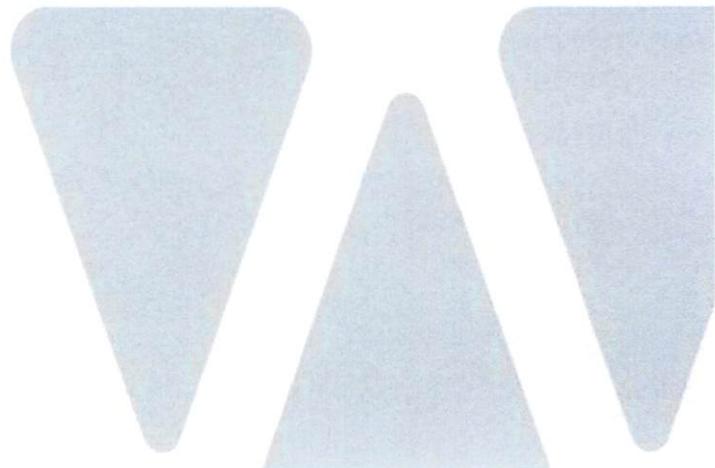




**Township of Ocean Sewerage Authority
Financial Statements
with Supplementary Information**

Years ended December 31, 2014 and 2013

**and
Independent Auditors' Report**



TOWNSHIP OF OCEAN SEWERAGE AUTHORITY

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Township of Ocean Sewerage Authority, County of Monmouth, New Jersey (the "Authority"), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 from material misstatement.

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

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

Opinion

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

Prior Period Financial Statements

The financial statements of the Township of Ocean Sewerage Authority as of December 31, 2013, were audited by other auditors whose report dated February 25, 2014, expressed an unmodified opinion on those statements.

Restatement of Prior Period Financial Statements

As discussed in Note 2 to the basic financial statements, the 2013 financial statements have been restated to properly reflect the amount receivable from the New Jersey Environmental Infrastructure Trust, to reclassify amounts previously reported as cash to investments and to restate certain elements of net position. The prior period financial statements were restated by Wiss & Company, LLP. Wiss & Company, LLP has performed no additional procedures related to the prior year financial statements except for the procedures surrounding the accounts being restated.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis as identified in the table of contents 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 to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an

opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary information, which consists of the schedule of cash receipts, cash disbursements and changes in cash and cash equivalents and investments – unrestricted accounts, schedule of cash receipts, cash disbursements and changes in cash and cash equivalents – restricted accounts, comparative schedule of revenues and expenditures compared to budget and schedule of long-term revenue bonds payable and the other information such as the roster of officials and surety bond/insurance coverage and general comments and recommendations are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information identified above is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other information identified above has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2015 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Wiss & Company
WISS & COMPANY, LLP

April 30, 2015
Iselin, New Jersey

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 fiscal years ended on December 31, 2014 and 2013.

This information should be read in conjunction with the basic financial statements and accompanying notes to the basic financial statements, 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*. Certain comparative information between the current fiscal year and the prior two fiscal years are presented in the MD&A as required by GASB Statement No. 34.

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 Position, the Comparative Statement of Revenues, Expenses and Changes in Fund Net Position, and the Comparative Statement of Cash Flows are prepared on an accrual basis and are in accordance with accounting principles generally accepted in the United States of America (GAAP). These statements are the official basic financial statements of the Township of Ocean Sewerage Authority.

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

Contained in the supplementary information are schedules that report the Comparative Schedule of Operating Revenues and Expenditures Compared to Budget (Schedule 3). This schedule compares the "Budget" revenues and expenses to "Actual" revenues and 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 the debt service expense is reported.

The Budget to Actual schedule is a very important schedule 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 schedules incorporated within the annual audit report are the Schedules of Cash Receipts, Cash Disbursements and Changes in Cash, Cash Equivalents and Investments – Restricted and Unrestricted and the Schedule of Long-Term Revenue Bonds Payable.

For the purpose of the Management Discussion and Analysis, the ensuing discussion will review the financial statements of the Township of Ocean Sewerage 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 strong at year end, as depicted by the financial data which follows.

Comparative Statement of Net Position

The Authority’s total assets increased by \$810,807 due mainly to an increase in cash and cash equivalents. Total liabilities decreased by \$1,589,845 due mainly to the scheduled payment of revenue bond principal. Assets exceeded liabilities by \$29,869,093. This compares to 2013 where assets exceeded liabilities by \$27,468,441.

The Authority’s Net Position of \$29,869,093 is comprised of the following:

1. Net investment in capital assets of \$22,089,607, as shown below, includes property plant and equipment, net of accumulated depreciation, and net of long-term debt related to the purchase or construction of capital assets. Net investment in capital assets decreased by \$24,503 from the prior year.

Capital assets, net	\$	37,282,041
Less:		
Revenue bonds payable - current		(1,511,335)
Revenue bonds payable - long-term, net		(13,747,854)
Add:		
Due from NJ EIT		66,755
Net investment in capital assets	\$	22,089,607

2. Net position of \$621,412 restricted for the purpose of Renewal and Replacement of “the System.”
3. Net position of \$122,188 restricted for the purpose of future debt service.
4. Net position of \$1,170,544 unrestricted - designated for rate stabilization.
5. Net position of \$1,088,096 unrestricted - designated for working capital.
6. Net position of \$737,997 unrestricted - designated for capital outlay.

7. Unrestricted, undesignated net position of \$4,039,249 represents the portion available to maintain the Authority's continuing obligations to the contractual customers of its service area, its creditors and for its current liabilities.

Unrestricted undesignated net position increased by \$1,469,060 mainly due to the positive change in net position.

Comparative Condensed Statements of Net Position

	December 31,		
	<u>2014</u>	<u>2013</u> (As restated)	<u>2012</u>
Total current assets	\$ 6,922,681	\$ 5,419,866	\$ 3,382,274
Total restricted assets	1,444,841	1,619,257	3,967,773
Capital assets, net	<u>37,282,041</u>	<u>37,799,633</u>	<u>37,987,284</u>
 Total Assets	 <u>\$ 45,649,563</u>	 <u>\$ 44,838,756</u>	 <u>\$ 45,337,331</u>
 Total current liabilities payable from unrestricted assets	 \$ 224,709	 \$ 296,816	 \$ 307,781
Total current liabilities payable from restricted assets	1,736,863	1,715,872	1,743,639
Compensated absences payable	71,044	70,634	71,871
Long term liabilities, net	<u>13,747,854</u>	<u>15,286,993</u>	<u>18,153,818</u>
 Total Liabilities	 <u>\$ 15,780,470</u>	 <u>\$ 17,370,315</u>	 <u>\$ 20,277,109</u>
 Total Net Position	 <u>\$ 29,869,093</u>	 <u>\$ 27,468,441</u>	 <u>\$ 25,060,222</u>

Total current assets have increased because cash and cash equivalents increased.

Total restricted assets have decreased because cash and cash equivalents in the construction account have decreased.

Capital assets, net decreased because depreciation expense exceeded capital asset acquisitions.

Total current liabilities payable from unrestricted assets have decreased, mainly due to a decrease in accounts payable.

Total current liabilities payable from restricted assets have remained relatively constant.

Long term liabilities have decreased due to the repayment of revenue bond principal.

Total net position has increased as a result of the reported positive change in net position for the 2014 fiscal year.

Comparative Condensed Statements of Revenues, Expenses and Changes in Fund Net Position

2014 operating revenues decreased slightly from 2013 levels. Total operating expenses remained relatively constant. The increase in depreciation expense was offset by decreases in administration and plant operating expenses.

Total operating revenues less total operating expenses produced operating income of \$2,530,040 which is slightly less than 2013 operating income of \$2,555,480.

Total Net Position as of December 31, 2014 increased by \$2,400,652 as is depicted below.

	Years ended December 31,		
	<u>2014</u>	<u>2013</u> (As restated)	<u>2012</u>
Total operating revenues	\$ <u>7,085,584</u>	\$ <u>7,098,622</u>	\$ <u>7,245,664</u>
Operating expenses	3,479,165	3,499,996	4,186,232
Depreciation	<u>1,076,379</u>	<u>1,043,146</u>	<u>1,123,550</u>
Total operating expenses	<u>4,555,544</u>	<u>4,543,142</u>	<u>5,309,782</u>
Operating income	2,530,040	2,555,480	1,935,882
Nonoperating revenues (expenses) - net	<u>(129,388)</u>	<u>(147,263)</u>	<u>(332,386)</u>
Change in net position before special item	2,400,652	2,408,217	1,603,496
Special item - deferred revenue	<u> </u>	<u> </u>	<u>591,424</u>
Change in net position after special item	2,400,652	2,408,217	2,194,920
Total net position - beginning (As restated)	<u>27,468,441</u>	<u>25,060,224</u>	<u>22,865,304</u>
Total net position - ending	<u>\$ 29,869,093</u>	<u>\$ 27,468,441</u>	<u>\$ 25,060,224</u>

Comparative Statements of Cash Flows

The net increase in cash and cash equivalents was \$1,323,848. This compares to a net increase in cash and cash equivalents in 2013 of \$1,014,122. The main reason for the 2014 increase is the positive results of operations.

Debt Administration

As of December 31, 2014, the Authority had \$15,158,458 of outstanding debt. Of this amount, \$71,044 is for compensated absences and \$15,087,414 is for revenue bonds payable. As of December 31, 2013, the Authority had \$16,654,037 of outstanding debt.

It is the current policy of the Township of Ocean Sewerage Authority Commissioners, 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
Funding incrementally or annually from annual operating budget

Refunding of existing public debt is routinely reviewed, analyzed and recommended when appropriate. The Authority has defeased various bond issues and achieved significant debt service savings. No new debt was issued this year.

Capital Assets

As of the December 31, 2014 and 2013, the Authority had \$37,282,041 and \$37,799,633, respectively, invested in land, construction in progress, buildings and improvements, other improvements, sewer mains and interceptors, pump stations, other equipment and vehicles, net of accumulated depreciation. The decrease in net capital assets is due to the current year's depreciation expense exceeding current year's capital assets additions.

Core Competencies

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

The System consists of a wastewater treatment plant, a wastewater collection system of approximately 6 miles of force mains, 165 miles of gravity mains, 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 3 acres located at 224 Roosevelt Avenue, Oakhurst, NJ.

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

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

The user fees charged to the users of the system is the major source of revenue for the Authority. This is shown on the Comparative Statement of Revenues, Expenses and Changes in Fund Net Position as "User Charges" and reported as operating revenue.

Budget Variations

There were adjustments made during the year to the adopted 2014 budget. All of these adjustments were made via Board approved budgetary transfers. Significant variations between final budgeted amounts and actual expenses occurred in the following budgetary line items: hospitalization insurance – where budgeted amounts exceeded actual expenses due to budgeted amounts being based on much higher estimates than actually were incurred, electricity – where expenses were controlled and were less than anticipated, sludge disposal – where expenses were controlled and were less than anticipated, and professional fees – where costs for engineering, legal and accounting were controlled.

The Chairman's Outlook for the Future

"Our mission for the Township of Ocean Sewerage Authority is to provide the ultimate wastewater collection and treatment. Always responsive to the customers' needs and the growing community, in compliance with the applicable laws, rules and regulations, the 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 Department of Environmental Protection.

As an environmental utility, the Authority is accountable to the U.S Environmental Protection Agency. The Authority is also accountable to its governing body and the Township of Ocean, and as such, accountable to certain government officials.

Governing Body

The governing body of the Authority consists of a five member board that is appointed for five-year terms by the Township of Ocean. Currently, they are:

Dennis Galvin, Chairman
Richard Bernhardt, Vice Chairman
Ralph E. Stubbs, Secretary/Treasurer
Charles Theodora, Assistant Secretary and Assistant Treasurer
John Villapiano, Member

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 17 and a 2014 budget of \$7.3 million. Senior staff is charged with the management of the operations and financial affairs of the Authority. The Executive Director and senior staff are as follows:

William Schmeling, Executive Director
Thomas Meholic, Plant Superintendent

Independent Auditors

The Independent audit firm is Wiss & Company, LLP, Iselin, New Jersey.

Financial Information

Prior audits and budgets can be obtained by contacting the Township of Ocean Sewerage Authority or by visiting the Authority's website at www.tosa-nj.org.

BASIC FINANCIAL STATEMENTS

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2014 AND 2013

	December 31,	
	<u>2014</u>	<u>2013</u> (As restated)
Assets		
Current Assets:		
Cash and cash equivalents	\$ 5,989,625	\$ 4,511,362
Investment	503,066	502,047
Petty cash and change funds	<u>350</u>	<u>350</u>
	6,493,041	5,013,759
Accounts receivable - other	15,318	
Customer accounts receivable	364,166	358,439
Prepaid expenses	14,800	10,556
Inventory	<u>35,356</u>	<u>37,112</u>
Total current assets	<u>6,922,681</u>	<u>5,419,866</u>
Restricted assets:		
Developer deposits:		
Cash and cash equivalents	62,941	57,604
Debt service account:		
Cash and cash equivalents	342,727	341,989
Debt service reserve account:		
Cash and cash equivalents	122,211	122,204
Construction account:		
Cash and cash equivalents	850,207	1,010,705
Due from NJ Environmental Infrastructure Trust	<u>66,755</u>	<u>86,755</u>
Total restricted assets	<u>1,444,841</u>	<u>1,619,257</u>
Non-current assets:		
Capital Assets - Non-depreciable	817,465	619,897
Capital Assets - Net of depreciation	<u>36,464,576</u>	<u>37,179,736</u>
Total capital assets, net	<u>37,282,041</u>	<u>37,799,633</u>
Total assets	<u>\$ 45,649,563</u>	<u>\$ 44,838,756</u>

See accompanying notes to basic financial statements.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2014 AND 2013

	December 31,	
	<u>2014</u>	<u>2013</u> (As restated)
Liabilities		
Current liabilities payable from unrestricted assets:		
Accounts payable	\$ 131,365	\$ 206,805
Accrued expenses	65,312	73,864
Customer overpayments	24,562	12,537
Payroll taxes payable	<u>3,470</u>	<u>3,610</u>
Total current liabilities payable from unrestricted assets	<u>224,709</u>	<u>296,816</u>
Current liabilities payable from restricted assets:		
Reserve for developer's escrow deposits	68,834	50,902
Accrued interest on revenue bonds payable	155,591	167,099
Accounts payable	1,103	1,882
Revenue bonds payable - current portion	<u>1,511,335</u>	<u>1,495,989</u>
Total current liabilities payable from restricted assets	<u>1,736,863</u>	<u>1,715,872</u>
Non-current liabilities:		
Long-term revenue bonds payable	13,576,079	15,087,416
Unamortized bond premiums and discounts	<u>171,775</u>	<u>199,577</u>
	13,747,854	15,286,993
Compensated absences payable	<u>71,044</u>	<u>70,634</u>
Total noncurrent liabilities	<u>13,818,898</u>	<u>15,357,627</u>
Total liabilities	<u>\$ 15,780,470</u>	<u>\$ 17,370,315</u>
Net position		
Net investment in capital assets	\$ 22,089,607	\$ 22,114,110
Restricted for:		
Future debt service	122,188	122,188
Renewal and replacement	621,412	750,000
Unrestricted:		
Designated for:		
Rate stabilization	1,170,544	755,248
Working capital	1,088,096	1,080,863
Capital outlay	737,997	75,843
Undesignated	<u>4,039,249</u>	<u>2,570,189</u>
Total net position	<u>\$ 29,869,093</u>	<u>\$ 27,468,441</u>

See accompanying notes to basic financial statements.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEARS ENDED DECEMBER 31, 2014 AND 2013

	December 31,	
	<u>2014</u>	<u>2013</u> (As restated)
Operating revenues:		
User charges	\$ <u>7,085,584</u>	\$ <u>7,098,622</u>
Total operating revenues	<u>7,085,584</u>	<u>7,098,622</u>
Operating expenses:		
Cost of providing services	2,314,737	2,397,423
Administration and general	1,164,428	1,102,573
Depreciation	<u>1,076,379</u>	<u>1,043,146</u>
Total operating expenses	<u>4,555,544</u>	<u>4,543,142</u>
Operating income	<u>2,530,040</u>	<u>2,555,480</u>
Nonoperating revenues (expenses):		
Initial service charges	87,291	206,069
Interest on bonds	(348,429)	(360,268)
Major repairs and costs	(86,346)	(48,685)
Interest income	14,571	10,140
Prior year's receivable cancelled		(79,259)
Miscellaneous income	<u>203,525</u>	<u>124,740</u>
Total nonoperating revenues (expenses)	<u>(129,388)</u>	<u>(147,263)</u>
Change in net position	2,400,652	2,408,217
Total net position-beginning (As restated)	<u>27,468,441</u>	<u>25,060,224</u>
Total net position-ending	<u>\$ <u>29,869,093</u></u>	<u>\$ <u>27,468,441</u></u>

See accompanying notes to basic financial statements.

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPARATIVE STATEMENT OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	December 31,	
	2014	2013 <i>(As restated)</i>
Cash flows from operating activities:		
Receipts from users of system	\$ 7,128,514	\$ 7,346,022
Payments to employees	(1,161,421)	(1,157,329)
Payments to suppliers	<u>(2,423,433)</u>	<u>(2,370,237)</u>
Net cash provided by operating activities	<u>3,543,660</u>	<u>3,818,456</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	(558,786)	(855,495)
Repayment of revenue bonds payable	<u>(1,503,793)</u>	<u>(1,314,124)</u>
Net cash (used in) capital and related financing activities	<u>(2,062,579)</u>	<u>(2,169,619)</u>
Cash flows from investing activities:		
Interest received	14,571	10,140
Investment purchases	(1,019)	(502,047)
Interest paid on revenue bonds	<u>(359,937)</u>	<u>(424,932)</u>
Net cash (used in) investing activities	<u>(346,385)</u>	<u>(916,839)</u>
Cash flows from noncapital financing activities:		
Major repairs and replacements	(86,346)	(48,685)
Initial service charges	87,291	206,069
Miscellaneous income	<u>188,207</u>	<u>124,740</u>
Net cash provided by noncapital financing activities	<u>189,152</u>	<u>282,124</u>
Net increase in cash and cash equivalents	1,323,848	1,014,122
Cash and cash equivalents, beginning of year	<u>6,044,213</u>	<u>5,030,091</u>
Cash and cash equivalents, end of year	<u>\$ 7,368,061</u>	<u>\$ 6,044,213</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,530,040	\$ 2,555,480
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	1,076,379	1,043,146
Changes in assets and liabilities:		
Increase in receivables and other assets:		
Unrestricted accounts	(8,215)	259,799
Increase (decrease) in current liabilities:		
Payable from unrestricted assets	(72,107)	(10,965)
Payable from restricted assets	17,153	(27,767)
Other liabilities	<u>410</u>	<u>(1,237)</u>
Net cash provided by operating activities	<u>\$ 3,543,660</u>	<u>\$ 3,818,456</u>
Reconciliation to Statement of Net Position:		
Unrestricted cash and cash equivalents	\$ 5,989,975	\$ 4,511,712
Restricted cash and cash equivalents	<u>1,378,086</u>	<u>1,532,501</u>
	<u>\$ 7,368,061</u>	<u>\$ 6,044,213</u>

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
Notes to the Basic Financial Statements
Years Ended December 31, 2014 and 2013

1. Summary of Significant Accounting Policies

The financial statements of the Township of Ocean Sewerage Authority (Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

A. Reporting Entity:

The Township of Ocean Sewerage Authority, Monmouth County, New Jersey is a public body politic and corporate of the State of New Jersey, created by virtue of an ordinance of the Township of Ocean on September 8, 1964, pursuant to the Sewerage Authority Law of the State of New Jersey (P.L. 1946, Chapter 138 as amended and supplemented). The Authority functions independently through a five member Board appointed to three-year terms. The purpose of the Authority is to keep the local waters free of pollution.

The Authority, as the primary government for financial reporting purposes, has oversight responsibility and control over all activities related to the Township of Ocean Sewerage Authority. The Authority receives funding from federal government sources and must comply with requirements of these funding source entities. The Authority's Board is appointed by the Mayor and Township Council of the Township of Ocean.

The Authority has no component units that are required to be included within the reporting entity as set forth in Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards.

B. Basis of Presentation, Basis of Accounting:

Basis of Presentation

The operations of the Authority are accounted for as a proprietary fund. The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America applicable to proprietary funds as defined by the Governmental Accounting Standards Board ("GASB"). All proprietary funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities, whether current or non-current, associated with their activity are included on their Statement of Net Position. Their reported fund equity (net position) is segregated into capital assets net of debt and restricted net position and unrestricted net position, if applicable. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in total net position. Depreciation of all exhaustive fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the proprietary fund Statement of Net Position. Depreciation has been provided over the estimated useful lives using the straight-line method.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
Notes to the Basic Financial Statements
Years Ended December 31, 2014 and 2013

B. Basis of Presentation, Basis of Accounting (Continued):

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements.

The accrual basis of accounting is used for measuring financial position and operating results of proprietary fund types. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized when they are incurred.

C. Assets, Liabilities and Net Position:

Accounts Receivable:

User charges are established by the Board annually. The charges are subject to adjustment by the Board and a public hearing must be advertised and held prior to adjustment. Receivables are evaluated periodically for collectability. Unpaid user charges are reported to the Township of Ocean and referred for inclusion in the annual tax sale. Allowances for doubtful accounts are established when deemed necessary.

Inventories:

Inventories are valued at cost, which approximates market, using the first-in-first-out (FIFO) method. At December 31, 2014 and 2013, the value of the inventory, consisting of chemicals and supplies, was \$35,356 and \$37,112, respectively.

Capital Assets:

Capital assets, which include land, property, plant, equipment and construction in progress, are reported in financial statements. The Authority has established a formal system of accounting for its capital assets. Purchased or constructed capital assets are reported at cost. Donated capital assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized. The capitalization threshold used by Authorities in the State of New Jersey is \$2,000.

All reported capital assets except for land and construction in progress are depreciated. Depreciation is computed using the straight-line method under the half-year convention over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Treatment Plant Buildings and Improvements	40-75 Years
Sewer Mains, Interceptors and Pump Stations	75 Years
Other Equipment	5 - 25 Years
Vehicles	3 - 5 Years

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
Notes to the Basic Financial Statements
Years Ended December 31, 2014 and 2013

C. Assets, Liabilities and Net Position – (Continued)

Net Position:

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. Designations of unrestricted net position are imposed by action of the Authority's Board.

D. Revenues, Operating Revenues and Expenses:

Revenues - Exchange and Non-exchange Transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the accrual basis, revenue from system user charges is recognized in the fiscal year for which the user fees are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Operating Revenues and Expenses:

Operating revenues are those revenues that are generated directly from the primary activity of the Authority. For the Authority, these revenues are for the collection and treatment of waste water. Operating expenses are necessary costs incurred to provide the service that is the primary activity of the Authority.

E. 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 expenses during the reporting period. Actual results could differ from those estimates.

F. GASB to be Implemented in the 2015 Fiscal Year

In June, 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* (“GASB No. 68”). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire net pension liability and a more comprehensive measure of pension expense. The requirements of this Statement are effective for financial statements for periods ending on or after June 30, 2015.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
Notes to the Basic Financial Statements
Years Ended December 31, 2014 and 2013

F. GASB to be Implemented in the 2015 Fiscal Year – (Continued)

The Authority has not completed the process of evaluating the impact that will result from adopting GASB No. 68.

G. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense / expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time.

H. Subsequent Events

Management has reviewed and evaluated all events and transactions occurring from December 31, 2014 through the date of the financial statement issuance, April 30, 2015, for possible disclosure and recognition in the accompanying financial statements and no such items have come to the attention of the Authority which would require disclosure or recognition.

2. Restatement of Financial Statements

The Authority restated its financial statements for the year ended December 31, 2013 to correct the amount previously recorded as receivable from the NJ Environmental Infrastructure Trust. The Authority did not properly account for this receivable in the prior year financial statements. The current year restatement corrects the prior year presentation by reducing the receivable amount by \$79,259. The net effect on the Comparative Statement of Revenues, Expenses, and Changes in Fund Net Position was a decrease in total net position of \$79,259. The effect of the restatement also resulted in a decrease in the net investment in capital assets portion of net position as of December 31, 2013 by the same amount.

The Authority restated its Comparative Statements of Net Position and Cash Flows as of December 31, 2013 to properly distinguish between cash and cash equivalents and investments. A certificate of deposit which was originally recorded as cash and cash equivalents was reclassified to investments, because its maturity term at purchase was greater than three months. All amounts previously recorded as cash and cash equivalents which had terms of three months or more when the investment was entered into were restated as investments. The total amount that was restated was \$502,047. This restatement had no impact on the Authority's net position and did not impact the classification of long term or short term assets on the Authority's Comparative Statement of Net Position.

The Authority also restated its Comparative Statement of Net Position as of December 31, 2013 to properly classify the elements of net position. Components of net position which were restricted by an external source were continued to be classified as restricted net position whereas components of net position which were previously recorded as restricted due to internally placed restrictions were restated as designated components of unrestricted net position.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
Notes to the Basic Financial Statements
Years Ended December 31, 2014 and 2013

2. Restatement of Financial Statements – (Continued)

The restatement relating to the Comparative Statement of Net Position had no impact on the Authority's total net position. The following illustrates the impact of the aforementioned restatements of components of net position:

	Previously Reported Components of Net Position as of December 31, 2013	Effect of Restatement	Balance After Effect of Restatement
Restricted for:			
Working Capital	\$ 1,080,863	\$ (1,080,863)	\$ -
Rate Stabilization	755,248	(755,248)	-
Capital Outlay	75,843	(75,843)	-
Unrestricted	2,570,189	1,911,954	4,482,143

3. Deposits and Investments

Cash and Cash Equivalents:

Operating cash, in the form of checking and money market accounts, is held in the Authority's name by commercial banking institutions. At December 31, 2014 and 2013, the carrying amount of the Authority's deposits were \$7,367,711 and \$6,546,260, respectively and the bank balances at December 31, 2014 and 2013 were \$7,377,052 and \$6,552,156, respectively. Of the bank balances, \$750,000 was insured with Federal Deposit Insurance Corporation for both 2014 and 2013.

Pursuant to GASB Statement No. 40, "Deposit and Investment Risk Disclosures" ("GASB 40"), the Authority's accounts are examined in order to determine exposure, if any, to Custodial Credit Risk (risk that in the event of bank failure, the Authority's deposits or investments may not be returned). Deposits are considered to be exposed to Custodial Credit Risk if they are: uncollateralized (securities not pledged to the depositor), collateralized with securities held by the pledging financial institution, or collateralized with securities held by the financial institution's trust department or agent but not in the Authority's name.

Custodial Credit Risk: Pursuant to GASB 40, the NJCMF, which is a pooled investment, is exempt from custodial credit risk exposure. The Authority does not have a policy for custodial credit risk.

Credit Risk: The Authority does not have an investment policy regarding the management of credit risk. GASB 40 requires that disclosure be made as to the credit rating of all debt security investments except for obligations of the U.S. Government or investments guaranteed by the U.S. government.

Interest Rate Risk: The Authority does not have a policy to limit interest rate risk.

Concentration of Credit Risk: The Authority places no limit on the amount the Authority may invest in any one issuer.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
Notes to the Basic Financial Statements
Years Ended December 31, 2014 and 2013

3. Deposits and Investments- (Continued)

At December 31, 2014, \$6,627,052 of the Authority's deposits were unsecured and uncollateralized. The Authority does not have a policy for the management of custodial credit risk, other than depositing all of its funds in banks covered by GUDPA. The Authority has adopted a cash management plan that requires it to deposit public funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect Government Units from a loss of funds on deposit with a failed banking institution in New Jersey.

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

Investments:

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

Bonds and other obligations of the United States or obligations guaranteed by the United States.

Bonds of any Federal Intermediate Credit Bank, Federal Home Loan Bank, Federal National Mortgage Agency or of any United States Bank which have a maturity date not greater than 397 days from the date of purchase.

New Jersey Cash Management Fund and Government money market mutual funds.

The Authority's investment consisted of a Certificate of Deposit.

Credit Risk – As of December 31, 2014 the Authority's investment in the Certificate of Deposit was not exposed to credit risk.

Custodial Credit Risk – For investments, custodial credit risk is the risk that in the event of the failure of the counter-party, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured and are not registered in the name of the Authority.

The Authority manages custodial credit risk by limiting its investments to Certificates of Deposit.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
Notes to the Basic Financial Statements
Years Ended December 31, 2014 and 2013

4. Capital Assets

The following schedule is a summarization of the changes in capital assets for the year ended December 31, 2014.

	<u>Beginning Balance -</u>	<u>Increases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:			
Construction in progress	\$ 132,478	\$ 197,568	\$ 330,046
Land	487,419		487,419
Total capital assets, not being depreciated	<u>619,897</u>	<u>197,568</u>	<u>817,465</u>
Capital assets, being depreciated:			
Plant and Collection system	48,916,592	27,663	48,944,255
Collection System (Contributed)	1,811,321		1,811,321
Plant (Contributed)	1,887,353		1,887,353
Machinery and Equipment	982,861	333,555	1,316,416
Total assets being depreciated	<u>53,598,127</u>	<u>361,218</u>	<u>53,959,345</u>
Accumulated depreciation	<u>(16,418,390)</u>	<u>(1,076,379)</u>	<u>(17,494,769)</u>
Total capital assets, being depreciated, net	<u>37,179,737</u>	<u>(715,161)</u>	<u>36,464,576</u>
Net Capital Assets	<u>\$ 37,799,634</u>	<u>\$ (517,593)</u>	<u>\$ 37,282,041</u>

5. Long-term liabilities

During the year ended December 31, 2014, the following changes occurred in long-term liabilities.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Compensated absences	\$ 70,634	\$ 410	\$ -	\$ 71,044
Revenue bonds payable	16,583,403	-	1,495,989	15,087,414
Total	<u>\$ 16,654,037</u>	<u>\$ 410</u>	<u>\$ 1,495,989</u>	<u>\$ 15,158,458</u>
Current portion	<u>\$ 1,495,989</u>			<u>\$ 1,511,335</u>

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
Notes to the Basic Financial Statements
Years Ended December 31, 2014 and 2013

5. Long-term liabilities - (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, 2015 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.

The "Loan" (State Funds) portion of the Bond Issue, \$3,905,000, mature annually through August 1, 2021 at remaining annual maturities ranging from \$230,000 to \$310,000 and bear interest at rates ranging from 4.75% to 5%.

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.

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.

The "Loan" (State Funds) portion of the Bond Issue \$1,630,000, mature annually through August 1, 2021 at remaining annual maturities ranging from \$105,000 to \$140,000 and bear interest rates ranging from 4.00% to 5.00%.

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.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
Notes to the Basic Financial Statements
Years Ended December 31, 2014 and 2013

5. Long-term liabilities - (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.

The “Loan” (State Funds) portion of the Bond Issue, \$495,000, mature annually through 2021 at annual maturities ranging from \$35,000 to \$45,000 and bear interest rates ranging from 4.00% to 5.00%.

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 Environmental 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 2026 at maturities ranging from \$6,430 to \$147,004. The Bonds were issued with an original issue premium of \$66,108.

The “Loan” (State Funds) portion of the Bond Issue, \$3,070,000, mature annually through 2027 at remaining annual maturities ranging from \$135,000 to \$235,000 and bear interest rates ranging from 4.00% to 5.00%.

On November 27, 2012, \$207,719 of the 2007 Series Bonds were de-obligated by the NJEIT, resulting in a reduction of the bonds payable.

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").

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 3.00% to 5.00% 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.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
Notes to the Basic Financial Statements
Years Ended December 31, 2014 and 2013

5. Long-term liabilities - (Continued):

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 2024 in amounts ranging from \$35,000 to \$55,000 at interest rates ranging from 3.00% to 5.00%, and Fund Loan Bonds of \$2,659,650 which mature semi-annually through August, 2022 in amounts ranging from \$33,856 to \$90,158, with no interest.

During 2013, \$295,000 of the 2010 Traditional Trust Series Bonds were de-obligated by the NJEIT, resulting in a reduction of the bonds payable and \$1,048,036 of the Traditional Fund Series Bonds were de-obligated by the NJEIT, resulting in a reduction of the bonds payable.

2011 Series Sewer Revenue Bonds

On September 22, 2011 the Authority issued \$2,970,000 in Sewer Revenue Bonds. The Bonds mature annually on February 1 of each year through 2031 in remaining amounts ranging from \$120,000 to \$200,000 at interest rates ranging from 2.00% to 4.00%.

Optional Redemption

Bonds maturing on or after February 1, 2022 are redeemable at the option of the Authority in whole or in part on any date on or after February 1, 2021 at a redemption price equal to the principal amount thereof, plus accrued interest to the date of redemption.

2011 Series Sewer Revenue Refunding Bonds

On September 22, 2011 the Authority issued \$1,025,000 in Sewer Revenue Refunding Bonds. The Bonds mature annually on February 1 of each year through 2018 in remaining amounts ranging from \$100,000 to \$180,000 at interest rates ranging from 2.00% to 3.00%. The proceeds of the Refunding Bonds were utilized to refund the \$1,225,000 outstanding balance of the Sewer Revenue Bonds Series 1998 C. The 2011 Series Sewer Revenue Refunding Bonds are not subject to redemption prior to their stated maturities. None of the refunded Sewer Revenue Bonds Series 1998 C remained outstanding at December 31, 2014 or December 31, 2013.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
Notes to the Basic Financial Statements
Years Ended December 31, 2014 and 2013

5. Long-term liabilities - (Continued):

Principal and interest due on revenue bonds outstanding is as follows:

<u>Year</u>	<u>Bond Principal</u>	<u>Interest on Bonds</u>	<u>Grand Total</u>
2015	\$ 1,511,335	\$ 390,731	\$ 1,902,066
2016	1,568,546	354,856	1,923,402
2017	1,589,659	317,056	1,906,715
2018	1,534,615	279,581	1,814,196
2019	1,492,422	243,744	1,736,166
2020-2024	4,912,672	729,781	5,642,453
2025-2029	2,083,165	245,349	2,328,514
2030-2031	<u>395,000</u>	<u>15,900</u>	<u>410,900</u>
	<u>\$ 15,087,414</u>	<u>\$ 2,576,998</u>	<u>\$ 17,664,412</u>

6. Compensated Absences

The Authority records a liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the employer and employee and is accrued as employees earn the rights to the benefits. The Authority uses the “vesting method” for estimating its accrued sick and vacation leave liability.

Authority employees are granted vacation and sick leave in varying amounts under the Authority’s personnel policies and according to negotiated contracts. In the event of retirement, according to contract, an employee is reimbursed for accumulated sick leave. The liability for vested compensated absences of the Authority amounted to \$71,044 and \$70,634 at December 31, 2014 and December 31, 2013, respectively.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
Notes to the Basic Financial Statements
Years Ended December 31, 2014 and 2013

7. Pension Plans

Description of Systems:

Substantially all of the Authority's employees participate in the following contributory defined benefit public employee retirement system, which have been established by State statute; the Public Employees' Retirement System (PERS). This systems is sponsored and administered by the State of New Jersey. The Public Employees Retirement System is considered a cost-sharing multiple-employer plan.

Public Employees' Retirement System (PERS):

The Public Employees' Retirement System (PERS) was established in January 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan.

Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, Authority or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction. Age eligibility and benefit provisions were affected by Chapters 92 and 103, P.L. 2007, Chapter 89, P.L. 2008, Chapter 1, P.L. 2010, and Chapter 78, P.L. 2011. Members are classified into one of five tiers dependent upon the date of their enrollment. Tier 1, 2 and 3 members are eligible to retire at age 60, 60, and 62, respectively with an annual benefit generally determined to be 1/55th of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of credited service. Tier 4 and 5 members are eligible to retire at age 62 and 65, respectively with an annual benefit generally determined to be 1/60th of the average annual compensation for the highest five fiscal years' compensation for each year of membership during years of credited service. Anyone who retires early and is under their respective tier's retirement age receives retirement benefits as calculated in the above mentioned formulas but at a reduced rate in accordance with applicable New Jersey Statute based upon their tier.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issued publicly available financial reports that include the financial statements and required supplementary information for the PERS. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

Funding Policy

The contribution policy is set by New Jersey State Statutes and contributions are required by active members and contributing members. Plan member and employer contributions may be amended by State of New Jersey legislation. Under the provisions of Chapter 78, P.L. 2011, employee contribution rates for PERS increased from 5.5% to 6.5% of employees' annual compensation. An additional increase is to be phased in over the next seven years that will bring the total pension contribution rate to 7.5% of employees' annual compensation. Employers are required to contribute at an actuarially determined rate for PERS. The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
Notes to the Basic Financial Statements
Years Ended December 31, 2014 and 2013

7. Pension Plans - (Continued)

The Authority's actuarially determined contributions to PERS for the years ended December 31, 2014, 2013 and 2012 were \$125,304, \$72,270 and \$87,752, respectively, equal to the required contributions for each year.

Contribution Requirements:

The contribution policy is set by New Jersey State Statutes and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provides for employee contributions of 6.78% of employees' annual compensation, as defined through June 30, 2014 and 6.92% thereafter. Employers are required to contribute at an actuarially determined rate. The actuarially determined contribution includes funding for both cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums.

8. Defined Contribution Retirement Program

The Defined Contribution Retirement Program (DCRP) was established on July 1, 2007 for certain public employees under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007. The program provides eligible members, with a tax-sheltered, defined contribution retirement benefit, in addition to life insurance and disability coverage. The DCRP is jointly administered by the Division of Pensions and Benefits and Prudential Financial.

9. Deferred Compensation

The Authority offers its employees the following deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan which is administered by the AXA/Equitable, permits participants to defer a portion of their salary until future years. Amounts deferred under the plans are not available to employees until termination, retirement, death or unforeseeable emergency.

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 employees; and natural disasters.

Property and Liability Insurance:

The Authority maintains commercial insurance coverage through the New Jersey Utility Authorities Joint Insurance Fund for property, liability and surety bonds and does not retain risk of loss. A complete schedule of insurance coverage can be found in the Management Section of the report. There have been no significant reductions in insurance coverage from the prior year and no settlements have exceeded insurance coverage over the past three years.

New Jersey Unemployment Compensation Insurance:

The Authority has elected to fund its New Jersey Unemployment Compensation Insurance under the "Benefit Reimbursement Method". Under this plan, the Authority is required to reimburse the New

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
Notes to the Basic Financial Statements
Years Ended December 31, 2014 and 2013

10. Risk Management – (Continued)

Jersey Unemployment Trust Fund for benefits paid to its former employees and charged to its account with the State. The Authority is billed quarterly for amounts due to the State. There are sufficient funds maintained in the separate unemployment compensation account to pay current billings.

11. Contingent Liabilities

Grant Programs:

The Authority participates in federal grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the Authority has not complied with the rules and regulations governing grants, refunds of any money received may be required. Management is not aware of any material items of noncompliance, which would result in the disallowance of program expenditures.

Litigation:

The Authority is involved in several pending lawsuits. In the opinion of the Authority, there are no other significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying basic financial statements for such contingencies.

12. Restrictions on Net Position

Certain portions of net position have been restricted. Restrictions include net position restricted for future debt service, \$122,188 and renewal and replacement, \$ 621,412.

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 AND INVESTMENTS
UNRESTRICTED ACCOUNTS
YEAR ENDED DECEMBER 31, 2014**

	<u>Revenue Account</u>	<u>Authority Reserve Account</u>	<u>Total</u>
Cash and Cash Equivalents and Investments:			
January 1, 2014	\$ 3,688,396	\$ 1,325,363	\$ 5,013,759
Cash Receipts:			
Transfer from revenue account		2,434,753	2,434,753
Transfer from Construction Account	32,445		32,445
Transfer from Developer's Escrow Account	23,000		23,000
Interest received	6,945	7,606	14,551
Customer overpayments	24,562		24,562
User charges	7,079,857		7,079,857
Initial service charges	146,288		146,288
Township of Ocean share of TV Truck		109,212	109,212
Interest on delinquent accounts	<u>57,237</u>		<u>57,237</u>
Total Cash and Cash Equivalents Available	<u>11,058,730</u>	<u>3,876,934</u>	<u>14,935,664</u>
Cash Disbursed:			
Accounts payable	206,805		206,805
Transfer to unrestricted account	2,434,753	19,457	2,454,210
Transfer to restricted accounts	123,729		123,729
Transfer to debt service account	1,637,267		1,637,267
Budgetary expenditures	3,643,282		3,643,282
Capital reserve expenditures	65,666		65,666
Accrued expenses	73,864		73,864
Major repairs and replacements		19,457	19,457
Vehicle acquisition		<u>218,343</u>	<u>218,343</u>
Total Cash Disbursed	<u>8,185,366</u>	<u>257,257</u>	<u>8,442,623</u>
Cash and Cash Equivalents and Investments, December 31, 2014	<u>\$ 2,873,364</u>	<u>\$ 3,619,677</u>	<u>\$ 6,493,041</u>
Balance Comprised of:			
Petty Cash and Change Funds	\$ 350		\$ 350
Cash - Money Market Funds/Checking Accounts	2,369,948	\$ 3,619,677	5,989,625
Investment - Certificate of Deposit	<u>503,066</u>		<u>503,066</u>
	<u>\$ 2,873,364</u>	<u>\$ 3,619,677</u>	<u>\$ 6,493,041</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
 YEAR ENDED DECEMBER 31, 2014**

	Accounts Required by Revenue Bond Resolution			Developer's Escrow	Totals
	Debt Service Account	Debt Service Reserve Account	Construction Account		
Cash and Cash Equivalents:					
January 1, 2014	\$ 341,989	\$ 122,204	\$ 1,010,705	\$ 57,604	\$ 1,532,502
Cash Receipts:					
Interest received	14	7	86	68	175
Transfer from revenue account:					
Budget for debt service	1,637,267				1,637,267
Other	27,300		96,429		123,729
Developer's escrow deposits				43,661	43,661
Total Cash and Cash Equivalents Available	<u>2,006,570</u>	<u>122,211</u>	<u>1,107,220</u>	<u>101,333</u>	<u>3,337,334</u>
Cash Disbursed:					
Payment of bond principal	1,281,159				1,281,159
Payment of interest on bonds	355,384				355,384
Payment of NJEIT administrative fees	27,300				27,300
Payment of project costs			224,568		224,568
Reserve for developer's escrow				15,392	15,392
Transfer to Revenue Fund - Unrestricted			32,445	23,000	55,445
Total Cash Disbursed	<u>1,663,843</u>		<u>257,013</u>	<u>38,392</u>	<u>1,959,248</u>
Cash and Cash Equivalents, December 31, 2014	<u>\$ 342,727</u>	<u>\$ 122,211</u>	<u>\$ 850,207</u>	<u>\$ 62,941</u>	<u>\$ 1,378,086</u>
Balance Comprised of:					
Cash - Checking	\$ 342,727			\$ 62,941	\$ 62,941
Goldman US Treasury Obligation Money Market Fund	<u>342,727</u>	<u>122,211</u>	<u>850,207</u>		<u>1,315,145</u>
	<u>\$ 342,727</u>	<u>\$ 122,211</u>	<u>\$ 850,207</u>	<u>\$ 62,941</u>	<u>\$ 1,378,086</u>

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
YEARS ENDED DECEMBER 31, 2014 AND 2013

	December 31, 2014				December 31, 2013		
	Adopted Budget	Final Budget	Realized	Variance Final to Actual	Final Budget	Realized	Variance Final to Actual
<u>Revenues</u>							
User Charges	\$ 7,260,000	\$ 7,260,000	\$ 7,085,584	\$ (174,416)	\$ 7,147,000	\$ 7,098,622	\$ (48,378)
Initial Service Charges			87,291	87,291		206,069	206,069
Interest Income	7,000	7,000	14,571	7,571	10,000	10,140	140
Interest on Delinquent Accounts	45,000	45,000	57,237	12,237	45,000	83,786	38,786
Miscellaneous Fees and Charges	13,000	13,000	146,288	133,288	13,000	40,954	27,954
Total Revenues	\$ 7,325,000	\$ 7,325,000	\$ 7,390,971	\$ 65,971	\$ 7,215,000	\$ 7,439,572	\$ 224,572
<u>Expenditures</u>							
	December 31, 2014				December 31, 2013		
	Original Budget	Final Budget	Paid or Charged	Variance Final to Actual	Final Budget	Paid or Charged	Variance Final to Actual
Administration:							
Members Salaries	\$ 10,250	\$ 10,250	\$ 10,143	\$ 107	\$ 10,275	\$ 10,251	\$ 25
Administrative Salaries	111,528	113,028	111,358	1,670	111,000	111,938	(938)
Office Salaries	10,400				4,225		4,225
Telephone	22,500	22,500	18,781	3,719	21,000	20,759	241
Office Supplies	3,000	3,000	2,986	14	2,500	2,685	(185)
Postage	4,500	4,500	1,786	2,714	6,000	2,886	3,114
Professional Fees:							
Engineering	27,500	54,500	38,919	15,581	27,500	14,086	13,414
Legal	27,500	27,500	16,964	10,536	27,500	14,096	13,404
Accounting	44,000	44,000	33,250	10,750	44,000	35,000	9,000
Programmers	10,000	13,000	12,244	756	13,000	11,119	1,881
Insurance General	135,000	126,900	126,763	137	130,000	122,946	7,054

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	December 31, 2014				December 31, 2013		
	Original Budget	Final Budget	Paid or Charged	Variance Final to Actual	Final Budget	Paid or Charged	Variance Final to Actual
Expenditures (Continued)							
Administration (Continued):							
Travel Expense	\$ 2,500	\$ 2,500	\$ 1,566	\$ 934	\$ 2,500	\$ 772	\$ 1,728
Dues and Subscriptions	5,200	5,300	5,272	28	5,200	4,680	520
Hospitalization Insurance	526,873	526,873	416,626	110,247	444,000	367,459	76,541
Social Security Taxes	105,060	105,060	86,755	18,305	106,735	92,858	13,877
Public Employee Retirement System	139,527	127,527	125,692	1,835	146,401	134,058	12,343
Group Life Insurance	1,507	1,507	412	1,095	950	658	292
Advertising	2,000	2,000	1,410	590	2,000	1,781	219
Heat	2,500	2,500	2,136	364	2,500	2,087	413
Trustee and Paying Agent	60,575	60,575	59,288	1,287	51,725	59,222	(7,497)
Equipment Maintenance Contracts	10,000	10,000	4,799	5,201	9,000	6,457	2,543
Office Equipment	1,000	1,000	951	49	500		500
Conventions and Seminars	2,500	2,500	1,435	1,065	2,500	1,191	1,309
Education and Training Courses	4,000	5,500	5,340	160	4,000	3,809	191
Safety Equipment	6,000	6,000	796	5,204	6,000		6,000
Reserve for Accumulated Vacation and Sick Time	5,000	5,000		5,000	5,000	908	4,092
Other Post Employment Benefits	300,000				200,000		200,000
Township of Ocean Intercal	90,000	87,400	78,756	8,644	110,000	80,866	29,134
Total Administration	1,670,420	1,370,420	1,164,428	205,992	1,496,011	1,102,573	393,438
Treatment Plant:							
Salaries							
Base	787,733	787,733	761,117	26,616	810,130	803,460	6,670
Overtime	30,000	30,000	25,601	4,399	28,200	21,215	6,985
Water	12,000	10,500	6,637	3,863	12,000	7,227	4,773
Electric	334,250	326,250	256,850	69,400	334,250	293,621	40,629
Gas	13,000	15,000	11,839	3,161	13,000	12,868	132
Diesel	3,500	3,500		3,500			
Process Chemicals:							
Liquid Oxygen	22,500	22,500	9,025	13,475	20,000	14,401	5,599
Sodium Hypochlorite	53,200	53,200	51,329	1,871	55,700	55,298	402
Polymer	17,600	17,600	9,844	7,756	17,600	9,844	7,756
Other	3,850	5,850		5,850			
Bioxide/VX456	60,000	41,000	17,404	23,596			
Maintenance Chemicals	4,000	4,000	3,464	536	5,850	4,535	1,315

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	December 31, 2014				December 31, 2013			
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Paid or Charged</u>	<u>Variance Final to Actual</u>	<u>Final Budget</u>	<u>Paid or Charged</u>	<u>Variance Final to Actual</u>	
Treatment Plant(Continued):								
Repairs and Supplies:								
Uniforms and Lockers	\$ 6,800	\$ 8,800	\$ 8,455	\$ 345	\$ 6,850	\$ 3,902	\$ 2,948	
One Call	3,000	3,500	3,050	450	3,400	3,211	189	
Pumps	39,000	39,000	32,487	6,513	27,000	9,080	17,920	
General	35,000	45,000	43,643	1,357	35,000	34,094	906	
Repairs - Contractors	25,000	31,000	30,899	101	25,000	41,748	(16,748)	
Truck Expenses								
Gasoline	7,500	8,200	6,299	1,901	8,500	7,884	616	
Repairs	7,500	8,500	8,138	362	7,500	5,422	2,078	
Other	1,500	1,700	1,689	11				
Truck Acquisition	40,000	40,000	30,709	9,291	6,750	766	5,984	
Sludge Disposal	425,000	425,000	412,696	12,304	425,000	403,346	21,654	
Grit Disposal	20,000	21,500	16,378	5,122	20,000	14,937	5,063	
Bioxide Plant					47,400	3,768	43,633	
Lab:								
Supplies	9,000	6,700	4,937	1,763	12,500	10,299	2,201	
Equipment	5,000	4,500	3,925	575	7,500	7,182	318	
Testing	15,000	17,800	13,096	4,704	21,500	20,369	1,131	
Permit Fees	60,000	42,100	41,867	233	50,000	49,176	824	
Maintenance Contracts Equipment	35,000	48,000	47,810	190	43,000	51,563	(8,563)	
Total Treatment Plant	2,075,933	2,068,433	1,859,188	209,245	2,043,630	1,889,217	154,413	
Collection System:								
Salaries								
Base	242,175	232,175	221,875	10,300	240,000	211,469	28,531	
Overtime	20,000	23,000	20,475	2,525	18,000	15,336	2,664	
Repairs and Supplies:								
Pumps	65,000	32,000	30,502	1,498	40,000	31,367	8,633	
Controls	7,500	7,500	5,051	2,449	7,000	1,851	5,149	
Jet Truck	18,000	17,500	5,703	11,797	18,000	17,312	688	
General	5,500	5,500	1,788	3,712	5,500	3,885	1,615	
Repairs - Contractors	50,000	90,000	58,839	31,161	110,000	81,899	28,101	

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES COMPARED TO BUDGET
YEARS ENDED DECEMBER 31, 2014 AND 2013**

	December 31, 2014				December 31, 2013		
	Original Budget	Final Budget	Paid or Charged	Variance Final to Actual	Final Budget	Paid or Charged	Variance Final to Actual
Collection System(Continued):							
Maintenance Chemicals:							
Bioxide	\$ 75,000	\$ 75,000	\$ 66,172	\$ 8,828	\$ 63,000	\$ 61,669	\$ 1,331
Other	16,900	16,900	6,991	9,909	10,600	9,991	609
Electric	36,125	44,125	37,551	6,574	42,500	39,626	2,874
Water	1,900	3,400	2,466	934	1,900	1,649	251
Truck Expenses:							
Natural Gas	3,000	1,000	669	331			
Gasoline	12,000	12,000	5,117	6,883	10,000	6,587	3,413
Diesel	5,500	5,500	2,553	2,947	8,300	7,676	624
Repairs	2,000	2,000	550	1,450	3,000	2,642	358
Other	1,000	1,000	335	665	1,000	993	7
TV Truck Other Expenses	500	1,000	719	281			
Manhole Maintenance	15,000	15,000	8,722	6,278	15,000	14,253	747
Total Collection System	577,100	584,600	476,078	108,522	593,800	508,207	85,593
Total Operations	4,323,453	4,023,453	3,499,694	523,759	4,133,441	3,499,996	633,445
Debt Service:							
Bond Principal	1,495,988	1,495,988	1,475,988	20,000	1,459,125	1,314,125	145,000
Interest Expense	435,261	435,261	376,230	59,031	468,836	388,069	80,767
Total Debt Service	1,931,249	1,931,249	1,852,218	79,031	1,927,961	1,702,194	225,767
Reserves:							
Renewal and Replacement					250,000	250,000	
Rate Stabilization	415,297	415,297	415,297		617,598	617,598	
Total Reserves	415,297	415,297	415,297		867,598	867,598	
Capital Outlay:							
Outfall Repairs	190,000	515,000	515,000				
Perimeter Fencing	20,000	20,000	20,000		20,000	20,000	
Outfall Inspection		100,000	100,000				
Seal and Plug Manholes at Plant Site	15,000	15,000	15,000		13,000	13,000	
Hydrant for Wash Down Pad	5,500	5,500	3,544	1,956	17,000	17,000	
Portable Flow Velocity Logger	3,500	3,500	3,500				
Odor Control Maintenance	30,000	30,000	30,000				
Administration Building Upgrades	25,000	25,000	25,000		60,000	60,000	
Gravity Thickener	300,000	185,000	169,955	15,045	115,000	115,000	
Spare Grinder Cartridge	21,000	11,000	10,233	767	12,000	12,000	
Pump Station Bypass Connections	20,000	20,000	20,000				
Acquisition of Vehicles	20,000	20,000	20,000		10,000	10,000	
Jet Vac Hose and Accessories	5,000	5,000		5,000	39,000	39,000	
Total Capital Outlay	655,000	955,000	932,232	22,768	286,000	286,000	
Total Expenditures	\$ 7,324,999	\$ 7,324,999	\$ 6,699,441	\$ 625,558	\$ 7,215,000	\$ 6,355,788	\$ 859,212

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
SCHEDULE OF LONG-TERM REVENUE BONDS PAYABLE
YEAR ENDED DECEMBER 31, 2014**

Purpose	Date of Issue	Maturities		Interest Rate	Balance December 31, 2013	De-Obligated	Paid	Balance December 31, 2014
		Date	Amount					
\$3,905,000 (Series 2001 NJEIT) Trust Loan - To provide funds for the 2001 Treatment Plant and Collection System Capital Project.	11/9/2001	8/1/2015	\$ 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					\$ 2,100,000	\$	\$ 220,000	\$ 1,880,000
\$3,935,900 (Series 2001 NJEIT) Fund Loan - To provide funds for the 2001 Treatment Plant and Collection System Capital Project.	11/9/2001	2/1/2015	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					1,680,701		210,089	1,470,612
\$1,630,000 (Series 2004A NJEIT) Trust Loan	11/4/2004	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					960,000		105,000	855,000
\$1,720,000 (Series 2004B NJEIT) Fund Loan	11/4/2004	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					836,270		106,070	730,200

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
SCHEDULE OF LONG-TERM REVENUE BONDS PAYABLE
YEAR ENDED DECEMBER 31, 2014

Purpose	Date of Issue	Maturities		Interest Rate	Balance December 31, 2013	De-Obligated	Paid	Balance December 31, 2014
		Date	Amount					
\$495,000 (Series 2006 NJEIT) Trust Loan	11/9/2006	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					\$ 325,000	\$	\$ 35,000	\$ 290,000
\$487,442 (Series 2006 NJEIT) Fund Loan	11/9/2006	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					274,468		34,692	239,776
\$3,070,000 (Series 2007 NJEIT) Trust Loan	11/8/2007	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					2,490,000		130,000	2,360,000
\$2,960,500 (Series 2007 NJEIT) Fund Loan	11/8/2007	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	102,242	0%						
2007 Fund Loan Series Sub-Total					1,977,723		155,308	1,822,415

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
SCHEDULE OF LONG-TERM REVENUE BONDS PAYABLE
YEAR ENDED DECEMBER 31, 2014**

Purpose	Date of Issue	Maturities		Interest Rate	Balance December 31, 2013	De-Obligated	Paid	Balance December 31, 2014
		Date	Amount					
\$475,000 (Series 2010A NJEIT) ARRA Trust	3/10/2010	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					\$ 425,000	\$ 20,000
\$483,670 (Series 2010 NJEIT) ARRA Fund	3/10/2010	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					393,496		24,593	368,903
\$865,000 (Series 2010A NJEIT) Traditional Trust	3/10/2010	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%				
2010A ARRA Traditional Trust Series Sub-Total					475,000		35,000	440,000

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*

Independent Auditors' Report

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

We have audited, in accordance with the 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, the financial statements of the Township of Ocean Sewerage Authority, in the County of Monmouth, New Jersey (the "Authority") as of and for the year ended December 31, 2014, and the related notes to the financial statements, and have issued our report thereon dated April 30, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



WISS & COMPANY, LLP

April 30, 2015
Iselin, New Jersey

OTHER SUPPLEMENTARY INFORMATION

OFFICIALS IN OFFICE AND SURETY BOND/INSURANCE COVERAGE

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY

ROSTER OF OFFICIALS

YEAR ENDED DECEMBER 31, 2014

<u>Name</u>	<u>Title</u>	<u>Surety Bond</u>
Dennis Galvin	Chairman	A
Richard Bernhardt	Vice Chairman	A
Ralph E. Stubbs	Secretary/Treasurer	A
John Villapiano	Member	A
Charles Theodora	Assistant Secretary/Treasurer	A
William E. Schmeling	Executive Director	A
John Bonello, Esq.	Attorney	
T&M Associates	Engineer	
BNY/Mellon	Trustee	

Surety Coverages:

- A. Municipal Excess Liability Joint Insurance Fund: Public Officials Liability/Employment Practices. \$3,000,000 in the aggregate on claims made basis per member local unit for each fund year subject to a deductible and coinsurance.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY

INSURANCE COVERAGE

YEAR ENDED DECEMBER 31, 2014

A blanket policy issued by the New Jersey Utility Authorities Joint Insurance Fund for a one-year period expiring on January 1, 2015, payable semi-annually was in force during the period under audit. The following coverages were provided:

		<u>Expiration Date</u>
Special Multi Peril Policy:		
Property:		
Buildings and Contents	\$ 150,000,000.00	1/1/2015
Contractors Equipment	5,000,000.00	
Employee Blanket Dishonesty	50,000.00	
Valuable Papers	10,000,000.00	
Accounts Receivable	10,000,000.00	
Depositor's Forgery	50,000.00	
Theft, Disappearance and Destruction:		
Inside	50,000.00	
Outside	50,000.00	
Miscellaneous Tools and Equipment	10,000.00	
Boiler and Machinery	150,000,000.00	
	<u>Property</u>	<u>Bodily</u>
	<u>Damage</u>	<u>Injury</u>
Liability:		
General Liability, Property and Bodily Damage (Combined Single Limit)	\$ 10,000,000.00	1/1/2015
Auto Fleet:		
Liability (Combined Single Limit)	\$ 10,000,000.00	1/1/2015
Uninsured Motorists	10,000,000.00	
Public Officials Liability	3,000,000.00	1/1/2015
Ocean Outfall	5,000,000.00	1/1/2015
Flood	20,000,000.00	1/1/2015
Workmen's Compensation	Statutory	1,750,000.00
Excess Liability	3,000,000.00	1/1/2015

All of the insurance policies in force were examined. No attempt was made to determine the adequacy of coverage as part of this report. Adequacy of coverage is the responsibility of the Authority. Insurance coverages continued uninterrupted through the date of this report.

OTHER SUPPLEMENTARY INFORMATION

GENERAL COMMENTS AND RECOMMENDATIONS

GENERAL COMMENTS DECEMBER 31, 2014

Cash Balances

The cash balances were verified with the statements rendered by the trustee and other depositories and also confirmed by direct communication.

The cash on hand was verified by a physical cash count.

Contracts and Agreements Requiring Advertisement for Bids

The Commissioners and Executive Director of the Township of Ocean Sewerage 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.

Under N.J.S.A. 40A:11-9(b) the Authority appointed the Executive Director as their Qualified Purchasing Agent. Accordingly, the 2014 bid threshold was \$36,000.

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.

Delinquent Sewer Charges

A detail of all unpaid sewer charges including customer municipality billings outstanding and amounts due from the Township users is in agreement with an abstract taken from these records as at December 31, 2014 covering all unpaid charges on that date.

Finding:

Condition: The Township of Ocean provides customer billing and receipt processing services for the Authority under an interlocal services agreement. The accounts receivable year end report did not properly segregate each customer municipality's billings, collections and year end receivable amounts.

Criteria: Authority internal control policy.

Cause: Unknown.

Authority Response: The Authority recognizes the importance of proper segregation and accounting for each customer municipality's activity. The Authority's Executive Director has arranged to meet with Township to discuss the issues and make the appropriate revisions.

Recommendation: It is recommended that the customer accounts receivable reports be accurate and properly segregate each customer class.

A test verification of delinquent charges outstanding at December 31, 2014 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 verification notices mailed.

Collection of Interest on Delinquent Sewer Charges

The statutes provide 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 Authority approved a resolution establishing an interest rate of 1½% per month for delinquent members' charges. The resolution was complied with.

Interest Requirements

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

Revenues

The Authority's revenues from customer billings, customer town billings, connection fees and other authorized revenues were adequate in providing sufficient revenues to cover operating, maintenance and debt service costs for the fiscal year, in accordance with the requirements of the Bond Resolution.

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 annual operating budgets for the fiscal years ending December 31, 2014 and 2013.

The vouchers were examined to the extent deemed necessary.

Finding:

Condition: Purchase orders were dated after invoice dates in several instances, indicating confirming orders.

Criteria: An encumbrance system is required by New Jersey regulation.

Cause: The Authority sometimes had immediate needs for items which preclude following the purchase order and encumbrance procedures.

Authority Response: The Authority will reinforce to all employees that every purchase needs to be approved and a purchase order issued before acquisition of the goods or services occurs.

Recommendation: It is recommended the Authority encumber funds and issue purchase orders prior to acquiring goods and services.

An examination was made of the employees' compensation and payroll deductions for the year ended December 31, 2014 and for those employees examined, no exceptions were noted except as follows.

Finding:

Condition: Three employees that were tested did not have the proper Chapter 78 health insurance deductions withheld from their wages.

Criteria: All employees that have employer provided health insurance must contribute a certain percentage of the premium cost. That percentage is based on a table promulgated by the Statute.

Cause: The Authority did not read the table properly and utilized an incorrect percentage when computing the employees' payroll deduction.

Authority Response: The Authority is now clear on the required percentages to be utilized.

Recommendation: It is recommended that all Chapter 78 health insurance payroll deductions be made accurately.

Exit Conference

An exit audit conference with the Authority was held.

Acknowledgment

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

Follow-up on Prior Year's Recommendations

In accordance with Government Auditing Standards, our procedures included a review of all prior year's recommendations including findings. A corrective action plan was adopted for 2013 audit recommendations. The corrective actions were effective and there are no repeated audit recommendations.

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

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

RECOMMENDATIONS

It is recommended that:

2014-1 Customer accounts receivable reports be accurate and properly segregate each customer class.

2014-2 Chapter 78 health insurance payroll deductions be made accurately.

2014-3 The Authority encumber funds and issue purchase orders prior to acquiring goods and services.

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