accountable to its employees.

As an environmental utility, the Authority is also guided by or accountable to state government and the applicable rules and regulations that govern the Township of Ocean Sewerage Authority. More specifically, the Authority is accountable to the Department of Community Affairs, Division of Local Government Services and the U.S. and New Jersey Department of Environmental Protection.

The Township of Ocean Sewerage Authority, a component unit of the Township of Ocean, is accountable to the governing body of the Township as well as the Township of Ocean Sewerage Authority members.

Governing Body

The governing body of the Township of Ocean Sewerage Authority consists of a seven-member board that is comprised of five permanent members and two alternate members appointed for five-year terms by the Township of Ocean.

The Authority Board Members at November 30, 2010 were:

Andrew G. DeSarno, Chairman
John Villapiano, Vice Chairman
Chris Kelly, Secretary/Treasurer
Dennis Galvin, Member
Ralph Stubbs, Member

At year end, there were two vacancies on the Authority's Board, both of which were alternate members vacancies.

Management of the Authority

The Executive Director of the Township of Ocean Sewerage Authority, William Schmeling, manages the daily operations of the Authority. He oversees a staff of 18, an annual operating budget of \$3.75 million and treatment plant and collection system renovation projects under construction. Senior staff is charged with the management of the operations and financial affairs of the Authority. Material modifications to the 2010 budget were made after adoption to provide adequate budgetary resources for various expense line items.

The Executive Director and senior staff are as follows:

William Schmeling, Executive Director
Myriam Condello, Office Manager/Purchasing Agent
Thomas G. Meholic, Plant Superintendent

Funding of Infrastructure and Debt Management

It is the current policy of the Township of Ocean Sewerage Authority Board Members, Executive Director, and senior staff, that funding for capital improvements, additions or replacements, is to be accomplished using one or more of the following methods:

Borrowings from the New Jersey Environmental Infrastructure Trust ("NJEIT")
Funding Incrementally or Annually from Annual Operating Budget

Refunding of existing public debt is routinely reviewed, analyzed and recommended when appropriate. The NJEIT has refinanced both the 2001 and 2004 bonds, reducing interest costs to the Authority.

Financing for the 2010 capital improvements project through the NJEIT has been completed.

Auditors

The Authority Auditor is David A. Kaplan, CPA of DAK CPA, Certified Public Accountants.

Prior audits can be obtained by contacting the Township of Ocean Sewerage Authority.

BASIC FINANCIAL STATEMENTS

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
COMPARATIVE STATEMENT OF NET ASSETS
NOVEMBER 30, 2010 AND 2009

	November 30,	
	2010	2009
<u>ASSETS</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 2,375,354	\$ 2,343,789
Petty Cash and Change Funds	350	350
	2,375,704	2,344,139
Customer Accounts Receivable	467,991	407,065
Prepaid Expenses	20,560	22,677
Inventory	32,822	27,199
Total Current Assets	2,897,077	2,801,080
Restricted Assets:		
Developer Deposits:		
Cash and Cash Equivalents	27,830	58,812
Debt Service Account:		
Cash and Cash Equivalents	2,219,449	2,172,872
Debt Service Reserve Account:		
Cash and Cash Equivalents	957,518	957,356
Construction Account:		
Cash and Cash Equivalents	361,554	154,732
Due from NJ Environmental Infrastructure Trust	5,229,614	4,008,435
Total Restricted Assets	8,795,965	7,352,207
Noncurrent Assets:		
Capital Assets:		
Non-Depreciable	7,035,560	2,524,382
Depreciable - Net	28,787,444	29,579,065
Total Noncurrent Assets	35,823,004	32,103,447
Other Assets:		
Deferred Charges:		
Unamortized Debt Issue Costs	471,915	507,869
Total Assets	\$ 47,987,962	\$ 42,764,605

The Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
COMPARATIVE STATEMENT OF NET ASSETS
NOVEMBER 30, 2010 AND 2009

	November 30,	
	2010	2009
<u>LIABILITIES</u>		
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable	\$ 283,452	\$ 258,324
Accrued Expenses	41,240	44,853
Customer Overpayments	29,890	44,768
Payroll Taxes Payable	2,290	
Deferred Revenue	586,290	504,325
Total Current Liabilities Payable from Current Assets	943,162	852,270
Current Liabilities Payable from Restricted Assets:		
Reserve for Developer's Escrow Deposits	32,021	50,871
Accrued Interest on Revenue Bonds Payable	289,857	282,064
Accounts Payable	482,091	41,468
Revenue Bonds Payable - Current Portion	3,083,228	2,782,215
Total Current Liabilities Payable from Restricted Assets	3,887,196	3,156,618
Non-Current Liabilities:		
Long-Term Revenue Bonds Payable	21,833,658	20,540,119
Less: Unamortized Loss on Defeasance	76,313	106,838
Less: Unamortized Bond Discounts/(Premium)	(408,962)	(463,134)
	22,166,308	20,896,415
Accrued Noncurrent Employee Benefits	992,002	594,379
Compensated Absences Payable	86,437	64,697
Total Non-Current Liabilities	23,244,747	21,555,491
Total Liabilities	\$ 28,075,105	\$ 25,564,380

The Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
COMPARATIVE STATEMENT OF NET ASSETS
NOVEMBER 30, 2010 AND 2009

	November 30,	
	<u>2010</u>	<u>2009</u>
<u>NET ASSETS</u>		
Reserved for:		
Rate Stabilization	\$	\$ 267,000
Future Debt Service	909,881	909,881
Renewal and Replacement	500,000	500,000
Working Capital	950,778	945,602
Invested in Capital Assets, Net of Related Debt	16,742,028	13,452,152
Unreserved Net Assets	810,169	1,125,590
 Total Net Assets	\$ 19,912,857	\$ 17,200,225

The Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

	November 30,	
	<u>2010</u>	<u>2009</u>
Operating Revenues:		
User Charges	\$ 6,947,504	\$ 6,043,311
Initial Service Charges	<u>146,180</u>	<u>154,072</u>
Total Operating Revenues	7,093,684	6,197,383
Operating Expenses:		
Cost of Providing Services	2,364,573	2,464,110
Administration and General	1,463,677	1,250,723
Depreciation	<u>791,621</u>	<u>803,920</u>
Total Operating Expenses	<u>4,619,871</u>	<u>4,518,753</u>
Operating Income	2,473,813	1,678,630
Non-Operating Revenues/(Expenses):		
Amortization of Debt Issue Costs	(58,954)	(57,404)
Interest Expense	(715,811)	(743,952)
Major Repairs and Costs	(61,623)	(85,611)
ARRA - Principal Forgiveness	967,342	
Interest on Investments	8,382	24,055
Miscellaneous Income/(Expenses)	<u>99,482</u>	<u>65,771</u>
Total Non-Operating Revenues/(Expenses)	<u>238,819</u>	<u>(797,141)</u>
Change in Net Assets	2,712,632	881,489
Net Assets, Beginning of Year	<u>17,200,225</u>	<u>16,318,736</u>
Net Assets, End of Year	<u>\$ 19,912,857</u>	<u>\$ 17,200,225</u>

The Notes to Financial Statements are an integral part of this statement.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
COMPARATIVE STATEMENT OF CASH FLOWS
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

	November 30	
	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 2,712,632	\$ 881,489
Adjustments to Reconcile Net Income to Net		
Cash Provided by/(Used in) Operating Activities:		
Depreciation	791,621	803,920
Amortization of Debt Issue Costs	58,954	57,404
Amortization of Loss on Defeasance	30,524	30,524
Amortization of Bond Discount/(Premium)	(54,171)	(54,124)
Changes in Assets and Liabilities:		
Unrestricted Accounts	(64,432)	(62,084)
Restricted Accounts	(1,221,179)	1,002,055
Increase/(Decrease) in Current Liabilities:		
Payable from Unrestricted Assets	90,892	82,919
Payable from Restricted Assets	730,578	4,301
(Decrease) Increase in Other Liabilities	419,363	190,816
Total Adjustments to Change in Net Assets	<u>782,151</u>	<u>2,055,732</u>
Net Cash Provided by/(Used In) Operating Activities	<u>3,494,782</u>	<u>2,937,221</u>
Cash Flows from Capital and Related Financing Activities:		
Net Increase in Property, Plant and Equipment	(4,511,178)	(995,617)
Costs of Issuance - 2009 NJEIT Bonds	(23,000)	(8,000)
Net (Decrease)/Increase in Long-Term Bonds Payable	<u>1,293,540</u>	<u>(2,702,218)</u>
Net Cash (Used in)/ Provided by Capital and Related Financing Activities	<u>(3,240,638)</u>	<u>(3,705,835)</u>
Net (Decrease)/Increase in Cash and Cash Equivalents	254,144	(768,615)
Cash and Cash Equivalents at Beginning of Year	<u>5,687,911</u>	<u>6,456,526</u>
Cash and Cash Equivalents at End of Year	<u>\$ 5,942,055</u>	<u>\$ 5,687,911</u>
Reconciliation to Statement of Net Assets:		
Unrestricted Cash and Cash Equivalents	\$ 2,375,704	\$ 2,344,139
Restricted Cash and Cash Equivalents	<u>3,566,351</u>	<u>3,343,772</u>
	<u>\$ 5,942,055</u>	<u>\$ 5,687,911</u>

The Notes to Financial Statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COMPONENT UNIT
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

Note 1. **ORGANIZATION**

The Township of Ocean Sewerage Authority (the "Authority") was created September 8, 1964, to construct and operate a wastewater collection and treatment system to service Ocean Township and adjoining Municipalities in the area. The Authority bills and collects its revenue from users of the system. The Authority has entered into service agreements with adjoining Municipalities.

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

The Authority meets the criteria established by the Governmental Accounting Standards Board (GASB) to be deemed a component unit of the primary government unit, the Township of Ocean. This classification does not diminish the autonomous character of the Authority. The Township appoints the Authority's board members and guarantees certain revenue bonds repayment.

The Authority's utilizes the full accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America (GAAP) revenue is recorded as earned and expenses are reflected as the liability is incurred.

The Authority applies all Governmental Accounting Standards Board pronouncements as well as Financial Standards Board statements and pronouncements.

Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Grants

Contributions received from various sources as grants are recorded in the period they become measurable. Developer financed construction is recorded in the period in which the system is donated by the Authority. Donated assets are recorded at fair market value at the date of the gift. Grants not externally restricted and utilized to finance operations are identified as non-operating revenues.

Grants externally restricted for non-operating purposes are recorded as contributed capital and identified as grants-in-aid.

Inventory

The Authority takes a physical inventory of its supplies and chemicals annually. The inventory values reported as November 30, 2010 and 2009 are based on that physical inventory. Inventory value at November 30, 2010 and 2009 was \$32,822 and \$27,199, respectively.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COMPONENT UNIT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Capital Assets

Capital assets are stated at cost, which includes direct construction costs and other expenditures related to construction.

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

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

Treatment Plant Buildings and Improvements	75 Years
Sewer Mains Interceptors and Pump Station	75 Years
Other Equipment	5 - 25 Years
Vehicles	3 - 5 Years

	Balance November <u>30, 2009</u>	<u>Current Year's Activity</u> <u>Increase</u>	Balance November <u>30, 2010</u>
Non-Depreciable Assets:			
Land	\$ 487,419	\$	\$ 487,419
Construction in Progress	2,036,964	4,511,177	6,548,141
Depreciable Assets:			
Treatment Plant and Collection System	37,630,749		37,630,749
Collection System (Contributed)	1,811,321		1,811,321
Treatment Plant (Contributed)	1,862,703		1,862,703
Machinery and Equipment	<u>685,043</u>		<u>685,043</u>
	44,514,199	4,511,177	49,025,376
Less: Accumulated Depreciation	<u>12,410,751</u>	<u>791,621</u>	<u>13,202,372</u>
	<u>\$ 56,924,950</u>	<u>\$ 5,302,798</u>	<u>\$ 62,227,748</u>

It is the Authorities policy to record capital assets when their cost exceeds \$2,000.

Depreciation expense for the fiscal years ended November 30, 2010 and 2009 was \$791,621 and \$803,920, respectively.

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

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Restricted Funds

In accordance with the Authority Bond Resolution, the Authority has established the following restricted funds:

<u>Fund</u>	<u>Amount</u>	<u>Use of Which Restricted</u>
Construction	Proceeds of debt issued and construction grants-in-aid.	Construction costs of the project system.
Debt Service	Capitalized interest and accrued interest from bond proceeds and transfers to pay principal and interest.	Principal and interest on the bonds.
Debt Service Reserve	From bond proceeds an amount needed to equal the greatest amount of interest due in any year.	Transfers to meet minimum levels required in the debt service or sinking funds.

In addition to the above, the Authority has also established the following restricted accounts:

Included in the Revenue Fund are funds reserved for Engineering Costs related to Developers' Construction Projects.

Unamortized Debt Issuance Costs

Deferred debt issuance costs incurred with the 1998 and 2001 bond and note issues, the 2002 Series A and B and the 2004, 2006, 2007, and 2010 NJ EIT bond issues are being amortized over the life of the issues based on the straight line method. Accumulated amortization was \$781,010 and \$722,056 as of November 30, 2010 and 2009, respectively.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt to the extent expended consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets 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.

Note 3. **CASH, CASH EQUIVALENTS AND INVESTMENTS**

Cash and Cash Equivalents includes petty cash, amounts on deposit and short-term investments with original maturities of three months or less.

Investments are stated at cost, which approximates market. 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 is in compliance with GASB Statement No. 3 as amended by GASB Statement No. 40.

A. Deposits

New Jersey statutes require that authorities deposit public funds in public depositories located in New Jersey that are insured by the Federal Deposit Insurance Corporation, or by any other agency of the United States that insures deposits made in public depositories.

New Jersey statutes require public depositories to maintain collateral for deposits of public funds that exceed depository insurance limits as follows:

The market value of the collateral must equal at least 5% of the average daily balance of collected public funds on deposit.

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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

Note 3. CASH, CASH EQUIVALENTS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

As of November 30, 2010, Cash and Cash Equivalents (Deposits) of the Authority consisted of petty cash and change funds and interest bearing checking and money market accounts and deposits in the New Jersey Cash Management Fund totaling \$5,942,055.

B. Investments

New Jersey statutes permit the Authority to purchase the following types of securities:

- Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America. This includes instruments such as Treasury bills, notes and bonds.
- Government money market mutual funds.
- Any federal agency or instrumentality obligation authorized by Congress that matures within 397 days from the date of purchase, and has a fixed rate of interest not dependent on any index or external factors.
- Bonds or other obligations of the school district or local unit of which the school district is a part.
- Any other obligations with maturities not exceeding 397 days, as permitted by the Division of Investments, New Jersey State Department of Treasury.
- Local government investment pools.
- New Jersey State Cash Management Fund.
- Repurchase agreements of fully collateralized securities, subject to special conditions.

As of November 30, 2010, the Authority had no investments.

Custodial Credit Risk – Deposits:

Custodial Credit Risk is the risk that in an event of a bank failure, the Authority's deposits may not be returned to it. The Authority has mitigated this risk by limiting deposits only with banks participating in both the FDIC and NJ GUDPA programs.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COMPONENT UNIT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

Note 4. LONG-TERM DEBT

Sewer Revenue Bonds, 1998 Series C

Description - On May 5, 1998 the Authority issued \$2,390,000 of 1998 Series C Revenue Bonds. The Bonds were issued to finance and refinance the cost of the 1998 Project and pay the costs and expenses related to the issuance of the Bonds, including bond insurance. The Bonds were dated May 1, 1998 and interest on the bonds is due and payable semiannually each December 1 and June 1. Principal is payable on December 1. Interest rates on Bonds outstanding range from 4.70% to 5.00%. Annual maturities and interest rates are more fully described in Schedule 4.

Optional Redemption - The Series C Bonds maturing on and prior to December 1, 2008 are not subject to redemption. The Series C Bonds maturing on or after December 1, 2009 will be redeemable at any time on or after December 1, 2008, at the election of the Authority at any time as a whole or in part in such order of maturities as determined by the Authority (and in the event that less than all of the Series C Bonds of an entire maturity are to be redeemed, the Series C Bonds of such maturity to be redeemed are to be selected at random in a manner deemed fair by the Trustee), at the redemption prices set forth in the following table, plus accrued interest, if any, to the date fixed for redemption:

<u>Redemption Date</u>	<u>Redemption Price</u>
December 1, 2008 through November 30, 2009	101%
December 1, 2009 and thereafter	100%

Sinking Fund Installment - The Series C Bond maturing on December 1, 2006, December 1, 2008, December 1, 2011, December 1, 2013 and December 1, 2018 are subject to redemption, by operation of the Debt Service Fund, to satisfy sinking fund installments required by the supplemental resolution, beginning on December 1, 2005, December 1, 2007, December 1, 2009, December 1, 2012 and December 1, 2014, respectively, and on each December 1 thereafter, at 100% of the principal amount of the Series C Bonds so to be redeemed plus accrued interest, if any, to the redemption date, and such sinking fund installments will be sufficient to redeem the following amounts of such Series C Bonds on the dates set forth below:

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

Note 4. LONG-TERM DEBT (CONTINUED)

Sewer Revenue Bonds, 1998 Series C (Continued)

Sinking Fund Installment (Continued)

<u>Year</u>	<u>Principal Amount</u>
2010	\$ 125,000
2011	130,000
December 1, 2011	<u>255,000</u>
2012	135,000
2013	140,000
December 1, 2013	<u>275,000</u>
2014	150,000
2015	155,000
2016	165,000
2016	170,000
2018	180,000
December 1, 2018	<u>820,000</u>
Grand Totals	<u>\$ 1,350,000</u>

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COMPONENT UNIT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

Note 4. LONG-TERM DEBT (CONTINUED)

Sewer Revenue Bonds, 1998 Series C (Continued)

Sinking Fund Installment (Continued)

In determining the amount of any sinking fund installment due on any date specified above, there shall be deducted the principal amount of any Series C Bonds to which such sinking fund installment applies, where such Bonds have been (1) redeemed or purchased on a date more than 60 days preceding the date on which such installment is due, from amounts accumulated in the Debt Service Account with respect to such sinking fund installment or (2) purchased during the period from 40 to 60 days prior to the due date of the installment, from any amount (exclusive of amounts deposited from proceeds of Bonds) in the Debt Service Account. In addition, upon the redemption or purchase from the General Reserve Fund of the Series C Bonds for which sinking fund installments have been established, each such sinking fund installment thereafter to become due (other than that next due) shall be credited with an amount which bears the same relation to the sinking fund installment to be credited as the total principal amount of the Series C Bonds purchased or redeemed bears to the total amount of sinking fund installments to be credited.

The Sinking Fund Installments may be satisfied by the Authority by delivering to the Trustee Series C Bonds of such maturity theretofore purchased or redeemed by the Authority otherwise than by sinking fund redemptions.

Notice of Redemption - So long as DTC will act as securities depository for the Series C Bonds (in the manner described herein), the Authority shall cause notice of applicable redemption to be mailed to DTC no less than 30 days prior to any redemption date. Conveyance of notices and other communications by DTC to DTC Participants, by Direct Participants to Indirect Participants, and by DTC Participants to Beneficial Owners will be governed by the arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Any failure by DTC to mail such notice to any participant and any failure of the DTC Participant to notify any Beneficial Owners of a Series C Bond will not affect the validity of the redemption of the Series C Bonds. After the redemption date, interest will not be payable on the Series C Bonds as to which proper notice of redemption shall have been mailed, if sufficient monies have been deposited with the Trustee to pay principal, premium, if any, and all interest on the Series C Bonds to such date.

Discount - The 1998 Series C Bonds were issued at an original issue discount of \$12,711. This discount is being amortized annually using the straight-line method of amortization.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

Note 4. LONG-TERM DEBT (CONTINUED)

2001 Series Bonds - New Jersey Environmental Infrastructure Trust (NJEIT)

On November 9, 2001, the Authority issued \$7,840,900 in Revenue Bonds through the New Jersey Environmental Infrastructure Trust. The "Fund" (Federal Funds) portion of the Bond Issue, \$3,935,900, was issued with no interest rate. The remaining outstanding Bonds mature semi-annually from February 1, 2011 through 2021 with semi-annual maturities ranging from \$4,782 to \$206,111. The Bonds were issued with an original issue premium of \$228,038. Annual maturities are more fully described in Schedule 4.

The "Loan" (State Funds) portion of the Bond Issue, \$3,905,000, mature annually through August 1, 2021 at remaining annual maturities ranging from \$180,000 to \$310,000 and bear interest at rates ranging from 4.75% to 5.50%. Annual maturities and interest rates are more fully described in Schedule 4.

On September 12, 2007, the NJEIT issued 2007 Refunding Bonds which provided \$127,720 in interest savings for the Authority. The refunding was conducted at no cost to the Authority. No change to the bond principal maturity schedule occurred as a result of the refunding.

2002 Series A Revenue Refunding Bonds

Description – The Authority's Sewer Revenue Refunding Bonds, 2002 Series A were issued on February 15, 2002 in the aggregate principal amount of \$3,770,000. The 2002 Series A Bonds were issued to: (i) currently refund on a forward basis a portion of the Authority's outstanding Series 1992B bonds, (ii) fund the Debt Service Reserve Requirement and (iii) pay certain costs of issuance. Interest is due and payable semi-annually each December 1 and June 1. Principal is payable on December 1. Annual maturities and interest rates are more fully described in Schedule 4. Interest rates on remaining maturities range from 4.00% to 4.25%.

Optional Redemption – The 2002 Series A Bonds are not subject to redemption prior to maturity.

Original Issue Discount – The 2002 Series A Bonds were issued at an original issue discount of \$33,358. This discount is being amortized using the straight-line method of amortization.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Note 4. LONG-TERM DEBT (CONTINUED)

2002 Series B Revenue Refunding Bonds

Description – The Authority's Sewer Revenue Refunding Bonds, 2002 Series B were issued on September 3, 2002 in the aggregate principal amount of \$12,690,000. The 2002 Series B Bonds were issued to: (i) currently refund on a forward basis a portion of the Authority's outstanding Series 1992B bonds, (ii) fund the Debt Service Reserve Requirement and (iii) pay certain costs of issuance. Interest is due and payable semi-annually each December 1 and June 1. Principal is payable on December 1. Annual maturities and interest rates are more fully described in Schedule 4. Interest rates on remaining maturities are at 5.25%.

Optional Redemption – The 2002 Series B Bonds are not subject to redemption prior to maturity.

Original Issue Premium – The 2002 Series B Bonds were issued at an original issue premium of \$441,998.55. This premium is being amortized using the straight-line method of amortization.

2004 Series Bonds – New Jersey Environmental Infrastructure Trust (NJEIT)

On November 4, 2004, the Authority issued \$3,350,000 in Revenue Bonds through the New Jersey Infrastructure Trust. The "Fund" (Federal Funds) portion of the Bond Issue \$1,720,000 was issued with no interest rate. The Bonds mature semi-annually through 2021 at maturities ranging from \$2,478 to \$101,609. The Bonds were issued with an original issue premium of \$127,178. Annual maturities are more fully described in Schedule 4.

The "Loan" (State Funds) portion of the Bond Issue \$1,630,000, mature annually through August 1, 2021 at remaining annual maturities ranging from \$90,000 to \$140,000 and bear interest rates ranging from 4.00% to 5.00%. Annual maturities and interest rates are more fully described in Schedule 4.

On September 12, 2007, the NJEIT issued 2007 Refunding Bonds which provided \$40,762 in interest savings for the Authority. The refunding was conducted at no cost to the Authority. No change to the bond principal maturity schedule occurred as a result of the refunding.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

Note 4. LONG-TERM DEBT (CONTINUED)

2006 Series Bonds – New Jersey Environmental Infrastructure Trust (NJEIT)

On November 9, 2006, the Authority issued \$982,442 in Revenue Bonds through the New Jersey Infrastructure Trust. The “Fund” (Federal Funds) portion of the Bond Issue, \$487,442 was issued with no interest rate. The Bonds mature semi-annually through 2021 at maturities ranging from \$655 to \$33,684. The Bonds were issued with an original issue premium of \$15,069. Annual maturities are more fully described in Schedule 4.

The “Loan” (State Funds) portion of the Bond Issue, \$495,000, mature annually through 2021 at annual maturities ranging from \$30,000 to \$45,000 and bear interest rates ranging from 4.00% to 5.00%. Annual maturities and interest rates are more fully described in Schedule 4.

2007 Series Bonds – New Jersey Environmental Infrastructure Trust (NJEIT)

On November 8, 2007, the Authority issued \$6,030,500 in Revenue Bonds through the New Jersey Infrastructure Trust. The “Fund” (Federal Funds) portion of the Bond Issue, \$2,960,500 was issued with no interest rate. The Bonds mature semi-annually through 2027 at maturities ranging from \$ 3,193 to \$153,463. The Bonds were issued with an original issue premium of \$66,108. Annual maturities are more fully described in Schedule 4.

The “Loan” (State Funds) portion of the Bond Issue, \$3,070,000, mature annually through 2027 at remaining annual maturities ranging from \$115,000 to \$235,000 and bear interest rates ranging from 3.40% to 5.00%. Annual maturities and interest rates are more fully described in Schedule 4.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Note 4. LONG-TERM DEBT (CONTINUED)

2010 Series Bonds – New Jersey Environmental Infrastructure Trust (NJEIT)

On March 10, 2010 the Authority issued \$5,450,662 in Revenue Bonds through the New Jersey Infrastructure Trust. A portion of the Revenue Bonds were funded by the American Recovery and Reinvestment Act ("ARRA").

2010 ARRA Revenue Bonds

The ARRA funded portion of the Revenue Bonds totaled \$1,926,012. This amount was segregated into two portions: Trust Loan Bonds of \$475,000 which mature annually on August 1 of each year through 2029 at interest rates ranging from 3.5% to 5% and Fund Loan Bonds of \$1,451,012. Principal forgiveness of \$967,342 on this portion of the Bonds resulted in net Fund Loan Bonds payable of \$483,670, which mature semi-annually through August, 2029 with no interest. Annual maturities and interest rates are more fully described in Schedule 4.

2010 Traditional Revenue Bonds

The Traditional portion of the Revenue Bonds totaled \$3,524,650. This amount was segregated into two portions: Trust Loan Bonds of \$865,000 which mature annually on August 1 of each year through 2029 in amounts ranging from \$40,000 to \$65,000 at interest rates ranging from 3% to 5%, and Fund Loan Bonds of \$2,659,650 which mature semi-annually through August, 2029 in amounts ranging from \$45,079 to \$90,158, with no interest. Annual maturities and interest rates are more fully described in Schedule 4.

Changes in long-term debt are as follows:

	Balance <u>2009</u>	<u>Increased</u>	<u>Decreased</u>	Balance <u>2010</u>
Revenue Bonds	\$23,322,333	\$ 4,483,320	\$ 2,888,769	\$ 24,916,884
Compensated Absences	<u>64,697</u>	<u>21,740</u>	<u> </u>	<u>86,437</u>
	<u>\$23,387,030</u>	<u>\$ 4,505,060</u>	<u>\$ 2,888,769</u>	<u>\$ 25,003,321</u>

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

Note 4. LONG-TERM DEBT (CONTINUED)
 Payment Schedule on Long-Term Bonds for the Next Five Years and in Five Year
 Increments thereafter:

<u>Due Date</u>	<u>Bond Principal</u>	<u>Interest on Bonds</u>	<u>Grand Total</u>
12/01/10	\$ 1,965,000	\$ 158,614	\$ 2,123,614
02/01/11	165,684	196,861	362,545
06/01/11		108,888	108,888
08/01/11	962,544	196,861	1,159,405
12/01/11	<u>1,855,000</u>	<u>108,888</u>	<u>1,963,888</u>
	<u>2,983,228</u>	<u>611,498</u>	<u>3,594,726</u>
02/01/12	158,418	184,997	343,415
06/01/12		69,136	69,136
08/01/12	1,004,956	184,997	1,189,953
12/01/12	<u>2,060,000</u>	<u>69,136</u>	<u>2,129,136</u>
	<u>3,223,374</u>	<u>508,266</u>	<u>3,731,640</u>
02/01/13	151,277	174,766	326,043
06/01/13		24,855	24,855
08/01/13	1,032,848	174,766	1,207,614
12/01/13	<u>140,000</u>	<u>24,855</u>	<u>164,855</u>
	<u>1,324,125</u>	<u>399,242</u>	<u>1,723,367</u>
02/01/14	143,829	160,699	304,528
06/01/14		21,320	21,320
08/01/14	1,067,526	160,699	1,228,225
12/01/14	<u>150,000</u>	<u>21,320</u>	<u>171,320</u>
	<u>1,361,355</u>	<u>364,038</u>	<u>1,725,393</u>
12/1/15-19	6,672,892	1,197,638	7,870,530
12/1/20-24	4,626,805	408,064	5,034,869
12/1/25-29	<u>2,760,105</u>	<u>154,257</u>	<u>2,914,362</u>
	<u>\$ 24,916,884</u>	<u>\$ 3,801,617</u>	<u>\$ 28,718,501</u>

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

Note 5. CONTINGENT LIABILITIES

In the normal course of business, the Authority may periodically be named as a defendant in litigation. These legal proceedings are not likely to have a material adverse impact on the financial statements or operations of the Authority, based upon inquiry of management and direct confirmation from the Authority Attorney.

The Authority's accrued liability for compensated absences at November 30, 2010 and 2009 is \$86,437 and \$64,697, respectively, exclusive of fringe benefits associated thereon, which it provides for through annual budget appropriations. This liability is fully funded.

Note 6. PENSION PLANS

Plan Description

All of the Authority's employees participate in the Public Employees' Retirement System (PERS), a cost-sharing multiple-employer defined benefit pension plan administered by the Division of Pensions in the Department of the Treasury, State of New Jersey. The plan provides retirement, death, disability benefits and medical benefits to certain qualifying plan members and beneficiaries. The Public Employees' Retirement System was established January, 1955 under the provisions of N.J.S.A. 43:15A. The Public Employees' Retirement System issues publicly available financial reports that include financial statements and required supplementary information. This report may be obtained by writing to the State of New Jersey, Division of Pensions.

Funding Policy and Contributions

Employee contributions are five and one-half percent of pensionable wages. Employer's contributions are actuarially determined annually by the Division of Pensions. All contributions were equal to the required contributions for each of the three years, respectively. The contributions for PERS for the past three years ended November 30 were as follows:

<u>Year Ended</u> <u>November 30,</u>	<u>Employees'</u> <u>Contributions</u>	<u>Employers'</u> <u>Contributions</u>
2010	\$ 67,475	\$ 93,721
2009	68,064	89,796
2008	55,998	69,698

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

Note 7. DEFERRED COMPENSATION PLAN

The Authority offers its employees a deferred compensation plan created in accordance with the provisions of N.J.S. 43:15B-1 et seq., and the Internal Revenue Code, Section 457. The plan, available to all authority employees, permits them to defer a portion of their salary until future years. Amounts deferred under the plan are not available to employees until terminations, retirement, death or unforeseeable emergency.

The plan is administered by The Equitable Life Assurance Society of the United States.

Note 8. AMOUNTS REQUIRED BY BOND RESOLUTION

The following cash and investment accounts are required by the 1986 bond resolution:

DEBT SERVICE REQUIREMENT:

Cash and Cash Equivalents		
on Hand at November 30, 2010	\$	2,219,449
Debt Service Requirement		<u>2,254,857</u>
Deficiency		(35,408)
Add: Due from Revenue Fund		<u>35,408</u>
Excess or (Deficit)	\$	<u>None</u>

DEBT SERVICE RESERVE REQUIREMENT:

Cash and Cash Equivalents		
on Hand at November 30, 2010	\$	957,518
Debt Service Reserve Requirement		<u>909,881</u>
Excess		47,637
Less: Due to Revenue Fund		<u>47,637</u>
Excess or (Deficit)	\$	<u>None</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

Note 9. NET ASSETS

Reserved for Rate Stabilization - All of the \$267,000 Reserve for Rate Stabilization at November 30, 2010 was anticipated as non-operating revenue in the Authority's adopted budget for the fiscal year ending November 30, 2010.

Reserved for Future Debt Service – The Authority's Bond Resolution mandates a designation of net assets for the benefit of the bond holders equal to \$909,881.

Reserved for Working Capital - The Authority's Bond Resolution mandates a designation of net assets for operating costs at a level equal to one quarter of the succeeding year's operating budget, or \$950,778.

Reserved for Renewal and Replacement – The Authority's Bond Resolution mandates a designation of net assets for major unforeseen system repairs and replacements of \$500,000.

Note 10. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions, injuries to its employees and natural disasters. The Authority maintains commercial insurance coverage through the New Jersey Utility Authorities Joint Insurance Fund for these various risks. A complete schedule of insurance coverage can be found in the Supplementary Information - Schedule of Insurance. Workers compensation and health coverage are provided by insurance policies through the New Jersey State Health Benefits Program and traditional commercial coverage.

Note 11. RECONCILIATION OF EXPENDITURES – BUDGETARY BASIS TO GAAP BASIS

The following represents a reconciliation of expenditures from the Schedule of Operating Revenues and Expenditures Compared to Budget (Schedule 3) to the Comparative Statement of Revenues, Expenses and Changes in Net Assets (Exhibit B) for 2010 and 2009.

	Fiscal Year Ended November 30, 2010		
	Per Schedule 3	Less Asset Acquisitions	Per Exhibit B
Administration	\$ 1,165,994	\$ -	\$ 1,165,994
Treatment Plant	2,112,248	0	2,112,248
Collection System	476,560		476,560
Total Cost of Providing Service	2,588,808	0	2,588,808
Totals	\$ 3,754,802	\$ -	\$ 3,754,802

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COMPONENT UNIT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

Note 11. RECONCILIATION OF EXPENDITURES – BUDGETARY BASIS TO GAAP BASIS (CONTINUED):

	Fiscal Year Ended November 30, 2009		
	Per Schedule 3	Less Asset Acquisitions	Per Exhibit B
Administration	\$ 1,250,723	-	\$ 1,250,723
Treatment Plant	1,983,590	\$ 11,107	1,972,483
Collection System	491,627		491,627
Total Cost of Providing Service	2,475,217	11,107	2,464,110
Totals	\$ 3,725,940	\$ 11,107	\$ 3,714,833

Note 12. OTHER EMPLOYEE BENEFITS

Benefit Plans

The Authority provides, pursuant to Board action and as provided by statute, certain group health care and dental benefits for active and certain retired employees (and for eligible dependents and survivors of active and certain retired employees). Collectively, these covered individuals are referred to as “participants”.

The Authority implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2008.

Actuarial Methods and Assumptions

The Authority provides the benefits described above to fewer than 100 participants and meets all other requirements allowing it to utilize the alternative measurement method as is described in GASB Statement No. 45. The Authority has elected to utilize the alternative measurement method. Some of the assumptions utilized in the computations are as follows:

Discount Rate	4.5%
Mortality	RP 2000 Mortality Table for Males and Females
Turnover	Standard Turnover Assumptions
Healthcare Cost Trends	As per New Jersey State Health Benefits Guide
Marital Status	Present Status maintained throughout
Amortization Period	30 years
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Payroll
Average Retirement Age	65

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COMPONENT UNIT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

Note 12. OTHER EMPLOYEE BENEFITS
(CONTINUED)

Other Postemployment Benefit Costs and Obligations

The annual non-pension postemployment benefit (OPEB) cost is actuarially determined in accordance with the parameters of the alternative measurement method, which also forms the basis for calculating the annual required contribution (ARC) for the Authority. The ARC represents that actuarially determined level of funding that, if paid on an ongoing basis, is projected to cover annual benefit costs and the 30-year amortization of the difference between the actuarial accrued liability and amounts previously recognized. The Authority has recognized cumulative OPEB costs to date of \$992,002.

The following are the components of the 2010 annual OPEB cost:

Normal Cost	\$ 11,640
Amortization Cost	<u>385,983</u>
ARC - 2010	\$ <u>397,623</u>

As of November 30, 2010, the actuarially determined liability for unfunded OPEB obligation equaled \$7,006,193. The difference between this actuarially determined accrued liability and the sum of the liability currently recognized is being amortized over a 30 year period.

Funding Status

The Authority provides funding for the annual normal cost of OPEB benefits. The Authority has not provided any funding for its unfunded accrued OPEB obligation. Funding alternatives are being reviewed.

Note 13. SUBSEQUENT EVENTS

There were no events occurring through the date of the independent auditor's report which have been considered necessary for subsequent events disclosure.

SUPPLEMENTARY INFORMATION

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CHANGES IN CASH AND CASH EQUIVALENTS
UNRESTRICTED ACCOUNTS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2010

	Revenue Account	Authority Reserve Account	Total
Cash and Cash Equivalents:			
December 1, 2009	\$ 1,381,006	\$ 963,134	\$ 2,344,140
Cash Receipts:			
Transfer from Authority Reserve Account	823		823
Transfer from Construction Account	1,060,702		1,060,702
Transfer from Debt Service Reserve Account	2,371		2,371
Interest Received - Net	2,675	2,245	4,920
Customer Overpayments	29,890		29,890
Annual Service Charges	6,974,552		6,974,552
Initial Service Charges	146,180		146,180
Miscellaneous Fees and Charges	49,433		49,433
Interest on Delinquent Accounts	49,885		49,885
	<u>9,697,517</u>	<u>965,379</u>	<u>10,662,896</u>
Total Cash and Cash Equivalents Available			
Cash Disbursed:			
Accounts Payable	258,324		258,324
Transfer to Revenue Account		823	823
Budgetary Expenditures	7,866,937		7,866,937
Accrued Expenses	44,853		44,853
Prepaid Expenses	20,560		20,560
Major Repairs and Replacements		95,696	95,696
	<u>8,190,674</u>	<u>96,518</u>	<u>8,287,193</u>
Total Cash Disbursed			
Cash and Cash Equivalents, November 30, 2010	<u>\$ 1,506,843</u>	<u>\$ 868,861</u>	<u>\$ 2,375,704</u>
Balance Comprised of:			
Petty Cash and Change Funds	\$ 350	\$	\$ 350
Cash - Money Market Funds/Checking Accounts	1,506,493	352,026	1,858,519
New Jersey Cash Management Fund		516,834	516,834
	<u>\$ 1,506,843</u>	<u>\$ 868,861</u>	<u>\$ 2,375,704</u>

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY

COMPONENT UNIT

SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN CASH AND CASH EQUIVALENTS

RESTRICTED ACCOUNTS

FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2010

	Accounts Required by Revenue Bond Resolution				Totals
	Debt Service Account	Debt Service Reserve Account	Construction Account	Developer's Escrow	
Cash and Cash Equivalents:					
December 1, 2009	\$ 2,172,872	\$ 957,356	\$ 154,732	\$ 58,812	\$ 3,343,772
Cash Receipts:					
Interest Received - Net	111	2,533	701	55	3,400
Transfer from Revenue Account:					
Budget for Debt Service	3,533,236		1,039,154		3,533,236
Other	27,300		4,229,483		1,066,454
NJEIT Proceeds				22,477	4,229,483
Developer's Escrow Deposits					22,477
Total Cash and Cash Equivalents Available	5,733,519	959,889	5,424,070	81,344	12,198,822
Cash Disbursed:					
Payment of Bond Principal	2,782,215				2,782,215
Payment of Interest on Bonds	704,555				704,555
Payment of Project Costs			4,001,814		4,001,814
NJEIT Administrative Fee	27,300				27,300
Reserve for Developer's Escrow		2,371	1,060,702	53,514	53,514
Transfer to Revenue Fund - Unrestricted					1,063,073
Total Cash Disbursed	3,514,070	2,371	5,062,516	53,514	8,632,471
Cash and Cash Equivalents, November 30, 2010	\$ 2,219,449	\$ 957,518	\$ 361,554	\$ 27,830	\$ 3,566,351

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN CASH AND CASH EQUIVALENTS
RESTRICTED ACCOUNTS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2010

	Accounts Required by				Developer's	Totals
	Revenue Bond Resolution					
	Debt Service Account	Debt Service Reserve Account	Construction Account	Escrow		
Balance Comprised of:						
Cash - Checking	\$	\$	\$	\$	\$	\$
Goldman US Treasury Obligation Fund	2,219,449		227,173		27,830	255,003
New Jersey Cash Management Fund		957,518	134,381			2,353,830
	<u>2,219,449</u>	<u>957,518</u>	<u>361,554</u>	<u>27,830</u>	<u>27,830</u>	<u>957,518</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
						<u>3,566,351</u>

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
COMPARATIVE SCHEDULES OF OPERATING REVENUES AND EXPENDITURES
COMPARED TO BUDGET
BUDGETARY BASIS
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

	November 30, 2010			November 30, 2009		
	Original Budget	Final Budget	Unexpended/Excess	Final Budget	Realized	Unexpended/Excess
Revenues						
User Charges	\$ 6,890,800	\$ 6,890,800	\$ 56,704	\$ 6,890,800	\$ 6,043,311	\$ (847,489)
Initial Service Charges	97,372	97,372	48,808	97,372	154,072	56,700
Interest on Investments	50,000	50,000	(41,618)	50,000	24,055	(25,945)
Interest on Delinquent Accounts	45,000	45,000	4,885	45,000	36,377	(8,623)
Miscellaneous Fees and Charges	10,836	10,836	38,597	10,836	29,394	18,558
Reserve for Rate Stabilization	267,000	267,000		267,000	813,139	546,139
Total Revenues	\$ 7,361,008	\$ 7,361,008	\$ 107,376	\$ 7,361,008	\$ 7,100,347	\$ (260,661)

	November 30, 2010			November 30, 2009		
	Original Budget	Final Budget	Unexpended/Excess	Final Budget	Paid or Charged	Unexpended/Excess
Expenditures						
Administration:						
Members Salaries	\$ 10,250	\$ 12,500	\$ 21	\$ 10,250	\$ 10,083	\$ 167
Administrative Salaries	90,100	90,100	4,303	88,425	88,418	7
Office Salaries	129,050	129,050	2,536	128,575	128,571	4
Telephone	15,000	19,850	4	18,000	17,982	18
Office Supplies	9,000	11,000	2,274	14,050	14,039	11
Postage	10,000	10,000	2,961	10,000	8,261	1,739
Professional Fees:						
Engineering	35,000	35,000	14,520	45,000	24,833	20,167
Legal	35,000	33,000	9,024	45,000	33,235	11,765
Accounting	44,000	44,000	11,000	44,000	42,275	1,725
Insurance General	125,000	125,000	11,913	115,700	115,450	250

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT

COMPARATIVE SCHEDULES OF OPERATING REVENUES AND EXPENDITURES

COMPARED TO BUDGET

BUDGETARY BASIS

FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

	Original Budget	November 30, 2010			November 30, 2009		
		Final Budget	Paid or Charged	Unexpended/ Excess	Final Budget	Paid or Charged	Unexpended/ Excess
Expenditures (Continued)							
Administration (Continued):							
Travel Expense	\$ 1,000	\$ 1,000	\$ 336	\$ 664	\$ 832	\$ 168	
Dues and Subscriptions	4,000	4,200	4,198	2	3,927	73	
Hospitalization Insurance	368,082	365,632	200,128	165,504	320,568	5,822	
Social Security Taxes	110,000	110,000	103,192	6,808	95,477	23	
Public Employee Retirement System	98,612	98,612	93,721	4,891	89,796	7,604	
Group Life Insurance	800	825	824	1	784	216	
Advertising	2,000	2,000	695	1,305	2,997	3	
Heat	2,500	2,500	2,022	478	889	1,861	
Trustee and Paying Agent	50,600	50,600	40,568	10,032	45,257	3	
Equipment Maintenance Contracts	10,000	10,000	7,889	2,111	9,595	405	
Office Equipment	500	500	500		800	700	
Conventions and Seminars	3,000	3,000	2,292	708	2,757	243	
Education and Training Courses	2,500	2,500	2,460	40	3,080	770	
Safety Equipment	5,000	7,800	6,918	882			
Reserve for Accumulated Vacation and Sick Time	5,000	15,000	21,740	(6,740)	5,533	17	
Other Post Employment Benefits			525,250	(525,250)	185,284	(185,284)	
Total Administration	1,165,994	1,183,669	1,463,677	(280,008)	1,250,723	(131,523)	
Treatment Plant:							
Salaries							
Base	832,100	832,100	811,132	20,968	820,032	1,968	
Overtime	32,800	37,800	36,206	1,594	19,786	214	
Water	16,000	11,600	7,943	3,657	10,063	7,937	
Electric	475,000	462,400	418,017	44,383	470,434	66	
Gas	13,000	13,000	9,955	3,045	8,448	8,552	
Process Chemicals:							
Liquid Oxygen	15,630	24,130	16,056	8,074	12,644	5,356	
Sodium Hypochlorite	54,000	54,000	52,656	1,344	54,639	1,361	
Polymer	16,000	16,000	14,766	1,234	14,444	7,556	
Other	3,500	3,500	3,825	(325)	6,963	37	
Maintenance Chemicals	1,000	3,000	(418)	3,418	921	79	

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
COMPARATIVE SCHEDULES OF OPERATING REVENUES AND EXPENDITURES
COMPARED TO BUDGET
BUDGETARY BASIS
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

	November 30, 2010			November 30, 2009		
	Original Budget	Final Budget	Paid or Charged	Final Budget	Paid or Charged	Unexpended/Excess
Expenditures (Continued)						
Treatment Plant (Continued):						
Repairs and Supplies:						
Uniforms and Lockers	\$ 3,600	\$ 3,600	\$ 3,487	\$ 5,500	\$ 4,573	\$ 927
One Call	3,000	3,000	2,540	3,500	2,823	677
Pumps	15,000	15,000	14,954	9,000	8,967	33
Jet Truck	6,000	9,000	8,537			
General	15,000	27,000	26,741	21,000	20,573	427
Repairs - Contractors	15,000	6,000	4,051	16,500	14,705	1,795
Truck Expenses						
Gasoline	2,500	3,100	2,843	3,450	2,319	1,131
Repairs	1,500	1,500	1,478	1,300	1,248	52
Other	750	750	685	750	666	84
Sludge Disposal	473,868	379,310	345,842	389,100	389,081	19
Grit Disposal		15,396	14,795			
Bioxide Plant		36,712	31,537			
Lab:						
Supplies	9,000	9,000	5,809	11,000	9,598	1,402
Equipment	5,000	5,000	4,568	7,500	7,209	291
Testing	13,000	13,000	12,976	10,000	8,572	1,428
Permit Fees	50,000	52,900	52,822	48,000	47,746	254
Maintenance Contracts Equipment	40,000	43,000	39,939	50,000	47,134	2,866
Total Treatment Plant	2,112,248	2,080,798	1,943,742	2,028,100	1,983,590	44,510
Collection System:						
Salaries						
Base	184,500	184,500	185,672	182,050	182,032	18
Overtime	22,000	24,500	22,359	17,000	16,021	979
Repairs and Supplies:						
Pumps	35,000	35,000	4,333	35,000	31,361	3,639
Controls	30,000	30,000	10,808	7,500	5,971	1,529
Jet Truck				7,000	6,996	4
Other	3,000	5,600	5,134	3,500	3,386	114
Repairs - Contractors	30,000	28,000	26,366	39,000	38,336	664

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT

COMPARATIVE SCHEDULES OF OPERATING REVENUES AND EXPENDITURES
COMPARED TO BUDGET
BUDGETARY BASIS

FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2010 AND 2009

	November 30, 2010			November 30, 2009		
	Original Budget	Final Budget	Paid or Charged	Final Budget	Paid or Charged	Unexpended/ Excess
Expenditures (Continued)						
Collection System (Continued):						
Maintenance Chemicals:						
Bioxide	\$ 67,120	\$ 61,345	\$ 52,705	\$ 105,650	\$ 105,540	\$ 110
Other	16,000	16,000	15,766	16,000	13,638	2,362
Electric	43,000	55,600	55,365	59,000	56,936	2,064
Diesel	3,570	3,570	2,302	2,700	2,689	11
Water	1,270	1,670	1,508	1,700	1,633	67
Truck Expenses:						
Gasoline	5,600	9,050	8,530	10,350	7,050	3,300
Repairs	4,500	4,500	4,469	4,500	4,482	18
Other	1,000	1,000	923	750	668	82
Manhole Maintenance	30,000	30,000	24,589	15,000	14,889	111
Total Collection System	476,560	490,335	420,829	506,700	491,627	15,073
Total Operations	3,754,802	3,754,802	3,828,248	3,654,000	3,725,940	(71,940)
Debt Service:						
Bond Principal	2,905,965	2,905,965	2,983,769	2,760,551	2,752,870	7,681
Interest Expense	700,240	700,240	739,457	791,948	767,551	24,397
Total Expenditures	7,361,007	7,361,007	7,551,474	7,206,499	7,246,361	(39,862)

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2010

Purpose	Date of Issue	Maturities		Interest Rate	Balance November 30,		Issued	Paid	Balance November 30, 2010
		Date	Amount		2009				
\$2,390,000.00 (1998 Series C)	5/1/1998	* 12/1/2011	\$ 370,000	4.70%	\$	\$	\$	\$	
		* 12/1/2013	275,000	4.80%					
		* 12/1/2018	820,000	5.00%					
1998 Series C Sub-Total					1,465,000		115,000	1,350,000	
\$3,905,000 (Series 2001 NJEIT) Trust Loan - To provide funds for the 2001 Treatment Plant and Collection System Capital Project.	11/9/2001	8/1/2011	185,000	5.50%					
		8/1/2012	200,000	5.50%					
		8/1/2013	210,000	5.50%					
		8/1/2014	220,000	5.00%					
		8/1/2015	230,000	5.00%					
		8/1/2016	245,000	5.00%					
		8/1/2017	255,000	5.00%					
		8/1/2018	265,000	5.00%					
		8/1/2019	280,000	5.00%					
		8/1/2020	295,000	4.75%					
		8/1/2021	310,000	4.75%					
2001 Trust Loan Series Sub-Total					2,875,000		180,000	2,695,000	
\$3,935,900 (Series 2001 NJEIT) Fund Loan - To provide funds for the 2001 Treatment Plant and Collection System Capital Project.	11/9/2001	2/1/2011	44,232	0%					
		8/1/2011	164,380	0%					
		2/1/2012	40,927	0%					
		8/1/2012	170,817	0%					
		2/1/2013	37,355	0%					
		8/1/2013	173,740	0%					
		2/1/2014	33,605	0%					
		8/1/2014	176,484	0%					
		2/1/2015	30,033	0%					
		8/1/2015	179,406	0%					
		2/1/2016	26,299	0%					
		8/1/2016	185,414	0%					
		2/1/2017	22,321	0%					
		8/1/2017	187,930	0%					
		2/1/2018	18,181	0%					
		8/1/2018	190,284	0%					
		2/1/2019	13,878	0%					
		8/1/2019	195,724	0%					
2/1/2020	9,332	0%							
8/1/2020	200,919	0%							
2/1/2021	4,782	0%							
8/1/2021	206,111	0%							
2001 Fund Loan Series Sub-Total					2,523,945		211,793	2,312,152	
\$3,770,000 (Series 2002A) Advance refund a portion of the 1992 Series Bonds	2/15/2002	12/1/2010	35,000	4.00%					
		12/1/2011	1,555,000	4.13%					
		12/1/2012	1,925,000	4.25%					
2002A Series Sub-Total					3,550,000		35,000	3,515,000	
\$12,690,000 (Series 2002B) Advance refund a portion of the 1992 Series Bonds	9/3/2002	12/1/2010	1,805,000	5.25%					
		12/1/2011	170,000	5.25%					
2002B Series Sub-Total					3,695,000		1,720,000	1,975,000	
\$1,630,000.00 (Series 2004A NJEIT) Trust Loan	11/4/2004	8/1/2011	90,000	5.00%					
		8/1/2012	95,000	5.00%					
		8/1/2013	100,000	5.00%					
		8/1/2014	105,000	4.00%					
		8/1/2015	105,000	4.00%					
		8/1/2016	110,000	4.00%					
		8/1/2017	115,000	5.00%					
		8/1/2018	120,000	5.00%					
		8/1/2019	130,000	5.00%					
		8/1/2020	135,000	5.00%					
8/1/2021	140,000	5.00%							
2004 Trust Loan Series Sub-Total					1,330,000		85,000	1,245,000	

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2010

Purpose	Date of Issue	Maturities		Interest Rate	Balance November 30, 2009	Issued	Paid	Balance November 30, 2010
		Date	Amount					
\$1,720,000.00 (Series 2004B NJEIT Fund Loan	11/4/2004	2/1/2011	\$ 20,906	0%	\$	\$	\$	\$
		8/1/2011	84,633	0%				
		2/1/2012	19,313	0%				
		8/1/2012	86,580	0%				
		2/1/2013	17,631	0%				
		8/1/2013	88,438	0%				
		2/1/2014	15,861	0%				
		8/1/2014	90,209	0%				
		2/1/2015	14,374	0%				
		8/1/2015	88,722	0%				
		2/1/2016	12,887	0%				
		8/1/2016	90,775	0%				
		2/1/2017	11,329	0%				
		8/1/2017	92,758	0%				
		2/1/2018	9,293	0%				
		8/1/2018	94,262	0%				
		2/1/2019	7,169	0%				
		8/1/2019	99,219	0%				
		2/1/2020	4,868	0%				
		8/1/2020	100,458	0%				
2/1/2021	2,478	0%						
8/1/2021	101,609	0%						
2004 Fund Loan Series Sub-Total					1,258,779		105,008	1,153,771
\$525,000.00 (Series 2006 NJEIT) Trust Loan	11/9/2006	8/1/2011	30,000	5.00%				
		8/1/2012	30,000	5.00%				
		8/1/2013	30,000	5.00%				
		8/1/2014	35,000	5.00%				
		8/1/2015	35,000	5.00%				
		8/1/2016	40,000	5.00%				
		8/1/2017	40,000	4.00%				
		8/1/2018	40,000	4.00%				
		8/1/2019	45,000	4.00%				
		8/1/2020	45,000	4.00%				
		8/1/2021	45,000	4.125%				
2006 Trust Loan Series Sub-Total					445,000		30,000	415,000
\$487,442.00 (Series 2006 NJEIT) Fund Loan	11/9/2006	2/1/2011	6,583	0%				
		8/1/2011	27,756	0%				
		2/1/2012	6,054	0%				
		8/1/2012	27,227	0%				
		2/1/2013	5,525	0%				
		8/1/2013	26,697	0%				
		2/1/2014	4,995	0%				
		8/1/2014	29,697	0%				
		2/1/2015	4,378	0%				
		8/1/2015	29,079	0%				
		2/1/2016	3,760	0%				
		8/1/2016	31,991	0%				
		2/1/2017	3,055	0%				
		8/1/2017	31,285	0%				
		2/1/2018	2,490	0%				
		8/1/2018	30,720	0%				
		2/1/2019	1,925	0%				
		8/1/2019	33,684	0%				
		2/1/2020	1,290	0%				
		8/1/2020	33,049	0%				
2/1/2021	655	0%						
8/1/2021	32,414	0%						
2006 Fund Loan Series Sub-Total					409,497		35,187	374,310

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2010

Purpose	Date of Issue	Maturities		Interest Rate	Balance November 30, 2009	Issued	Paid	Balance November 30, 2010
		Date	Amount					
\$3,070,000.00 (Series 2007 NJEIT) Trust Loan	11/8/2007	8/1/2011	\$ 115,000	5.00%	\$	\$	\$	\$
		8/1/2012	125,000	3.40%				
		8/1/2013	125,000	3.50%				
		8/1/2014	130,000	3.60%				
		8/1/2015	135,000	5.00%				
		8/1/2016	145,000	5.00%				
		8/1/2017	150,000	5.00%				
		8/1/2018	155,000	5.00%				
		8/1/2019	165,000	4.00%				
		8/1/2020	170,000	4.00%				
		8/1/2021	180,000	5.00%				
		8/1/2022	185,000	5.00%				
		8/1/2023	195,000	4.25%				
		8/1/2024	205,000	4.50%				
		8/1/2025	215,000	4.50%				
		8/1/2026	225,000	4.50%				
		8/1/2027	235,000	4.25%				
2007 Trust Loan Series Sub-Total					2,965,000		110,000	2,855,000
\$2,960,000 (Series 2007 NJEIT) Fund Loan	11/8/2007	2/1/2011	40,686	0%				
		8/1/2011	114,222	0%				
		2/1/2012	38,848	0%				
		8/1/2012	118,778	0%				
		2/1/2013	37,489	0%				
		8/1/2013	117,419	0%				
		2/1/2014	36,090	0%				
		8/1/2014	119,218	0%				
		2/1/2015	34,594	0%				
		8/1/2015	120,919	0%				
		2/1/2016	32,436	0%				
		8/1/2016	125,155	0%				
		2/1/2017	30,118	0%				
		8/1/2017	126,034	0%				
		2/1/2018	27,720	0%				
		8/1/2018	126,834	0%				
		2/1/2019	25,242	0%				
		8/1/2019	130,750	0%				
		2/1/2020	23,132	0%				
		8/1/2020	131,837	0%				
		2/1/2021	20,958	0%				
		8/1/2021	136,058	0%				
		2/1/2022	18,080	0%				
		8/1/2022	136,377	0%				
		2/1/2023	15,123	0%				
		8/1/2023	139,814	0%				
		2/1/2024	12,473	0%				
8/1/2024	143,559	0%						
2/1/2025	9,524	0%						
8/1/2025	147,004	0%						
2/1/2026	6,430	0%						
8/1/2026	150,305	0%						
2/1/2027	3,193	0%						
8/1/2027	153,463	0%						
2007 Fund Loan Series Sub-Total					2,805,112		155,228	2,649,884

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2010

Purpose	Date of Issue	Maturities		Interest Rate	Balance	Issued	Paid	Balance
		Date	Amount		November 30, 2009			November 30, 2010
\$475,000 (Series 2010A NJEIT) ARRA Trust	3/10/2010	8/1/2011	\$ 15,000	4.00%	\$	\$	\$	\$
		8/1/2012	15,000	5.00%				
		8/1/2013	20,000	5.00%				
		8/1/2014	20,000	5.00%				
		8/1/2015	20,000	5.00%				
		8/1/2016	20,000	5.00%				
		8/1/2017	20,000	5.00%				
		8/1/2018	25,000	5.00%				
		8/1/2019	25,000	4.00%				
		8/1/2020	25,000	5.00%				
		8/1/2021	25,000	3.00%				
		8/1/2022	25,000	4.00%				
		8/1/2023	30,000	4.00%				
		8/1/2024	30,000	4.00%				
		8/1/2025	30,000	4.00%				
		8/1/2026	30,000	3.50%				
		8/1/2027	30,000	4.00%				
		8/1/2028	35,000	4.00%				
		8/1/2029	35,000	4.00%				
		2010A ARRA Trust Series Sub-Total						475,000
\$483,670 (Series 2010 NJEIT) ARRA Fund	3/10/2010	2/1/2011	8,198	0%				
		8/1/2011	16,395	0%				
		2/1/2012	8,198	0%				
		8/1/2012	16,395	0%				
		2/1/2013	8,198	0%				
		8/1/2013	16,395	0%				
		2/1/2014	8,198	0%				
		8/1/2014	16,395	0%				
		2/1/2015	8,198	0%				
		8/1/2015	16,395	0%				
		2/1/2016	8,198	0%				
		8/1/2016	16,395	0%				
		2/1/2017	8,198	0%				
		8/1/2017	16,395	0%				
		2/1/2018	8,198	0%				
		8/1/2018	16,395	0%				
		2/1/2019	8,198	0%				
		8/1/2019	16,395	0%				
		2/1/2020	8,198	0%				
		8/1/2020	16,395	0%				
		2/1/2021	8,199	0%				
		8/1/2021	16,395	0%				
		2/1/2022	8,198	0%				
		8/1/2022	16,395	0%				
		2/1/2023	8,199	0%				
		8/1/2023	16,395	0%				
		2/1/2024	8,199	0%				
		8/1/2024	16,395	0%				
		2/1/2025	8,199	0%				
8/1/2025	16,395	0%						
2/1/2026	8,199	0%						
8/1/2026	16,395	0%						
2/1/2027	8,199	0%						
8/1/2027	16,395	0%						
2/1/2028	8,199	0%						
8/1/2028	16,395	0%						
2/1/2029	8,199	0%						
8/1/2029	16,395	0%						
2010 ARRA Fund Series Sub-Total						483,670	16,395	467,275

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2010

Purpose	Date of Issue	Maturities		Interest Rate	Balance November 30, 2009	Issued	Paid	Balance November 30, 2010
		Date	Amount					
\$865,000 (Series 2010A NJEIT) Traditional Trust	3/10/2010	8/1/2011	\$ 30,000	4.00%	\$	\$	\$	\$
		8/1/2012	30,000	5.00%				
		8/1/2013	35,000	5.00%				
		8/1/2014	35,000	5.00%				
		8/1/2015	35,000	5.00%				
		8/1/2016	35,000	5.00%				
		8/1/2017	40,000	5.00%				
		8/1/2018	40,000	5.00%				
		8/1/2019	45,000	4.00%				
		8/1/2020	45,000	5.00%				
		8/1/2021	45,000	3.00%				
		8/1/2022	50,000	4.00%				
		8/1/2023	50,000	4.00%				
		8/1/2024	55,000	4.00%				
		8/1/2025	55,000	4.00%				
		8/1/2026	55,000	3.50%				
		8/1/2027	60,000	4.00%				
		8/1/2028	60,000	4.00%				
		8/1/2029	65,000	4.00%				
2010A ARRA Traditional Trust Series Sub-Total						865,000		865,000
\$2,659,650(Series 2010 NJEIT) Traditional Fund	3/10/2010	2/1/2011	45,079	0%				
		8/1/2011	90,158	0%				
		2/1/2012	45,079	0%				
		8/1/2012	90,158	0%				
		2/1/2013	45,079	0%				
		8/1/2013	90,158	0%				
		2/1/2014	45,079	0%				
		8/1/2014	90,158	0%				
		2/1/2015	45,079	0%				
		8/1/2015	90,158	0%				
		2/1/2016	45,079	0%				
		8/1/2016	90,158	0%				
		2/1/2017	45,079	0%				
		8/1/2017	90,158	0%				
		2/1/2018	45,079	0%				
		8/1/2018	90,158	0%				
		2/1/2019	45,078	0%				
		8/1/2019	90,158	0%				
		2/1/2020	45,078	0%				
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		8/1/2024	90,158	0%				
		2/1/2025	45,078	0%				
		8/1/2025	90,158	0%				
2/1/2026	45,078	0%						
8/1/2026	90,158	0%						
2/1/2027	45,078	0%						
8/1/2027	90,158	0%						
2/1/2028	45,078	0%						
8/1/2028	90,158	0%						
2/1/2029	45,078	0%						
8/1/2029	90,158	0%						
2010A ARRA Traditional Fund Series Sub-Total						2,659,650	90,158	2,569,492
Grand Total					\$ 23,322,333	\$ 4,483,320	\$ 2,888,769	\$ 24,916,886
Detail:								
Current Portion							\$ 3,083,228	
Long Term Liability							21,833,658	
							\$ 24,916,886	
*Term Bonds								

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
 COMPONENT UNIT
ANALYSIS OF SERVICE CHARGES RECEIVABLE
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2010

	<u>Balance</u> November 30, 2009	<u>Net</u> <u>Charges</u>	<u>Net</u> <u>Collection</u>	<u>Balance</u> November 30, 2010
<u>Annual Service Charges</u>				
Residential, Commercial, Industrial, Public Buildings, Apartments, Motels and Other Municipalities	\$ 407,065	\$ 7,035,478	\$ 6,974,552	\$ 467,991
	<u> </u>	<u>146,180</u>	<u>146,180</u>	<u> </u>
Initial Service Charges	<u>\$ 407,065</u>	<u>\$ 7,181,658</u>	<u>\$ 7,120,732</u>	<u>\$ 467,991</u>

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
BALANCE SHEET BY FUND AS OF NOVEMBER 30, 2010

	<u>Revenue</u> <u>Fund</u>	<u>Construction</u> <u>Fund</u>	<u>Debt</u> <u>Service Fund</u>	<u>Debt Service</u> <u>Reserve Fund</u>	<u>Authority</u> <u>Reserve Fund</u>	<u>(Memorandum</u> <u>Only)</u> <u>November 30,</u> <u>2010</u> <u>Total</u>
Unrestricted Assets:						
Cash - Money Market	\$ 1,506,493	\$	\$	\$	\$ 352,026	1,858,519
New Jersey Cash Management Fund					516,835	516,835
Petty Cash Fund						350
Customer Accounts Receivable	350					467,991
Inventory	467,991					32,822
Prepaid Insurance	32,822					9,744
Prepaid Expenses	9,744					10,816
Due from Construction Fund	10,816					44,597
Due from Authority Reserve Fund	44,597					891,527
Due from Debt Service Fund	891,527					47,637
Due from Debt Service Reserve Fund	47,637					47,637
Total Unrestricted Assets	3,011,978				868,861	3,880,839
Restricted Assets:						
Cash and Cash Equivalents - Money Market	27,830	227,173				2,474,453
Cash and Cash Equivalents - NJ Cash Management Fund		134,381	2,219,449			1,091,899
Due from Revenue Fund			35,408	957,518		35,408
Due from NJ Environmental Infrastructure Trust		5,229,614				5,229,614
Total Restricted Assets	\$ 27,830	\$ 5,591,168	\$ 2,254,857	\$ 957,518	\$	\$ 8,831,373

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
BALANCE SHEET BY FUND AS OF NOVEMBER 30, 2010

	Revenue Fund	Construction Fund	Debt Service Fund	Debt Service Reserve Fund	Authority Reserve Fund	(Memorandum Only) November 30, 2010 Total
<u>ASSETS (CONTINUED)</u>						
Property, Plant and Equipment:						
Land	\$	487,419	\$	\$	\$	487,419
Construction in Progress		6,548,141				6,548,141
Treatment Plant and Collection System		37,606,099				37,606,099
Collection System (Donated)		1,811,321				1,811,321
Treatment Plant (Donated)		1,887,353				1,887,353
Machinery and Equipment		685,043				685,043
		48,537,958				48,537,958
Less: Accumulated Depreciation		13,202,373				13,202,373
		35,335,585				35,335,585
Net Property, Plant and Equipment		35,823,004				35,823,004
Other Assets:						
Unamortized Debt Issue Costs		471,915				471,915
Total Assets	\$ 3,039,808	\$ 41,886,086	\$ 2,254,857	\$ 957,518	\$ 868,861	\$ 49,007,130

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
BALANCE SHEET BY FUND AS OF NOVEMBER 30, 2010

	<u>Revenue</u>	<u>Construction</u>	<u>Debt</u>	<u>Debt Service</u>	<u>Authority</u>	<u>(Memorandum</u>
	<u>Fund</u>	<u>Fund</u>	<u>Service Fund</u>	<u>Reserve Fund</u>	<u>Reserve Fund</u>	<u>Only)</u>
						<u>November 30,</u>
						<u>2010</u>
						<u>Total</u>
<u>LIABILITIES AND FUND EQUITY</u>						
Current Liabilities Payable From Unrestricted Assets:						
Accounts Payable	\$ 283,452					283,452
Accrued Expenses	41,240					41,240
Customer Overpayments	29,890					29,890
Payroll Taxes Payable	2,290					2,290
Deferred Revenue	586,290					586,290
Due to Revenue Fund					891,527	891,527
Due to Debt Service Fund	35,408					35,408
Total						
Current Liabilities Payable from Restricted Assets:						
Accounts Payable		482,091				482,091
Reserve for Developer's Escrow Deposits	32,021					32,021
Revenue Bonds Payable - Current Portion		1,118,228	1,965,000			3,083,228
Accrued Interest on Revenue Bonds Payable		44,597	289,857			289,857
Due to Revenue Fund				47,637		47,637
Total Current Liabilities	1,010,591	1,644,916	2,254,857	47,637	891,527	5,849,528
Long-Term Revenue Bonds Payable		21,833,658				21,833,658
Less: Unamortized Loss on Defeasance		76,313				76,313
Less: Unamortized Bond Discounts/(Premium)		(408,962)				(408,962)
Total		22,166,308				22,166,308
Reserve for Construction Fund		18,074,862				18,074,862
Other Non Current Post Employment Benefits	992,002					992,002
Reserve for Compensated Absences	86,437					86,437
Total Non-Current Liabilities	\$ 1,078,439	\$ 18,074,862	\$	\$	\$	\$ 19,153,301

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
BALANCE SHEET BY FUND AS OF NOVEMBER 30, 2010

	<u>Revenue</u>	<u>Construction</u>	<u>Debt</u>	<u>Debt Service</u>	<u>Authority</u>	<u>(Memorandum</u>
	<u>Fund</u>	<u>Fund</u>	<u>Service Fund</u>	<u>Reserve Fund</u>	<u>Reserve Fund</u>	<u>Only)</u>
						<u>November 30,</u>
						<u>2010</u>
						<u>Total</u>
\$	\$	\$	\$	\$	\$	500,000
950,778	950,778	950,778	909,881	(522,666)	909,881	950,778
950,778	950,778	950,778	909,881	(22,666)	1,837,993	(522,666)
\$ 3,039,808	\$ 41,886,086	\$ 2,254,857	\$ 957,518	\$ 868,861	\$ 49,007,130	

LIABILITIES AND FUND EQUITY
(CONTINUED)

Fund Equity:	
Net Assets:	
Reserved for:	
Renewal and Replacement	
Rate Stabilization	
Future Debt Service	
Unreserved Net Assets - Designated	
Unreserved Net Assets (Deficit)- Undesignated	
Total Fund Equity	1,837,993
Total Liabilities and Fund Equity	49,007,130

**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
Township of Ocean Sewerage Authority
Township of Ocean, New Jersey

We have audited the financial statements of the Township of Ocean Sewerage Authority, County of Monmouth, State of New Jersey (the "Authority"), as of and for the year ended November 30, 2010, and have issued our report thereon dated February 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 (CONTINUED)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we have reported to the management of the Authority in the "General Comments and Recommendations" section of this report.

This report is intended solely for the information and use of the members of the Authority's Board and its management and for filing with the Division of Local Government Services, Department of Community Affairs, State of New Jersey and is not intended to be and should not be used by anyone other than these specified parties.



David A. Kaplan
Certified Public Accountant
Registered Municipal Accountant #433

DAK CPA

DAK CPA, Certified Public Accountants

Long Branch, New Jersey
February 24, 2011

SINGLE AUDIT SECTION

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH FEDERAL OMB CIRCULAR A-133
AND STATE OF NEW JERSEY OMB CIRCULAR 04-04**

Honorable Chairman and Members of the
Township of Ocean Sewerage Authority
Township of Ocean, New Jersey

Compliance

We have audited the Township of Ocean Sewerage Authority's, in the County Monmouth, State of New Jersey (the "Authority") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *New Jersey State Grant Compliance Supplement*, that could have a direct and material effect on each of its major federal and state programs for the fiscal year ended November 30, 2010. The Authority's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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; the audit requirements as prescribed by the Division of Finance, Department of Education, State of New Jersey; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid Payments*. Those standards, OMB Circular A-133 and New Jersey OMB's Circular 04-04, 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 or state program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH FEDERAL OMB CIRCULAR A-133
AND STATE OF NEW JERSEY OMB CIRCULAR 04-04 (CONTINUED)**

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal and state programs for the fiscal year ended November 30, 2010.

Internal Control Over Compliance

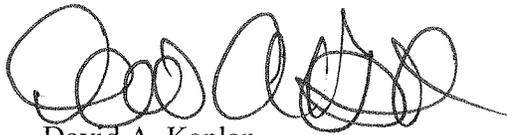
Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal or state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the 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 or state 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 or state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH FEDERAL OMB CIRCULAR A-133
AND STATE OF NEW JERSEY OMB CIRCULAR 04-04 (CONTINUED)**

This report is intended solely for the information and use of the members of the Authority's Board and its management and for filing with the Division of Local Government Services, Department of Community Affairs, State of New Jersey and is not intended to be and should not be used by anyone other than these specified parties.



David A. Kaplan
Certified Public Accountant
Registered Municipal Accountant #433

DAK CPA

DAK CPA, Certified Public Accountants

February 24, 2011
Long Branch, New Jersey

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2010

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Year</u>	<u>Award Amount</u>	<u>Cash Received</u>	<u>Expenditures</u>
Department of Environmental Protection: Pass - Through the State of New Jersey Department of Environmental Protection					
Environmental Infrastructure Trust Loan	68.458	2007	\$ 2,960,500	\$ 1,624,446	\$ 1,624,446
Environmental Infrastructure Trust Loan	68.458	2009	2,659,650	258,009	258,009
ARRA - Environmental Infrastructure Trust Loan	68.458	2009	1,926,012	639,654	639,654
				<u>\$ 2,522,109</u>	<u>\$ 2,522,109</u>
Total Federal Financial Assistance					

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2010

<u>State Grantor</u>	<u>Grant or State Project Number</u>	<u>Grant Year</u>	<u>Award Amount</u>	<u>Cash Received</u>	<u>Expenditures</u>	<u>Cumulative Total Expenditure</u>
Department of Environmental Protection :						
Environmental Infrastructure Trust Loan	S340750 - 06	2007	\$ 2,960,500	\$ 1,624,446	\$ 1,624,446	\$ 1,995,061
Environmental Infrastructure Trust Loan	S340750 - 08B	2009	886,550	86,003	86,003	86,003
Total State Financial Assistance			<u>\$ 1,710,449</u>	<u>\$ 1,710,449</u>	<u>\$ 1,710,449</u>	<u>\$ 2,081,064</u>

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL
AWARDS AND STATE FINANCIAL ASSISTANCE
FISCAL YEAR ENDED NOVEMBER 30, 2010

Note 1. **GENERAL**

The accompanying schedules of financial assistance present the activity of all federal and state financial assistance programs of the Township of Ocean Sewerage Authority (the "Authority"). The Authority is defined in Note 1 to the basic financial statements. All federal financial assistance received directly from federal agencies, as well as federal financial assistance passed through other government agencies is included on the schedules of expenditures of federal awards and state financial assistance.

Note 2. **BASIS OF ACCOUNTING**

The accompanying schedules of expenditures of federal awards and state financial assistance are presented using the accrual basis of accounting. These bases of accounting are described in Note 2 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 New Jersey OMB 04-04. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of, the basic financial statements.

Note 3. **RELATIONSHIP TO BASIC FINANCIAL STATEMENTS**

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

Note 5. **FEDERAL AND STATE LOANS OUTSTANDING**

The Authority had loans outstanding with the State of New Jersey Environmental Infrastructure Trust which includes Federal and State portions.

Note 6. **OTHER**

Requirements to have State and Federal Single Audits include Loan Programs. Participation by the Authority in the Environmental Infrastructure Loan Program necessitated a Federal and State Single Audit.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified, dated
February 24, 2011

Internal control over financial reporting:

1. Material weakness(es) identified? yes ✓ no

2. Reportable condition(s) identified that are not considered to be material weaknesses? yes ✓ no

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

Federal Awards

Internal control over major programs:

1. Material weakness(es) identified? yes ✓ no

2. Reportable condition(s) identified that are not considered to be material weaknesses? yes ✓ no

Type of auditor's report issued on compliance for major programs: Unqualified, dated
February 24, 2011

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
66.458	New Jersey Environmental Infrastructure Trust Loan
66.458	ARRA - New Jersey Environmental Infrastructure Trust Loan

Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000.00

Auditee qualified as low-risk auditee?

 yes ✓ No

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2009:

None.

OFFICIALS IN OFFICE AND SURETY BOND/INSURANCE COVERAGE

OFFICIALS IN OFFICE
AS OF NOVEMBER 30, 2010

The following were in office during the period under audit:

Members of the Sewerage Authority

Title

Andrew G. DeSarno	Chairman
John Villapiano	Vice-Chairman
Chris Kelly	Secretary/Treasurer
Dennis Galvin	Member
Ralph Stubbs	Member

Other Officials

William E. Schmeling	Executive Director
CME, Inc	Consulting Engineer
John Bonello, Esq.	Attorney
Bank of New York	Trustee

INSURANCE COVERAGE
NOVEMBER 30, 2010

			<u>Expiration Date</u>
Special Multi Peril Policy:			
Property:			
Buildings and Contents	\$ 50,000,000.00		1/1/2011 *
Contractors Equipment	66,805.00		
Employee Blanket Dishonesty	2,500,000.00		
Valuable Papers	10,000,000.00		
Accounts Receivable	10,000,000.00		
Depositor's Forgery	100,000.00		
Theft, Disappearance and Destruction:			
Inside	5,000.00		
Outside	5,000.00		
Miscellaneous Tools and Equipment	5,000.00		
Boiler and Machinery	150,000,000.00		
	<u>Property Damage</u>	<u>Bodily Injury</u>	
Liability:			
General Liability, Property and Bodily Damage (Combined Single Limit)	\$ 10,000,000.00		1/1/2011 *
Auto Fleet:			
Liability (Combined Single Limit)	\$ 10,000,000.00		1/1/2011 *
Uninsured Motorists	10,000,000.00		
Public Officials Liability	3,000,000.00		1/1/2011 *
Umbrella Liability	10,000,000.00		1/1/2011 *
Ocean Outfall - Flood and Earthquake	5,000,000.00		1/1/2011 *
Workmen's Compensation	Statutory	1,000,000.00	1/1/2011 *

The above schedule is presented as a memorandum only, and we do not express an opinion as to the adequacy of coverage.

*Policies were renewed.

GENERAL COMMENTS AND RECOMMENDATIONS

GENERAL COMMENTS
NOVEMBER 30, 2010

Cash Balances

The cash balances were verified with the statements rendered by the trustee and other depositories and also confirmed by direct communication. Bank reconciliations were verified and reconciled to general ledger control totals.

The Petty Cash was counted.

Contracts and Agreements Required to be Advertised For N.J.S. 40A:11-4 (As Amended)

The minutes indicate that bids were requested by public advertising for the following items.

Disposal of Sewerage Screenings and Grit

Sludge Removal, Transportation and Disposal

Collection System Improvements

Effective July 1, 2010 the bid threshold in accordance with N.J.S.A. 40A:11-2 was increased to \$36,000 by appointment of a Qualified Purchasing Agent (QPA).

Under N.J.S.A. 40A:11-9(b) the Authority appointed the Office Manager as their Qualified Purchasing Agent. Accordingly, the 2010 bid threshold was \$29,000.00.

The Commissioners and Executive Director of the Authority have the responsibility of determining whether any contract or agreement might result in violation of the statute and, when necessary, the Authority's Counsel's opinion 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 result of such an accumulation could not reasonably be ascertained. Disbursements were reviewed, however, to determine whether any clear cut violations existed.

Based on the results of our examination, we did not note any individual payments, contracts, or agreements 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: 11-2.

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

GENERAL COMMENTS
NOVEMBER 30, 2010 - (CONTINUED)

Delinquent Sewer Charges and Initial Service Charges

A detail of all unpaid sewer charges and initial service charges is being properly carried on the Authority's records. An abstract taken from these records as at November 30, 2010 covering all unpaid charges on that date was verified with the accounting control figures shown in this report.

A test verification of delinquent charges outstanding at November 30, 2010, and accounts with no balances was made; and the results indicated that the accounts of the Authority were in order, based on the replies returned on the verifications mailed.

Collection of Interest on Delinquent Sewer Charges

The statute provides the method for authorizing interest and maximum rates to be charged for nonpayment of sewer charges on or before the date when they would become delinquent.

The Members have adopted a resolution fixing the rate of 1½% per month on delinquent charges when the charges remain unpaid from thirty days following the date the bills were due.

It appears, from our examination of the Authority's records, that the interest was charged in accordance with the foregoing resolution.

Interest Requirements

The Authority paid all required interest on its permanent bonds during the period under audit.

Bond Resolution Covenants

The Authority covenants in their bond resolution and complied with the following:

(a) The proceeds from the bonds shall be held by the Trustee in separate funds and applied only to pay the cost of the project or related cost pursuant to the resolution.

(b) The Authority will not authorize or issue additional bonds unless they are authenticated by the Trustee and are for the purpose allowed by the resolution.

(c) The Authority will comply with the requirements of the resolution as to the maintaining of the required funds and transfer of revenues to the various funds, under the supervision of the Trustee and an annual audit.

(d) They will proceed to acquire and construct the project in conformity to law and governmental requirements having jurisdiction there over, and in accordance with the plans on file, with all practical dispatch, in a sound and economical manner, and in accordance with the restrictions defined in the bond resolution.

(e) They will at all times employ a Consulting Engineer.

(f) They will operate the system properly and in a sound, economical manner at all times, and they will adopt an annual budget for operating expenses.

GENERAL COMMENTS
NOVEMBER 30, 2010 - (CONTINUED)

Bond Resolution Covenants - (Continued)

(g) They will establish and enforce reasonable rules and regulations governing the operations, use and services of the system.

(h) They will charge "Service Charges" and revise the rates from time to time in order that the revenues collected, including the balance in the Reserve for Rate Stabilization at the end of the preceding fiscal year, are adequate to meet all operating expenses and pay all interest and principal of revenue bond issues outstanding.

(i) They will not create, assume or suffer to be created any mortgage bonds, notes or other evidence of indebtedness on the revenues or assets of the Authority, not sell, mortgage or dispose of any part of the project unless the requirements of the resolution are met.

(j) They will not amend or repeal the resolution without the written consent of the bondholders pursuant to this resolution.

(k) They will use their best efforts to maintain adequate insurance coverage or reserves.

Revenues

The Authority's revenues from annual service charges, initial service charges, and other authorized revenues, including rate stabilization reserves, were adequate in providing sufficient revenue to cover operating, maintenance and debt service costs for the fiscal year.

Receipts from search fees and other charges were checked to the records maintained and verified as proper in conjunction with the fees established by the Authority.

The Authority's rules and regulations established various fees for application filings, legal and engineering inspections and performance bond requirements. The receipts for these fees were checked to the records maintained.

Expenditures

In accordance with the bond resolution, Section 610, the Authority adopted an annual operating budget for the fiscal year ending November 30, 2010.

The vouchers were examined to the extent deemed necessary and found to be satisfactory with minor exceptions.

The Authority operates with a complete encumbrance system for its budget appropriations.

An examination was made of the employees' compensation records, including compensated absences for the year ended November 30, 2010 and no exceptions were noted.

GENERAL COMMENTS
NOVEMBER 30, 2010 - (CONTINUED)

Other

An exit audit conference with the Authority was held.

Acknowledgment

We wish to express our appreciation for the cooperation received from the Township of Ocean Sewerage Authority officials and employees, and the courtesies extended during the course of the audit.

Filing Audit Report, N.J.S. 40A:5A-15

A copy of this report has been filed with the Division of Local Government Services.

Summary Schedule of Prior Year Findings

The Authority approved a corrective action plan addressing the prior year's audit recommendations.

The problems and weaknesses noted in my audit were not of such magnitude that they would affect my ability to express an opinion on the financial statements taken as a whole.

Very truly yours,



David A. Kaplan
Certified Public Accountant

For The Firm
DAK CPA
Certified Public Accountants