

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**

**COUNTY OF MONMOUTH, NEW JERSEY**

**COMPONENT UNIT**

**REPORT OF AUDIT**

**FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010**

Prepared by:  
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For the Firm:  
DAK CPA  
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Long Branch, New Jersey 07740

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**

**COMPONENT UNIT**

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**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying financial statements of the Township of Ocean Sewerage Authority, County of Monmouth, State of New Jersey (the "Authority"), as of and for the years ended November 30, 2011 and 2010, as listed in the table of contents, which collectively comprise the Authority's financial statements. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of November 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2012 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of our audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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



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

DAK CPA  
DAK CPA, Certified Public Accountants

Long Branch, New Jersey  
January 20, 2012

**REQUIRED SUPPLEMENTARY INFORMATION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

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

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

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

### **Discussion of Financial Statements Included in Annual Audit**

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

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

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

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

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

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

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

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

**Financial Condition**

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

Comparative Statement of Net Assets

The Authority’s total assets increased by \$1,761,085. Total liabilities decreased by \$537,753. Assets exceeded liabilities by \$22,211,696. This compares to 2010 where assets exceeded liabilities by \$19,912,856.

The Authority’s Net Assets of \$22,211,696 are comprised of the following:

1. Invested in Capital Assets, Net of Related Debt of \$18,886,551, as depicted below, include property plant and equipment, net of accumulated depreciation, and net of unspent proceeds of long-term debt related to the purchase or construction of capital assets.

Capital Assets - Net	\$	38,421,334
Less:		
Bonds Payable - Current		(3,078,374)
Bonds Payable - Long Term		(21,515,284)
Add:		
Due from NJ EIT		2,525,893
Unexpended Bond Proceeds		2,077,621
Unamortized Bond Issue Costs		455,361
Invested in Capital Assets, Net	\$	18,886,551

Invested in Capital Assets, Net of Related Debt increased by \$2,144,523..

2. Net Assets of \$500,000 reserved for the purpose of Renewal and Replacement of “the System”, which is determined each year by an independent consulting engineer.
3. Net assets of \$276,579 restricted for the purpose of providing a Debt Service Reserve Fund, in accordance with the Authority’s debt covenants, which is equal to the stipulated amount.
4. Net assets of \$1,015,947 reserved for the working capital requirement as stipulated in the Bond Resolution, equal to one quarter of the subsequent year’s operating budget.

5. Unreserved net assets of \$1,448,789 represents the portion available to maintain the Authority's continuing obligations to the contractual customers of its service area, its creditors and current liabilities. This amount increased by \$638,620 from 2010.

Comparative Condensed Statements of Net Assets

	<u>As of November 30,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total Current Assets	\$ 3,377,455	\$ 2,897,077	\$ 2,801,080
Total Restricted Assets	7,494,897	8,795,965	7,352,207
Capital Assets, Net	38,421,334	35,823,004	32,103,447
Deferred Costs	<u>455,361</u>	<u>471,915</u>	<u>507,869</u>
Total Assets	<u>\$ 49,749,048</u>	<u>\$ 47,987,962</u>	<u>\$ 42,764,603</u>
Total Current Liabilities Payable from Unrestricted Assets	\$ 941,882	\$ 943,162	\$ 852,270
Total Current Liabilities Payable from Restricted Assets	3,577,690	3,887,196	3,156,619
Accrued Noncurrent Employee Benefits	1,227,969	992,002	594,379
Compensated Absences Payable	85,838	86,437	64,697
Non Current Obligations, Net	<u>21,703,973</u>	<u>22,166,308</u>	<u>20,896,415</u>
Total Liabilities	<u>\$ 27,537,352</u>	<u>\$ 28,075,105</u>	<u>\$ 25,564,380</u>
Net Assets	<u>\$ 22,211,696</u>	<u>\$ 19,912,857</u>	<u>\$ 17,200,223</u>

Total Current Assets have increased because Unrestricted Cash and Cash Equivalents have increased.

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

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

Total Current Liabilities Payable from Unrestricted Assets have remained relatively unchanged.

Total Current Liabilities Payable from Restricted Assets have decreased because of a decrease in both accrued interest and accounts payable.

Non-Current Liabilities have decreased because of the payment of principal on bonds outstanding.

Total Net Assets have increased as a result of the reported positive change in Net Assets for the 2011 fiscal year.

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

	<u>Fiscal Years Ended November 30,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Total Operating Revenues	\$ 7,460,137	\$ 7,093,684	\$ 6,197,383
Operating Expenses	3,730,270	3,828,250	3,714,833
Depreciation	<u>1,049,323</u>	<u>791,621</u>	<u>803,920</u>
Total Operating Expenses	<u>4,779,593</u>	<u>4,619,871</u>	<u>4,518,753</u>
Operating Income	2,680,544	2,473,813	1,678,630
Non-Operating Revenues/ (Expenses) - Net	<u>(381,706)</u>	<u>238,819</u>	<u>(797,141)</u>
Change in Net Assets	2,298,838	2,712,632	881,489
Net Assets, Beginning	<u>19,912,857</u>	<u>17,200,225</u>	<u>16,318,736</u>
Net Assets, Ending	<u>\$ 22,211,696</u>	<u>\$ 19,912,857</u>	<u>\$ 17,200,225</u>

Total Operating Revenues increased from the prior year. Revenues from connection fees and excess flow assessments increased.

Operating Income increased by \$206,732 from the prior year.

Operating Expenses increased by \$159,721. The most significant change was in depreciation expense.

Total Net Assets as of November 30, 2011, increased by \$2,298,839, from \$19,912,857 to \$22,211,296.

Statement of Cash Flows

Cash and Cash Equivalents increased by \$1,798,206, attributable in part to the issuance of 2011 Revenue bonds. This compares to a net increase of \$254,144 in 2010.

## **Core Competencies**

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

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

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

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

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

User Charges billed to the Township of Ocean residents is the major source of revenue for the Authority in addition to the bulk discounted customer town charges paid by the four customer municipalities. This is collectively shown on the Comparative Statement of Revenues, Expenses and Changes in Net Assets as "User Charges" and reported as Operating Revenues. Initial service charge or connection fee revenue was significant this year and exceeded anticipated amounts by \$72,656.

## **Accountability**

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

### **The Chairman's Statement:**

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

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

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

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

### **Governing Body**

The governing body of the Township of Ocean Sewerage Authority is comprised of five permanent members appointed for five-year terms by the Township of Ocean.

The Authority board members at November 30, 2011 were:

John Villapiano, Chairman  
Dennis Galvin, Vice Chairman  
Chris Kelly, Secretary/Treasurer  
Ralph Stubbs, Member  
Richard Bernhardt, 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, an annual operating budget of \$4.2 million and treatment plant and collection system renovation projects under construction. Senior staff is charged with the management of the operations and financial affairs of the Authority. Material modifications to the 2011 budget were made after adoption to provide adequate budgetary resources for various expense line items.

The Executive Director and senior staff are as follows:

William Schmeling, Executive Director  
Thomas G. Meholic, Plant Superintendent

## **Funding of Infrastructure and Debt Management**

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

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

Refunding of existing public debt is routinely reviewed, analyzed and recommended when appropriate. The NJEIT has refinanced both the 2001 and 2004 bonds, reducing interest costs to the Authority. In addition, the Authority achieved debt service savings this year by refunding its outstanding Series 1998 C bonds.

## **Auditors**

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

Prior audits can be obtained by contacting the Township of Ocean Sewerage Authority's Executive Director, William Schmeling.

**BASIC FINANCIAL STATEMENTS**

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COUNTY OF MONMOUTH, NEW JERSEY**  
**COMPONENT UNIT**  
**COMPARATIVE STATEMENT OF NET ASSETS**  
**NOVEMBER 30, 2011 AND 2010**

	November 30,	
	2011	2010
<u>ASSETS</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 2,770,907	\$ 2,375,354
Petty Cash and Change Funds	350	350
	2,771,257	2,375,704
Customer Accounts Receivable	550,264	467,991
Prepaid Expenses	20,055	20,560
Inventory	35,878	32,822
Total Current Assets	3,377,455	2,897,077
Restricted Assets:		
Developer Deposits:		
Cash and Cash Equivalents	40,865	27,830
Debt Service Account:		
Cash and Cash Equivalents	1,881,365	2,219,449
Debt Service Reserve Account:		
Cash and Cash Equivalents	969,153	957,518
Construction Account:		
Cash and Cash Equivalents	2,077,621	361,554
Due from NJ Environmental Infrastructure Trust	2,525,893	5,229,614
Total Restricted Assets	7,494,897	8,795,965
Noncurrent Assets:		
Capital Assets:		
Non-Depreciable	494,106	7,035,560
Depreciable - Net	37,927,228	28,787,444
Total Noncurrent Assets	38,421,334	35,823,004
Other Assets:		
Deferred Charges:		
Unamortized Debt Issue Costs	455,361	471,915
Total Assets	\$ 49,749,048	\$ 47,987,963

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

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COUNTY OF MONMOUTH, NEW JERSEY**  
**COMPONENT UNIT**  
**COMPARATIVE STATEMENT OF NET ASSETS**  
**NOVEMBER 30, 2011 AND 2010**

	November 30,	
	2011	2010
<b><u>LIABILITIES</u></b>		
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable	\$ 286,582	\$ 283,452
Accrued Expenses	44,013	41,240
Customer Overpayments	16,556	29,890
Payroll Taxes Payable	3,307	2,290
Deferred Revenue	591,424	586,290
Total Current Liabilities Payable from Current Assets	941,882	943,162
Current Liabilities Payable from Restricted Assets:		
Reserve for Developer's Escrow Deposits	36,453	32,021
Accrued Interest on Revenue Bonds Payable	168,700	289,857
Accounts Payable	294,163	482,091
Revenue Bonds Payable - Current Portion	3,078,374	3,083,228
Total Current Liabilities Payable from Restricted Assets	3,577,690	3,887,196
Non-Current Liabilities:		
Long-Term Revenue Bonds Payable	21,515,284	21,833,658
Less: Unamortized Loss on Defeasance	123,958	76,313
Less: Unamortized Bond Discounts/(Premium)	(312,647)	(408,962)
	21,703,973	22,166,308
Accrued Noncurrent Employee Benefits	1,227,969	992,002
Compensated Absences Payable	85,838	86,437
Total Non-Current Liabilities	23,017,780	23,244,747
Total Liabilities	\$ 27,537,352	\$ 28,075,105

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

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COUNTY OF MONMOUTH, NEW JERSEY**  
**COMPONENT UNIT**  
**COMPARATIVE STATEMENT OF NET ASSETS**  
**NOVEMBER 30, 2011 AND 2010**

	November 30,	
	<u>2011</u>	<u>2010</u>
<b><u>NET ASSETS</u></b>		
Reserved for:		
Rate Stabilization	\$ 83,829	\$ 909,881
Future Debt Service	276,579	500,000
Renewal and Replacement	500,000	1,015,947
Working Capital	1,015,947	18,886,551
Invested in Capital Assets, Net of Related Debt	18,886,551	16,742,028
Unreserved Net Assets	1,448,789	810,169
 Total Net Assets	 \$ 22,211,696	 \$ 19,912,857

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

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COUNTY OF MONMOUTH, NEW JERSEY**  
**COMPONENT UNIT**  
**COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010**

	November 30,	
	<u>2011</u>	<u>2010</u>
Operating Revenues:		
User Charges	\$ 7,239,828	\$ 6,947,504
Initial Service Charges	<u>220,309</u>	<u>146,180</u>
Total Operating Revenues	7,460,137	7,093,684
Operating Expenses:		
Cost of Providing Services	2,330,777	2,364,573
Administration and General	1,399,493	1,463,677
Depreciation	<u>1,049,323</u>	<u>791,621</u>
Total Operating Expenses	<u>4,779,592</u>	<u>4,619,871</u>
Operating Income	2,680,545	2,473,813
Non-Operating Revenues/(Expenses):		
Amortization of Debt Issue Costs	(59,808)	(58,954)
Interest Expense	(437,342)	(715,811)
Major Repairs and Costs		(61,623)
ARRA - Principal Forgiveness		967,342
Interest on Investments	8,485	8,382
Miscellaneous Income/(Expenses)	<u>106,958</u>	<u>99,482</u>
Total Non-Operating Revenues/(Expenses)	<u>(381,706)</u>	<u>238,819</u>
Change in Net Assets	2,298,839	2,712,632
Net Assets, Beginning of Year	<u>19,912,857</u>	<u>17,200,225</u>
Net Assets, End of Year	<u>\$ 22,211,696</u>	<u>\$ 19,912,857</u>

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

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COUNTY OF MONMOUTH, NEW JERSEY**  
**COMPONENT UNIT**  
**COMPARATIVE STATEMENT OF CASH FLOWS**  
**FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010**

	November 30	
	2011	2010
Cash Flows from Operating Activities:		
Change in Net Assets	\$ 2,298,839	\$ 2,712,632
Adjustments to Reconcile Net Income to Net Cash Provided by/(Used in) Operating Activities:		
Depreciation	1,049,323	791,621
Amortization of Debt Issue Costs	59,808	58,954
Amortization of Loss on Defeasance	35,411	30,524
Amortization of Bond Discount/(Premium)	(116,344)	(54,171)
Changes in Assets and Liabilities:		
Unrestricted Accounts	(84,824)	(64,432)
Restricted Accounts	2,703,721	(1,221,179)
Increase/(Decrease) in Current Liabilities:		
Payable from Unrestricted Assets	(1,280)	90,892
Payable from Restricted Assets	(309,507)	730,578
(Decrease) Increase in Other Liabilities	235,368	419,363
Total Adjustments to Change in Net Assets	3,571,675	782,151
Net Cash Provided by/(Used In) Operating Activities	5,870,514	3,494,782
Cash Flows from Capital and Related Financing Activities:		
Net Increase in Property, Plant and Equipment	(3,647,653)	(4,511,178)
Original Issue Discount/Premium 2011 Bonds	17,491	
Costs of Issuance	(89,381)	(23,000)
Cost of Redemption of 1998 C Bonds	(34,392)	
Net (Decrease)/Increase in Long-Term Bonds Payable	(318,373)	1,293,540
Net Cash (Used in)/ Provided by Capital and Related Financing Activities	(4,072,308)	(3,240,638)
Net Increase in Cash and Cash Equivalents	1,798,206	254,144
Cash and Cash Equivalents at Beginning of Year	5,942,055	5,687,911
Cash and Cash Equivalents at End of Year	\$ 7,740,261	\$ 5,942,055
Reconciliation to Statement of Net Assets:		
Unrestricted Cash and Cash Equivalents	\$ 2,771,257	\$ 2,375,704
Restricted Cash and Cash Equivalents	4,969,004	3,566,351
	\$ 7,740,261	\$ 5,942,055

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

**NOTES TO FINANCIAL STATEMENTS**

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COMPONENT UNIT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010**

Note 1. **ORGANIZATION**

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

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

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

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

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

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

**Grants**

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

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

**Inventory**

The Authority takes a physical inventory of its supplies and chemicals annually. The inventory values reported as November 30, 2011 and 2010 are based on that physical inventory. Inventory, valued at cost, at November 30, 2011 and 2010 was \$35,878 and \$32,822, respectively.

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COMPONENT UNIT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010**

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

Capital Assets

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

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

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

Treatment Plant Buildings and Improvements	40 - 75 Years
Sewer Mains Interceptors and Pump Station	75 Years
Other Equipment	5 - 25 Years
Vehicles	3 - 5 Years

	Balance November 30, 2010	Current Year's Activity		Balance November 30, 2011
		Increase	Transfers	
Non-Depreciable Assets:				
Land	\$ 487,419	\$		\$ 487,419
Construction in Progress	6,548,141	2,474,679	(9,016,133)	6,687
Depreciable Assets:				
Treatment Plant and Collection System	37,630,749	1,128,927	9,016,133	47,775,809
(Contributed)	1,811,321			1,811,321
Treatment Plant (Contributed)	1,862,703			1,862,703
Machinery and Equipment	685,043	44,047		729,090
	49,025,376	3,647,653		52,673,029
Less: Accumulated Depreciation	13,202,372	1,049,323		14,251,695
	\$ 35,823,004	\$ 4,696,976		\$ 38,421,334

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

Depreciation expense for the fiscal years ended November 30, 2011 and 2010 was \$1,049,323 and \$791,621, respectively.

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

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010**

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

Restricted Funds

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

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

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

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

Unamortized Debt Issuance Costs

Deferred debt issuance costs incurred with the 1998, 2001, 2002 Series A and B 2004, 2006, 2007, 2010 NJ EIT and 2011 bond issues are being amortized over the life of the issues based on the straight line method. Accumulated amortization was \$840,818 and \$781,010 as of November 30, 2011 and 2010, respectively.

Management Estimates

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

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COMPONENT UNIT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010**

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

**Net Assets**

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

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

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

Investments are stated at cost, which approximates market. The Authority classifies certificates of deposit that have original maturity dates of more than three months but less than twelve months from the date of purchase, as investments. The Authority is in compliance with GASB Statement No. 3 as amended by GASB Statement No. 40.

**A. Deposits**

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

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

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

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

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

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COMPONENT UNIT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010**

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

**A. Deposits (Continued)**

As of November 30, 2011, Cash and Cash Equivalents (Deposits) of the Authority consisted of a petty cash fund and interest bearing checking and money market accounts and deposits in the New Jersey Cash Management Fund totaling \$7,739,911.

**B. Investments**

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

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

As of November 30, 2011, the Authority had no investments.

Custodial Credit Risk – Deposits:

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

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COMPONENT UNIT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010**

Note 4. LONG-TERM LIABILITIES

Sewer Revenue Bonds, 1998 Series C

On May 5, 1998 the Authority issued \$2,390,000 of 1998 Series C Revenue Bonds. The Bonds were issued to finance and refinance the cost of the 1998 Project and pay the costs and expenses related to the issuance of the Bonds, including bond insurance. The Bonds were dated May 1, 1998.

During September, 2011, the Authority redeemed all of the remaining outstanding 1998 Series C Revenue Bonds.

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

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

The "Loan" (State Funds) portion of the Bond Issue, \$3,905,000, mature annually through August 1, 2021 at remaining annual maturities ranging from \$200,000 to \$310,000 and bear interest at rates ranging from 4.75% to 5.50%. Annual maturities and interest rates are more fully described in Schedule 4.

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

2002 Series A Revenue Refunding Bonds

Description – The Authority's Sewer Revenue Refunding Bonds, 2002 Series A were issued on February 15, 2002 in the aggregate principal amount of \$3,770,000. The 2002 Series A Bonds were issued to: (i) currently refund on a forward basis a portion of the Authority's outstanding Series 1992B bonds, (ii) fund the Debt Service Reserve Requirement and (iii) pay certain costs of issuance. Interest is due and payable semi-annually each December 1 and June 1. Principal is payable on December 1. Annual maturities and interest rates are more fully described in Schedule 4. Interest rates on remaining maturities range from 4.13% to 4.25%.

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

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COMPONENT UNIT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010**

Note 4. LONG-TERM LIABILITIES

2002 Series A Revenue Refunding Bonds-Continued

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

2002 Series B Revenue Refunding Bonds

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

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

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

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

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

The “Loan” (State Funds) portion of the Bond Issue \$1,630,000, mature annually through August 1, 2021 at remaining annual maturities ranging from \$95,000 to \$140,000 and bear interest rates ranging from 4.00% to 5.00%. Annual maturities and interest rates are more fully described in Schedule 4.

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

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010**

Note 4. 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. Annual maturities are more fully described in Schedule 4.

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

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

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

The "Loan" (State Funds) portion of the Bond Issue, \$3,070,000, mature annually through 2027 at remaining annual maturities ranging from \$125,000 to \$235,000 and bear interest rates ranging from 3.40% to 5.00%. Annual maturities and interest rates are more fully described in Schedule 4.

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

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

2010 ARRA Revenue Bonds

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

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010**

Note 4. LONG-TERM LIABILITIES (CONTINUED)

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

2010 Traditional Revenue Bonds

The Traditional portion of the Revenue Bonds totaled \$3,524,650. This amount was segregated into two portions: Trust Loan Bonds of \$865,000 which mature annually on August 1 of each year through 2029 in amounts ranging from \$30,000 to \$65,000 at interest rates ranging from 3% to 5%, and Fund Loan Bonds of \$2,659,650 which mature semi-annually through August, 2029 in amounts ranging from \$45,079 to \$90,158, with no interest. Annual maturities and interest rates are more fully described in Schedule 4.

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 amounts ranging from \$125,000 to \$200,000 at interest rates ranging from 2% to 4%. Annual maturities and interest rates are more fully described in Schedule 4.

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 amounts ranging from \$65,000 to \$180,000 at interest rates ranging from 2% to 3%. Annual maturities and interest rates are more fully described in Schedule 4. The proceeds of the Refunding Bonds were utilized to refund the \$1,225,000 outstanding balance of the Sewer Revenue Bonds Series 1998 C.

Optional Redemption

The 2011 Series Sewer Revenue Refunding Bonds are not subject to redemption prior to their stated maturities.

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COMPONENT UNIT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010**

Note 4. LONG-TERM LIABILITIES (CONTINUED)

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

<u>Due Date</u>	<u>Bond Principal</u>	<u>Interest on Bonds</u>	<u>Grand Total</u>
12/01/11	\$ <u>1,725,000</u>	\$ <u>77,441</u>	\$ <u>1,802,441</u>
	<u>1,725,000</u>	<u>77,441</u>	<u>1,802,441</u>
02/01/12	348,418	230,375	578,793
06/01/12		40,906	40,906
08/01/12	1,004,956	246,091	1,251,047
12/01/12	<u>1,925,000</u>	<u>40,906</u>	<u>1,965,906</u>
	<u>3,278,374</u>	<u>558,278</u>	<u>3,836,652</u>
02/01/13	426,277	235,860	662,137
08/01/13	<u>1,032,848</u>	<u>231,735</u>	<u>1,264,583</u>
	<u>1,459,125</u>	<u>467,595</u>	<u>1,926,720</u>
02/01/14	428,829	217,668	646,497
08/01/14	<u>1,067,526</u>	<u>213,393</u>	<u>1,280,919</u>
	<u>1,496,355</u>	<u>431,061</u>	<u>1,927,416</u>
02/01/15	426,656	203,303	629,959
08/01/15	<u>1,084,679</u>	<u>198,953</u>	<u>1,283,632</u>
	<u>1,511,335</u>	<u>402,256</u>	<u>1,913,591</u>
12/1/16-20	6,631,020	1,513,395	8,144,415
12/1/21-25	5,253,700	450,020	5,703,720
12/1/26-30	3,038,747	238,773	3,277,520
12/1/31-35	<u>200,000</u>	<u>4,000</u>	<u>204,000</u>
	\$ <u>24,593,656</u>	\$ <u>4,142,818</u>	\$ <u>28,736,474</u>

The following changes occurred in long-term liabilities during the fiscal year:

	<u>Balance November 30, 2010</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance November 30, 2011</u>	<u>Current Portion</u>
Revenue Bonds	\$ <u>24,916,886</u>	\$ <u>3,995,000</u>	\$ <u>4,318,228</u>	\$ <u>24,593,656</u>	\$ <u>3,078,374</u>
	\$ <u>24,916,886</u>	\$ <u>3,995,000</u>	\$ <u>4,318,228</u>	\$ <u>24,593,656</u>	\$ <u>3,078,374</u>

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COMPONENT UNIT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010**

Note 5. CONTINGENT LIABILITIES

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

The Authority's accrued liability for compensated absences at November 30, 2011 and 2010 is \$85,838 and \$86,437, respectively, exclusive of fringe benefits associated thereon, which it provides for through annual budget appropriations. This liability is fully funded.

Note 6. PENSION PLANS

Plan Description

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

Funding Policy and Contributions

Employee contributions were five and one-half percent of pensionable wages through October 1, 2011 and six and one-half percent thereafter through November 30, 2011. Employer's contributions are actuarially determined annually by the Division of Pensions. All contributions were equal to the required contributions for each of the three years, respectively. Annual employer and employee contributions for PERS for the last three years were as follows:

<u>Year Ended</u> <u>November 30,</u>	<u>Employees'</u> <u>Contributions</u>	<u>Employers'</u> <u>Contributions</u>
2011	\$ 71,446	\$ 132,323
2010	67,475	93,721
2009	68,064	89,796

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COMPONENT UNIT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010**

Note 7. **DEFERRED COMPENSATION PLAN**

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

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

Note 8. **AMOUNTS REQUIRED BY BOND RESOLUTION**

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

**DEBT SERVICE REQUIREMENT:**

Cash and Cash Equivalents on Hand at November 30, 2011	\$ 1,881,365
Debt Service Requirement	<u>1,893,700</u>
Deficiency	(12,335)
Add: Due from Revenue Fund	<u>12,325</u>
Excess or (Deficit)	<u>\$ None</u>

**DEBT SERVICE RESERVE REQUIREMENT:**

Cash and Cash Equivalents on Hand at November 30, 2011	\$ 969,152
Debt Service Reserve Requirement	<u>276,579</u>
Excess	692,573
Less: Due to Revenue Fund	<u>692,573</u>
Excess or (Deficit)	<u>\$ None</u>

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COMPONENT UNIT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010**

Note 9. NET ASSETS

Reserved for Rate Stabilization - The \$83,829 Reserve for Rate Stabilization at November 30, 2011 was not utilized as revenue in the succeeding year's budget.

Reserved for Future Debt Service – The Authority's Bond Resolution mandates a designation of net assets for the benefit of the bond holders equal to \$276,579.

Reserved for Working Capital - The Authority's Bond Resolution mandates a designation of net assets for operating costs at a level equal to one quarter of the succeeding year's operating budget, or \$1,015,947.

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

Note 10. RISK MANAGEMENT

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

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

The following represents a reconciliation of expenditures from the Schedule of Operating Revenues and Expenditures Compared to Budget (Schedule 3) to the Comparative Statement of Revenues, Expenses and Changes in Net Assets (Exhibit B) for 2010 and 2011.

	Fiscal Year Ended November 30, 2010		
	Per Schedule 3	Less Asset Acquisitions	Per Exhibit B
Administration	\$ 1,463,677	\$ -	\$ 1,463,677
Treatment Plant	1,943,743	0	1,943,743
Collection System	420,830		420,830
Total Cost of Providing Service	2,364,573	0	2,364,573
Totals	\$ 3,828,250	\$ -	\$ 3,828,250

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COMPONENT UNIT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010**

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

	Fiscal Year Ended November 30, 2011		
	Per Schedule 3	Less Asset Acquisitions	Per Exhibit B
Administration	\$ 1,399,493	-	\$ 1,399,493
Treatment Plant	1,885,658	\$ -	1,885,658
Collection System	445,119		445,119
Total Cost of Providing Service	2,330,777		2,330,777
Totals	\$ 3,730,270	\$ -	\$ 3,730,270

Note 12. OTHER EMPLOYEE BENEFITS

Benefit Plans

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

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

Actuarial Methods and Assumptions

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

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

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COMPONENT UNIT**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010**

Note 12. **OTHER EMPLOYEE BENEFITS**  
**(CONTINUED)**

**Other Postemployment Benefit Costs and Obligations**

The annual non-pension postemployment benefit (OPEB) cost is actuarially determined in accordance with the parameters of the alternative measurement method, which also forms the basis for calculating the annual required contribution (ARC) for the Authority. The ARC represents that actuarially determined level of funding that, if paid on an ongoing basis, is projected to cover annual benefit costs and the 30-year amortization of the difference between the actuarial accrued liability and amounts previously recognized. The Authority has recognized cumulative OPEB costs to date of \$1,227,967.

The following are the components of the 2011 annual OPEB cost:

Normal Cost	\$ 11,640
Amortization Cost	<u>385,983</u>
ARC - 2011	\$ 397,623
Less: Retiree's health care	<u>161,656</u>
	<u>\$ 235,967</u>

As of November 30, 2011, the actuarially determined liability for unfunded OPEB obligation equaled \$7,006,193. The difference between this actuarially determined accrued liability and the sum of the liability currently recognized is being amortized over a 30 year period.

**Funding Status**

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

Note 13. **SUBSEQUENT EVENTS**

There were no events occurring through the date of the independent auditor's report, January 20, 2012, which have been considered necessary for subsequent events disclosure.

**SUPPLEMENTARY INFORMATION**

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COUNTY OF MONMOUTH, NEW JERSEY**  
**COMPONENT UNIT**  
**SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS AND**  
**CHANGES IN CASH AND CASH EQUIVALENTS**  
**UNRESTRICTED ACCOUNTS**  
**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011**

	<u>Revenue</u> <u>Account</u>	<u>Authority</u> <u>Reserve Account</u>	<u>Total</u>
Cash and Cash Equivalents:			
December 1, 2010	\$ 1,506,843	\$ 868,861	\$ 2,375,704
Cash Receipts:			
Transfer from Authority Reserve Account	956,068		956,068
Transfer from Revenue Account		555,000	555,000
Transfer from Construction Account	2,964,445	830,778	3,795,223
Transfer from Debt Service Reserve Account			
Interest Received - Net	6,565	1,258	7,823
Customer Overpayments	16,556		16,556
Annual Service Charges	7,157,555		7,157,555
Initial Service Charges	220,309		220,309
Miscellaneous Fees and Charges	38,117		38,117
Interest on Delinquent Accounts	58,405		58,405
	<hr/>	<hr/>	<hr/>
Total Cash and Cash Equivalents Available	12,924,864	2,255,897	15,180,761
	<hr/>	<hr/>	<hr/>
Cash Disbursed:			
Accounts Payable	283,452		283,452
Transfer to Revenue Account		956,068	956,068
Transfer to Authority Reserve Account	555,000		555,000
Transfer to Restricted Accounts	858,678		858,678
Transfer to Debt Service Account	3,262,158		3,262,158
Budgetary Expenditures	5,546,645		5,546,645
Accrued Expenses	41,240		41,240
Prepaid Expenses	20,560		20,560
Major Repairs and Replacements		885,704	885,704
	<hr/>	<hr/>	<hr/>
Total Cash Disbursed	10,567,733	1,841,772	12,409,505
	<hr/>	<hr/>	<hr/>
Cash and Cash Equivalents, November 30, 2011	\$ <u>2,357,132</u>	\$ <u>414,125</u>	\$ <u>2,771,257</u>
Balance Comprised of:			
Petty Cash and Change Funds	\$ 350	\$	\$ 350
Cash - Money Market Funds/Checking Accounts	2,356,782	414,125	2,770,907
New Jersey Cash Management Fund			
	<hr/>	<hr/>	<hr/>
	\$ <u>2,357,132</u>	\$ <u>414,125</u>	\$ <u>2,771,257</u>

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

SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS  
 AND CHANGES IN CASH AND CASH EQUIVALENTS  
 RESTRICTED ACCOUNTS  
 FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011

	Accounts Required by			Developer's Escrow	Totals
	Debt Service Account	Debt Service Reserve Account	Construction Account		
Cash and Cash Equivalents:					
December 1, 2010	\$ 2,219,449	\$ 957,518	\$ 361,554	\$ 27,830	\$ 3,566,351
Cash Receipts:					
Interest Received - Net	54	1,199	510	101	1,864
Transfer from Restricted Funds		122,188			122,188
Transfer from Revenue Account:					
Budget for Debt Service	3,262,158				3,262,158
Other	27,300		831,378		858,678
NJEIT Proceeds			2,703,721		2,703,721
Bond Proceeds			3,990,518		3,990,518
Developer's Escrow Deposits				31,211	31,211
Total Cash and Cash Equivalents Available	5,508,961	1,080,904	7,887,681	59,142	14,536,688
Cash Disbursed:					
Payment of Bond Principal	2,888,398				2,888,398
Payment of Interest on Bonds	582,357				582,357
Payment of NJEIT Admin. Fees	27,300				27,300
Payment of Costs of Issuance			67,407		67,407
Payment of Project Costs			2,656,020		2,656,020
Transfer to Escrow Agent	129,542				129,542
Transfer to Bond Reserve Fund - Restricted		111,753	122,188		233,941
Reserve for Developer's Escrow				18,277	18,277
Transfer to Revenue Fund - Unrestricted			2,964,445		2,964,445
Total Cash Disbursed	3,627,596	111,753	5,810,060	18,277	9,567,685
Cash and Cash Equivalents, November 30, 2011	\$ 1,881,365	\$ 969,153	\$ 2,077,621	\$ 40,865	\$ 4,969,004
Balance Comprised of:					
Cash - Checking	\$ 1,881,365	\$ 122,188	\$ 274,693	\$ 40,865	\$ 3,155,588
Goldman US Treasury Obligation Fund		846,965	1,802,928		3,806,481
New Jersey Cash Management Fund					846,965
	\$ 1,881,365	\$ 969,153	\$ 2,077,621	\$ 40,865	\$ 4,969,004

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY  
COMPONENT UNIT  
COMPARATIVE SCHEDULES OF OPERATING REVENUES AND EXPENDITURES  
COMPARED TO BUDGET  
BUDGETARY BASIS  
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010

	November 30, 2011			November 30, 2010		
	Original Budget	Final Budget	Realized	Final Budget	Realized	Variance Final to Actual
<u>Revenues</u>						
User Charges	\$ 7,006,720	\$ 7,006,720	\$ 7,239,828	\$ 6,890,800	\$ 6,947,504	\$ 56,704
Initial Service Charges	147,653	147,653	220,309	97,372	146,180	48,808
Interest on Investments	20,000	20,000	8,485	50,000	8,382	(41,618)
Interest on Delinquent Accounts	45,000	45,000	58,405	45,000	49,885	4,885
Miscellaneous Fees and Charges	13,000	13,000	38,117	10,836	49,433	38,597
Reserve for Rate Stabilization	643,738	643,738	643,738	267,000	267,000	
Total Revenues	\$ 7,876,111	\$ 7,876,111	\$ 8,208,883	\$ 7,361,008	\$ 7,468,384	\$ 107,376

	November 30, 2011			November 30, 2010		
	Original Budget	Final Budget	Paid or Charged	Final Budget	Paid or Charged	Variance Final to Actual
<u>Expenditures</u>						
Administration:						
Members Salaries	\$ 10,250	\$ 10,250	\$ 9,795	\$ 12,500	\$ 12,479	\$ 21
Administrative Salaries	105,000	105,000	98,929	90,100	85,797	4,303
Consultant Services		3,900	3,867			
Office Salaries	49,000	55,900	54,874	129,050	126,514	2,536
Telephone	15,000	22,000	21,900	19,850	19,846	4
Office Supplies	9,000	11,250	12,883	11,000	8,726	2,274
Postage	10,000	3,000	2,918	10,000	7,039	2,961
Professional Fees:						
Engineering	27,500	113,425	10,835	35,000	20,480	14,520
Legal	27,500	19,000	14,002	33,000	23,976	9,024
Accounting	44,000	44,000	35,500	44,000	33,000	11,000
Insurance General	125,000	115,700	115,129	125,000	113,087	11,913

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

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

FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010

	November 30, 2011			November 30, 2010			
	Original Budget	Final Budget	Paid or Charged	Variance Final to Actual	Final Budget	Paid or Charged	Variance Final to Actual
<b>Expenditures (Continued)</b>							
Administration (Continued):							
Travel Expense	\$ 1,000	\$ 500	\$ 350	\$ 150	\$ 1,000	\$ 336	\$ 664
Dues and Subscriptions	4,000	4,450	4,316	134	4,200	4,198	2
Hospitalization Insurance	348,800	360,050	183,652	176,398	365,632	200,128	165,504
Social Security Taxes	111,057	111,057	106,830	4,227	110,000	103,192	6,808
Public Employee Retirement System	111,136	132,336	132,323	13	98,612	93,721	4,891
Group Life Insurance	800	825	767	58	825	824	1
Advertising	2,000	1,250	1,198	52	2,000	695	1,305
Heat	2,500	2,500	1,926	574	2,500	2,022	478
Trustee and Paying Agent	56,500	56,500	67,590	(11,090)	50,600	40,568	10,032
Equipment Maintenance Contracts	10,000	9,000	8,001	999	10,000	7,889	2,111
Office Equipment	500				500	500	
Conventions and Seminars	2,500	1,250	1,212	39	3,000	2,292	708
Education and Training Courses	4,000	3,600	3,579	21	2,500	2,460	40
Safety Equipment	6,000	2,000	137	1,863	7,800	6,918	882
Reserve for Accumulated Vacation and Sick Time	5,000		40,607	(40,607)	15,000	21,740	(6,740)
Other Post Employment Benefits	100,000	84,900	397,623	(312,723)		525,250	(525,250)
Township of Ocean Interlocal	74,000	69,000	68,750	250			
<b>Total Administration</b>	<b>1,262,043</b>	<b>1,342,643</b>	<b>1,399,493</b>	<b>(56,850)</b>	<b>1,183,669</b>	<b>1,463,677</b>	<b>(280,008)</b>
Treatment Plant:							
Salaries							
Base	862,100	862,100	852,984	9,116	832,100	811,132	20,968
Overtime	34,000	79,000	23,130	55,870	37,800	36,206	1,594
Water	7,500	7,500	6,359	1,141	11,600	7,943	3,657
Electric	450,000	450,000	335,441	114,559	462,400	418,017	44,383
Gas	13,000	13,000	9,767	3,233	13,000	9,955	3,045
Process Chemicals:							
Liquid Oxygen	22,500	10,500	10,264	236	24,130	16,056	8,074
Sodium Hypochlorite	53,200	48,200	48,169	31	54,000	52,656	1,344
Polymer	17,600	12,600	12,305	295	16,000	14,766	1,234
Other	3,850	6,600	1,699	4,901	3,500	3,825	(325)
Maintenance Chemicals	2,000	2,000	534	1,466	3,000	(418)	3,418

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

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

FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010

	November 30, 2011			November 30, 2010			
	Original Budget	Final Budget	Paid or Charged	Variance Final to Actual	Final Budget	Paid or Charged	Variance Final to Actual
<b>Expenditures (Continued)</b>							
<b>Treatment Plant(Continued):</b>							
Repairs and Supplies:							
Uniforms and Lockers	\$ 3,600	\$ 5,500	\$ 5,450	\$ 50	\$ 3,600	\$ 3,487	\$ 113
One Call	3,000	3,000	2,687	314	3,000	2,540	460
Pumps	12,500	6,500	6,037	463	15,000	14,954	46
Jet Truck	8,000	8,000	7,388	612	9,000	8,537	463
General	15,000	30,250	27,496	2,754	27,000	26,741	259
Repairs - Contractors	12,500	12,500	11,578	922	6,000	4,051	1,949
Truck Expenses							
Gasoline	2,500	9,000	7,560	1,440	3,100	2,843	257
Repairs	1,500	3,500	3,463	37	1,500	1,478	22
Other	750	2,250	1,670	580	750	685	65
Sludge Disposal	381,000	419,000	403,903	15,097	379,310	345,842	33,468
Grit Disposal	16,000	16,000	12,800	3,200	15,396	14,795	601
Bioxide Plant	11,400	11,400		11,400	36,712	31,537	5,175
Lab:							
Supplies	9,000	9,000	8,483	517	9,000	5,809	3,191
Equipment	5,000	5,000	265	4,735	5,000	4,568	432
Testing	13,000	13,000	9,085	3,915	13,000	12,976	24
Permit Fees	56,000	57,400	57,376	24	52,900	52,822	78
Maintenance Contracts Equipment	35,000	30,000	19,766	10,234	43,000	39,939	3,061
<b>Total Treatment Plant</b>	<b>2,051,500</b>	<b>2,132,800</b>	<b>1,885,658</b>	<b>247,142</b>	<b>2,080,798</b>	<b>1,943,742</b>	<b>137,056</b>
<b>Collection System:</b>							
Salaries							
Base	194,700	194,700	192,620	2,080	184,500	185,672	(1,172)
Overtime	22,000	63,000	17,649	45,351	24,500	22,359	2,141
Repairs and Supplies:							
Pumps	35,000	35,000	17,285	17,715	35,000	4,333	30,667
Controls	30,000	30,000	2,600	27,400	30,000	10,808	19,192
General	3,000	167,100	44,082	123,018	5,600	5,134	466
Repairs - Contractors	30,000	30,000	27,445	2,555	28,000	26,366	1,634

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY  
COMPONENT UNIT  
COMPARATIVE SCHEDULES OF OPERATING REVENUES AND EXPENDITURES  
COMPARED TO BUDGET  
BUDGETARY BASIS  
FOR THE FISCAL YEARS ENDED NOVEMBER 30, 2011 AND 2010

	November 30, 2011			November 30, 2010		
	Original Budget	Final Budget	Paid or Charged	Final Budget	Paid or Charged	Variance Final to Actual
<b>Expenditures (Continued)</b>						
Collection System(Continued):						
Maintenance Chemicals:						
Bioxide	\$ 60,000	\$ 60,000	\$ 40,456	\$ 19,544	\$ 52,705	\$ 8,640
Other	16,900	16,900	15,769	1,131	15,766	234
Electric	50,000	50,000	46,704	3,296	55,600	235
Diesel	3,570	23,570	10,162	13,408	2,302	1,268
Water	1,900	1,900	1,882	18	1,508	162
Truck Expenses:						
Gasoline	7,000	9,000	7,208	1,792	8,530	520
Repairs	4,500	6,500	5,715	785	4,469	31
Other	1,000	2,500	1,482	1,018	923	77
Manhole Maintenance	30,000	30,000	14,061	15,939	24,589	5,411
Total Collection System	489,570	720,170	445,119	275,051	420,829	69,506
Total Operations	3,803,113	4,195,613	3,730,270	465,344	3,828,248	(73,446)
Debt Service:						
Bond Principal	2,983,227	2,983,227	2,853,227	130,000	2,983,769	(77,804)
Interest Expense	613,441	613,441	518,275	95,166	739,457	(39,217)
Total Debt Service	3,596,668	3,596,668	3,371,502	225,166	3,723,226	(117,021)
Reserves:						
Rate Stabilization	476,329	83,829	83,829			
Total Reserves	476,329	83,829	83,829			
Total Expenditures	\$ 7,876,111	\$ 7,876,111	\$ 7,185,601	\$ 690,509	\$ 7,551,474	\$ (190,467)

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COUNTY OF MONMOUTH, NEW JERSEY**  
**COMPONENT UNIT**  
**SCHEDULE OF REVENUE SERIAL BONDS PAYABLE**  
**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011**

Purpose	Date of Issue	Maturities		Interest Rate	Balance	Issued	Redeemed	Paid	Balance
		Date	Amount		November 30, 2010				November 30, 2011
\$2,390,000.00 (1998 Series C)	5/1/1998				\$	\$	\$	\$	\$
1998 Series C Sub-Total					1,350,000		1,225,000	125,000	
\$3,905,000 (Series 2001 NJEIT) Trust Loan - To provide funds for the 2001 Treatment Plant and Collection System Capital Project.	11/9/2001	8/1/2012	\$ 200,000	5.50%					
		8/1/2013	210,000	5.50%					
		8/1/2014	220,000	5.00%					
		8/1/2015	230,000	5.00%					
		8/1/2016	245,000	5.00%					
		8/1/2017	255,000	5.00%					
		8/1/2018	265,000	5.00%					
		8/1/2019	280,000	5.00%					
		8/1/2020	295,000	4.75%					
		8/1/2021	310,000	4.75%					
2001 Trust Loan Series Sub-Total					2,695,000			185,000	2,510,000
\$3,935,900 (Series 2001 NJEIT) Fund Loan - To provide funds for the 2001 Treatment Plant and Collection System Capital Project.	11/9/2001	2/1/2012	40,927	0%					
		8/1/2012	170,817	0%					
		2/1/2013	37,355	0%					
		8/1/2013	173,740	0%					
		2/1/2014	33,605	0%					
		8/1/2014	176,484	0%					
		2/1/2015	30,033	0%					
		8/1/2015	179,406	0%					
		2/1/2016	26,299	0%					
		8/1/2016	185,414	0%					
		2/1/2017	22,321	0%					
		8/1/2017	187,930	0%					
		2/1/2018	18,181	0%					
		8/1/2018	190,284	0%					
		2/1/2019	13,878	0%					
		8/1/2019	195,724	0%					
		2/1/2020	9,332	0%					
		8/1/2020	200,919	0%					
		2/1/2021	4,782	0%					
		8/1/2021	206,111	0%					
2001 Fund Loan Series Sub-Total					2,312,152			208,612	2,103,540
\$3,770,000 (Series 2002A) Advance refund a portion of the 1992 Series Bonds	2/15/2002	12/1/2011	1,555,000	4.13%					
		12/1/2012	1,925,000	4.25%					
2002A Series Sub-Total					3,515,000			35,000	3,480,000
\$12,690,000 (Series 2002B) Advance refund a portion of the 1992 Series Bonds	9/3/2002	12/1/2011	170,000	5.25%					
2002B Series Sub-Total					1,975,000			1,805,000	170,000
\$1,630,000.00 (Series 2004A NJEIT) Trust Loan	11/4/2004	8/1/2012	95,000	5.00%					
		8/1/2013	100,000	5.00%					
		8/1/2014	105,000	4.00%					
		8/1/2015	105,000	4.00%					
		8/1/2016	110,000	4.00%					
		8/1/2017	115,000	5.00%					
		8/1/2018	120,000	5.00%					
1,155,000.00		8/1/2019	130,000	5.00%					
		8/1/2020	135,000	5.00%					
		8/1/2021	140,000	5.00%					
2004 Trust Loan Series Sub-Total					1,245,000			90,000	1,155,000

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COUNTY OF MONMOUTH, NEW JERSEY**  
**COMPONENT UNIT**  
**SCHEDULE OF REVENUE SERIAL BONDS PAYABLE**  
**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011**

Purpose	Date of Issue	Maturities		Interest Rate	Balance November 30, 2010	Issued	Redeemed	Paid	Balance November 30, 2011
		Date	Amount						
\$1,720,000.00 ( Series 2004B NJEIT) Fund Loan	11/4/2004	2/1/2012	\$ 19,313	0%	\$	\$	\$	\$	\$
		8/1/2012	86,580	0%					
		2/1/2013	17,631	0%					
		8/1/2013	88,438	0%					
		2/1/2014	15,861	0%					
		8/1/2014	90,209	0%					
		2/1/2015	14,374	0%					
		8/1/2015	88,722	0%					
		2/1/2016	12,887	0%					
		8/1/2016	90,775	0%					
		2/1/2017	11,329	0%					
		8/1/2017	92,758	0%					
		2/1/2018	9,293	0%					
		8/1/2018	94,262	0%					
		2/1/2019	7,169	0%					
		8/1/2019	99,219	0%					
		2/1/2020	4,868	0%					
8/1/2020	100,458	0%							
2/1/2021	2,478	0%							
8/1/2021	101,609	0%							
2004 Fund Loan Series Sub-Total					1,153,771			105,539	1,048,232
\$525,000.00 (Series 2006 NJEIT) Trust Loan	11/9/2006	8/1/2012	30,000	5.00%					
		8/1/2013	30,000	5.00%					
		8/1/2014	35,000	5.00%					
		8/1/2015	35,000	5.00%					
		8/1/2016	40,000	5.00%					
		8/1/2017	40,000	4.00%					
		8/1/2018	40,000	4.00%					
		8/1/2019	45,000	4.00%					
		8/1/2020	45,000	4.00%					
		8/1/2021	45,000	4.125%					
2006 Trust Loan Series Sub-Total					415,000			30,000	385,000
\$487,442.00 ( Series 2006 NJEIT) Fund Loan	11/9/2006	2/1/2012	6,054	0%					
		8/1/2012	27,227	0%					
		2/1/2013	5,525	0%					
		8/1/2013	26,697	0%					
		2/1/2014	4,995	0%					
		8/1/2014	29,697	0%					
		2/1/2015	4,378	0%					
		8/1/2015	29,079	0%					
		2/1/2016	3,760	0%					
		8/1/2016	31,991	0%					
		2/1/2017	3,055	0%					
		8/1/2017	31,285	0%					
		2/1/2018	2,490	0%					
		8/1/2018	30,720	0%					
		2/1/2019	1,925	0%					
		8/1/2019	33,684	0%					
		2/1/2020	1,290	0%					
8/1/2020	33,049	0%							
2/1/2021	655	0%							
8/1/2021	32,414	0%							
2006 Fund Loan Series Sub-Total					374,310			34,339	339,971

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COUNTY OF MONMOUTH, NEW JERSEY**  
**COMPONENT UNIT**  
**SCHEDULE OF REVENUE SERIAL BONDS PAYABLE**  
**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011**

Purpose	Date of Issue	Maturities		Interest Rate	Balance November 30, 2010	Issued	Redeemed	Paid	Balance November 30, 2011
		Date	Amount						
\$3,070,000.00 (Series 2007 NJEIT) Trust Loan	11/8/2007	8/1/2012	\$ 125,000	3.40%	\$	\$	\$	\$	\$
		8/1/2013	125,000	3.50%					
		8/1/2014	130,000	3.60%					
		8/1/2015	135,000	5.00%					
		8/1/2016	145,000	5.00%					
		8/1/2017	150,000	5.00%					
		8/1/2018	155,000	5.00%					
		8/1/2019	165,000	4.00%					
		8/1/2020	170,000	4.00%					
		8/1/2021	180,000	5.00%					
		8/1/2022	185,000	5.00%					
		8/1/2023	195,000	4.25%					
		8/1/2024	205,000	4.50%					
		8/1/2025	215,000	4.50%					
		8/1/2026	225,000	4.50%					
8/1/2027	235,000	4.25%							
2007 Trust Loan Series Sub-Total					2,855,000			115,000	2,740,000
\$2,960,000 ( Series 2007 NJEIT) Fund Loan	11/8/2007	2/1/2012	38,848	0%					
		8/1/2012	118,778	0%					
		2/1/2013	37,489	0%					
		8/1/2013	117,419	0%					
		2/1/2014	36,090	0%					
		8/1/2014	119,218	0%					
		2/1/2015	34,594	0%					
		8/1/2015	120,919	0%					
		2/1/2016	32,436	0%					
		8/1/2016	125,155	0%					
		2/1/2017	30,118	0%					
		8/1/2017	126,034	0%					
		2/1/2018	27,720	0%					
		8/1/2018	126,834	0%					
		2/1/2019	25,242	0%					
		8/1/2019	130,750	0%					
		2/1/2020	23,132	0%					
		8/1/2020	131,837	0%					
		2/1/2021	20,958	0%					
		8/1/2021	136,058	0%					
		2/1/2022	18,080	0%					
		8/1/2022	136,377	0%					
		2/1/2023	15,123	0%					
		8/1/2023	139,814	0%					
		2/1/2024	12,473	0%					
		8/1/2024	143,559	0%					
		2/1/2025	9,524	0%					
8/1/2025	147,004	0%							
2/1/2026	6,430	0%							
8/1/2026	150,305	0%							
2/1/2027	3,193	0%							
8/1/2027	153,463	0%							
2007 Fund Loan Series Sub-Total					2,649,884			154,908	2,494,976

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY  
COMPONENT UNIT  
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE  
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011**

Purpose	Date of Issue	Maturities		Interest Rate	Balance November 30, 2010	Issued	Redeemed	Paid	Balance November 30, 2011
		Date	Amount						
\$475,000 ( Series 2010A NJEIT) ARRA Trust	3/10/2010	8/1/2012	\$ 15,000	5.00%	\$	\$	\$	\$	\$
		8/1/2013	20,000	5.00%					
		8/1/2014	20,000	5.00%					
		8/1/2015	20,000	5.00%					
		8/1/2016	20,000	5.00%					
		8/1/2017	20,000	5.00%					
		8/1/2018	25,000	5.00%					
		8/1/2019	25,000	4.00%					
		8/1/2020	25,000	5.00%					
		8/1/2021	25,000	3.00%					
		8/1/2022	25,000	4.00%					
		8/1/2023	30,000	4.00%					
		8/1/2024	30,000	4.00%					
		8/1/2025	30,000	4.00%					
		8/1/2026	30,000	3.50%					
		8/1/2027	30,000	4.00%					
		8/1/2028	35,000	4.00%					
		8/1/2029	35,000	4.00%					
		2010A ARRA Trust Series Sub-Total					475,000		
\$483,670 (Series 2010 NJEIT) ARRA Fund	3/10/2010	2/1/2012	8,198	0%					
		8/1/2012	16,395	0%					
		2/1/2013	8,198	0%					
		8/1/2013	16,395	0%					
		2/1/2014	8,198	0%					
		8/1/2014	16,395	0%					
		2/1/2015	8,198	0%					
		8/1/2015	16,395	0%					
		2/1/2016	8,198	0%					
		8/1/2016	16,395	0%					
		2/1/2017	8,198	0%					
		8/1/2017	16,395	0%					
		2/1/2018	8,198	0%					
		8/1/2018	16,395	0%					
		2/1/2019	8,198	0%					
		8/1/2019	16,395	0%					
		2/1/2020	8,198	0%					
		8/1/2020	16,395	0%					
		2/1/2021	8,199	0%					
		8/1/2021	16,395	0%					
		2/1/2022	8,198	0%					
		8/1/2022	16,395	0%					
		2/1/2023	8,199	0%					
		8/1/2023	16,395	0%					
		2/1/2024	8,199	0%					
		8/1/2024	16,395	0%					
		2/1/2025	8,199	0%					
		8/1/2025	16,395	0%					
		2/1/2026	8,199	0%					
8/1/2026	16,395	0%							
2/1/2027	8,199	0%							
8/1/2027	16,395	0%							
2/1/2028	8,199	0%							
8/1/2028	16,395	0%							
2/1/2029	8,199	0%							
8/1/2029	16,395	0%							
2010 ARRA Fund Series Sub-Total					467,275			24,593	442,682

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**COUNTY OF MONMOUTH, NEW JERSEY**  
**COMPONENT UNIT**  
**SCHEDULE OF REVENUE SERIAL BONDS PAYABLE**  
**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011**

Purpose	Date of Issue	Maturities		Interest Rate	Balance November 30, 2010	Issued	Redeemed	Paid	Balance November 30, 2011
		Date	Amount						
\$865,000 (Series 2010A NJEIT) Traditional Trust	3/10/2010	8/1/2012	\$ 30,000	5.00%	\$	\$	\$	\$	\$
		8/1/2013	35,000	5.00%					
		8/1/2014	35,000	5.00%					
		8/1/2015	35,000	5.00%					
		8/1/2016	35,000	5.00%					
		8/1/2017	40,000	5.00%					
		8/1/2018	40,000	5.00%					
		8/1/2019	45,000	4.00%					
		8/1/2020	45,000	5.00%					
		8/1/2021	45,000	3.00%					
		8/1/2022	50,000	4.00%					
		8/1/2023	50,000	4.00%					
		8/1/2024	55,000	4.00%					
		8/1/2025	55,000	4.00%					
		8/1/2026	55,000	3.50%					
		8/1/2027	60,000	4.00%					
		8/1/2028	60,000	4.00%					
8/1/2029	65,000	4.00%							
2010A ARRA Traditional Trust Series Sub-Total					865,000			30,000	835,000
\$2,659,650(Series 2010 NJEIT) Traditional Fund	3/10/2010	2/1/2012	45,079	0%					
		8/1/2012	90,158	0%					
		2/1/2013	45,079	0%					
		8/1/2013	90,158	0%					
		2/1/2014	45,079	0%					
		8/1/2014	90,158	0%					
		2/1/2015	45,079	0%					
		8/1/2015	90,158	0%					
		2/1/2016	45,079	0%					
		8/1/2016	90,158	0%					
		2/1/2017	45,079	0%					
		8/1/2017	90,158	0%					
		2/1/2018	45,079	0%					
		8/1/2018	90,158	0%					
		2/1/2019	45,078	0%					
		8/1/2019	90,158	0%					
		2/1/2020	45,078	0%					
		8/1/2020	90,158	0%					
		2/1/2021	45,078	0%					
		8/1/2021	90,158	0%					
		2/1/2022	45,078	0%					
		8/1/2022	90,158	0%					
		2/1/2023	45,078	0%					
		8/1/2023	90,158	0%					
		2/1/2024	45,078	0%					
		8/1/2024	90,158	0%					
		2/1/2025	45,078	0%					
8/1/2025	90,158	0%							
2/1/2026	45,078	0%							
8/1/2026	90,158	0%							
2/1/2027	45,078	0%							
8/1/2027	90,158	0%							
2/1/2028	45,078	0%							
8/1/2028	90,158	0%							
2/1/2029	45,078	0%							
8/1/2029	90,158	0%							
2010A ARRA Traditional Fund Series Sub-Total					2,569,492			135,237	2,434,255

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY  
 COUNTY OF MONMOUTH, NEW JERSEY  
 COMPONENT UNIT  
 SCHEDULE OF REVENUE SERIAL BONDS PAYABLE  
 FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011**

Purpose	Date of Issue	Maturities		Interest Rate	Balance	Issued	Redeemed	Paid	Balance				
		Date	Amount		November 30, 2010				November 30, 2011				
\$1,025,000(Series 2011 Refunding) Proceeds utilized to redeem all outstanding 1998 Series C bonds.	9/22/2011	2/1/2012	\$ 65,000	3.00%	\$	\$	\$	\$	\$				
		2/1/2013	160,000	3.00%									
		2/1/2014	170,000	3.00%									
		2/1/2015	170,000	3.00%									
		2/1/2016	180,000	3.00%									
		2/1/2017	180,000	3.00%									
		2/1/2018	100,000	2.00%									
2011 Refunding Bonds Series Sub-Total						<u>1,025,000</u>			<u>1,025,000</u>				
\$2,970,000(Series 2011 Capital Projects) Proceeds utilized to finance the 2011 Capital Projects.	9/22/2011	2/1/2012	125,000	2.00%									
		2/1/2013	115,000	3.00%									
		2/1/2014	115,000	3.00%									
		2/1/2015	120,000	3.00%									
		2/1/2016	125,000	3.00%									
		2/1/2017	125,000	3.00%									
		2/1/2018	130,000	2.00%									
		2/1/2019	135,000	2.50%									
		2/1/2020	135,000	2.75%									
		2/1/2021	140,000	2.75%									
		2/1/2022	145,000	3.00%									
		2/1/2023	150,000	3.00%									
		2/1/2024	155,000	3.50%									
		2/1/2025	160,000	3.50%									
		2/1/2026	165,000	3.50%									
		2/1/2027	170,000	4.00%									
		2/1/2028	180,000	4.00%									
		2/1/2029	185,000	4.00%									
2/1/2030	195,000	4.00%											
2/1/2031	200,000	4.00%											
2011 Capital Projects Bonds Series Sub-Total						<u>2,970,000</u>			<u>2,970,000</u>				
Grand Total					\$	<u>24,916,886</u>	\$	<u>3,995,000</u>	<u>1,225,000</u>	\$	<u>3,093,228</u>	\$	<u>24,593,656</u>
Detail:													
Current Portion													\$ 3,078,374
Long Term Liability													<u>21,515,281</u>
													\$ <u>24,593,656</u>

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY  
COMPONENT UNIT  
BALANCE SHEET BY FUND AS OF NOVEMBER 30, 2011

	Revenue Fund	Construction Fund	Debt Service Fund	Debt Service Reserve Fund	Authority Reserve Fund	(Memorandum Only) November 30, 2011 Total
<u>ASSETS</u>						
Unrestricted Assets:						
Cash - Money Market	\$ 2,356,783	\$	\$	\$	\$ 414,125	\$ 2,770,907
Petty Cash Fund	350					350
Customer Accounts Receivable	550,264					550,264
Inventory	35,878					35,878
Prepaid Insurance	9,580					9,580
Prepaid Expenses	10,475					10,475
Due from Revenue Fund	173,880				550,224	550,224
Due from Construction Fund	692,574				54,926	228,806
Due from Debt Service Reserve Fund						692,574
<u>Total Unrestricted Assets</u>	<u>3,829,783</u>				<u>1,019,275</u>	<u>4,849,058</u>
Restricted Assets:						
Cash and Cash Equivalents - Money Market	40,865	2,077,621	1,881,365	122,189		4,122,040
Cash and Cash Equivalents - NJ Cash Management Fund				846,964		846,964
Due from Revenue Fund			12,335			12,335
Due from NJ Environmental Infrastructure Trust		2,525,893				2,525,893
<u>Total Restricted Assets</u>	<u>40,865</u>	<u>4,603,514</u>	<u>1,893,700</u>	<u>969,153</u>		<u>7,507,232</u>

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY  
COMPONENT UNIT  
BALANCE SHEET BY FUND AS OF NOVEMBER 30, 2011

	Revenue Fund	Construction Fund	Debt Service Fund	Debt Service Reserve Fund	Authority Reserve Fund	(Memorandum Only) November 30, 2011 Total
<u>ASSETS (CONTINUED)</u>						
Property, Plant and Equipment:						
Land	\$	487,419	\$	\$	\$	487,419
Construction in Progress		6,688				6,688
Treatment Plant and Collection System		47,751,160				47,751,160
Collection System (Donated)		1,811,321				1,811,321
Treatment Plant (Donated)		1,887,353				1,887,353
Machinery and Equipment		729,089				729,089
		52,185,610				52,185,610
Less: Accumulated Depreciation		14,251,695				14,251,695
		37,933,915				37,933,915
Net Property, Plant and Equipment		38,421,334				38,421,334
Other Assets:						
Unamortized Debt Issue Costs		455,361				455,361
Total Assets	\$	43,480,209	\$	1,893,700	\$	1,019,275
		3,870,648		969,153		51,232,985

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY  
COMPONENT UNIT  
BALANCE SHEET BY FUND AS OF NOVEMBER 30, 2011

	<u>Revenue</u>	<u>Construction</u>	<u>Debt</u>	<u>Debt Service</u>	<u>Authority</u>	<u>(Memorandum</u>
	<u>Fund</u>	<u>Fund</u>	<u>Service Fund</u>	<u>Reserve Fund</u>	<u>Reserve Fund</u>	<u>Only)</u>
						<u>November 30,</u>
						<u>2011</u>
						<u>Total</u>
<u>LIABILITIES AND FUND EQUITY</u>						
<u>Current Liabilities Payable From Unrestricted Assets:</u>						
Accounts Payable	\$ 286,582					\$ 286,582
Accrued Expenses	44,013					44,013
Customer Overpayments	16,556					16,556
Payroll Taxes Payable	3,307					3,307
Deferred Revenue	591,424					591,424
Due to Authority Reserve Fund	550,224					550,224
Due to Debt Service Fund	12,335					12,335
<u>Current Liabilities Payable from Restricted Assets:</u>						
Accounts Payable		294,163				294,163
Reserve for Developer's Escrow Deposits	36,453					36,453
Revenue Bonds Payable - Current Portion		1,353,374	1,725,000			3,078,374
Accrued Interest on Revenue Bonds Payable			168,700			168,700
Due to Authority Reserve Fund		54,926				54,926
Due to Revenue Fund		173,880		692,575		866,454
Total Current Liabilities	1,540,894	1,876,343	1,893,700	692,575		6,003,512
Long-Term Revenue Bonds Payable		21,515,284				21,515,284
Less: Unamortized Loss on Defeasance		123,958				123,958
Less: Unamortized Bond Discounts/(Premium)		(312,647)				(312,647)
Reserve for Construction Fund		21,703,973				21,703,973
Other Non Current Post Employment Benefits		19,899,892				19,899,892
Reserve for Compensated Absences	1,227,969					1,227,969
	85,838					85,838
Total Non-Current Liabilities	\$ 1,313,807	\$ 19,899,892	\$	\$	\$	\$ 21,213,699

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY  
COUNTY OF MONMOUTH, NEW JERSEY  
COMPONENT UNIT  
BALANCE SHEET BY FUND AS OF NOVEMBER 30, 2011

	<u>Revenue</u> <u>Fund</u>	<u>Construction</u> <u>Fund</u>	<u>Debt</u> <u>Service Fund</u>	<u>Debt Service</u> <u>Reserve Fund</u>	<u>Authority</u> <u>Reserve Fund</u>	<u>(Memorandum</u> <u>Only)</u> <u>November 30,</u> <u>2011</u> <u>Total</u>
\$	\$	\$	\$	\$	\$	\$
	1,015,947			276,579	83,829	83,829
	1,015,947			435,446	500,000	500,000
	<u>1,015,947</u>			<u>276,579</u>	<u>1,019,275</u>	<u>2,311,801</u>
	<u>\$ 3,870,648</u>	<u>\$ 43,480,208</u>	<u>\$ 1,893,700</u>	<u>\$ 969,153</u>	<u>\$ 1,019,275</u>	<u>\$ 51,232,985</u>

LIABILITIES AND FUND EQUITY  
(CONTINUED)

Fund Equity:	
Net Assets:	
Reserved for:	
Renewal and Replacement	
Rate Stabilization	
Future Debt Service	
Unreserved Net Assets - Designated	
Unreserved Net Assets (Deficit)- Undesignated	
Total Fund Equity	
Total Liabilities and Fund Equity	

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of the Township of Ocean Sewerage Authority, County of Monmouth, State of New Jersey (the "Authority"), as of and for the year ended November 30, 2011, and have issued our report thereon dated January 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting identified as finding 2011-1. 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.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)**

Compliance and Other Matters

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

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

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



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

DAK CPA

DAK CPA, Certified Public Accountants

Long Branch, New Jersey  
January 20, 2012

**SINGLE AUDIT SECTION**

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB  
CIRCULAR A-133 AND NJ OMB CIRCULAR 04-04**

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

Compliance

We have audited the Township of Ocean Sewerage Authority's, in the County Monmouth, State of New Jersey (the "Authority") compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* and the *New Jersey State Grant Compliance Supplement*, that could have a direct and material effect on each of its major federal and state programs for the fiscal year ended November 30, 2011. The Authority's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal and state programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements as prescribed by the Division of Finance, Department of Education, State of New Jersey; OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*; and New Jersey OMB's Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid Payments*. Those standards, OMB Circular A-133 and New Jersey OMB's Circular 04-04, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the fiscal year ended November 30, 2011.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-  
133 AND NJ OMB CIRCULAR 04-04(CONTINUED)**

Internal Control Over Compliance

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

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

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

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



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

DAK CPA

DAK CPA, Certified Public Accountants

January 20, 2012  
Long Branch, New Jersey

TOWNSHIP OF SEWERAGE AUTHORITY  
COUNTY OF MONMOUTH  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant or State Project Number</u>	<u>Grant Year</u>	<u>Award Amount</u>	<u>Cash Received</u>	<u>Expenditures</u>	<u>Cumulative Total Expenditures</u>
Department of Environmental Protection: Pass - Through the State of New Jersey							
Department of Environmental Protection							
Environmental Infrastructure Trust Loan	68.458	4860-510-017	2007	\$ 2,960,500	\$ 107,781	\$ 107,781	\$ 1,732,227
Environmental Infrastructure Trust Loan	68.458	4860-510-009	2009	2,659,650	1,026,590	1,026,590	1,284,599
ARRA - Environmental Infrastructure Trust Loan	68.458	4860-711-001	2009	1,926,012	1,119,374	1,119,374	3,641,483
				<u>\$ 2,253,745</u>	<u>\$ 2,253,745</u>	<u>\$ 6,658,309</u>	

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY  
COUNTY OF MONMOUTH  
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE  
FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011

<u>State Grantor</u>	<u>Grant or State Project Number</u>	<u>Grant Year</u>	<u>Award Amount</u>	<u>Cash Received</u>	<u>Expenditures</u>	<u>Cumulative Total Expenditures</u>
Department of Environmental Protection :						
Environmental Infrastructure Trust Loan	S340750 - 06	2007	\$ 2,960,500	\$ 107,781	\$ 107,781	\$ 1,995,061
Environmental Infrastructure Trust Loan	S340750 - 08B	2009	886,550	342,197	342,197	428,200
Total State Financial Assistance			<u>\$ 449,978</u>	<u>\$ 449,978</u>	<u>\$ 449,978</u>	<u>\$ 2,423,261</u>

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**NOTES TO THE SCHEDULES OF EXPENDITURES OF FEDERAL**  
**AWARDS AND STATE FINANCIAL ASSISTANCE**  
**FISCAL YEAR ENDED NOVEMBER 30, 2011**

Note 1. **GENERAL**

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

Note 2. **BASIS OF ACCOUNTING**

The accompanying schedules of expenditures of federal awards and state financial assistance are presented using the accrual basis of accounting. These bases of accounting are described in Note 2 to the Authority's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and New Jersey OMB 04-04. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of, the basic financial statements.

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

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

Note 4. **RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS**

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

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

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

Note 6. **OTHER**

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

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011**

**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued: Unqualified, dated  
January 20, 2012

Internal control over financial reporting:

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

2. Significant deficiencies identified that are not considered to be material weaknesses?   ✓   yes        no

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

**Federal Awards**

Internal control over major programs:

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

2. Significant deficiencies identified that are not considered to be material weaknesses?        yes   ✓   no

Type of auditor's report issued on compliance for major programs: Unqualified, dated  
January 20, 2012

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

Identification of major programs:

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

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



**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011**

**Section II - Schedule of Financial Statement Findings**

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the basic financial statements that are required to be reported in accordance with Chapters 5.18 through 5.20 of *Government Auditing Standards*.

**Finding 2011-1**

The Authority's Executive Director is preparing biweekly payroll, maintaining personnel records, distributing payroll checks for the few employees not on direct deposit, directing payment of payroll taxes and reconciling the payroll bank statement.

**Criteria or specific requirement**

Segregation of duties is a core element of internal control.

**Condition**

The Authority has reduced administrative costs through attrition. Presently, the Executive Director is the sole administrative employee responsible for all aspects of daily operations. Mitigating controls over other administrative functions such as revenue, billing and receivables and purchasing and accounts payable are adequate. Mitigating controls over the lack of segregation of duties over the payroll/human resource function are not presently adequate.

**Questioned Costs**

None.

**Context**

Attrition and cost savings have reduced the administrative staff to one employee.

**Effect**

Greater potential for an error to occur in the payroll function and not be detected.

**Cause**

Attrition and cost savings.

**Recommendation**

It is recommended that the Authority expand the existing interlocal services agreement with the Township of Ocean so as to include payroll account reconciliation.

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2011**

**Views of Responsible Officials and Planned Corrective action**

Management has reviewed this finding and has indicated it will review and revise its procedures to ensure corrective action is taken.

**Section III – Schedule of Federal and State Financial Assistance  
Findings and Questioned Costs**

None.

**TOWNSHIP OF OCEAN SEWERAGE AUTHORITY**  
**SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS**

**FOR THE FISCAL YEAR ENDED NOVEMBER 30, 2010:**

None.

**OFFICIALS IN OFFICE AND SURETY BOND/INSURANCE COVERAGE**

OFFICIALS IN OFFICE  
AS OF NOVEMBER 30, 2011

The following were in office during the period under audit:

<u>Members of the Sewerage Authority</u>	<u>Title</u>
John Villapiano	Chairman
Dennis Galvin	Vice-Chairman
Chris Kelly	Secretary/Treasurer
Ralph Stubbs	Member
Richard Bernhardt	Member

Other Officials

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

**INSURANCE COVERAGE**  
**NOVEMBER 30, 2011**

			<u>Expiration Date</u>
Special Multi Peril Policy:			
Property:			
Buildings and Contents	\$ 50,000,000.00		1/1/2012 *
Contractors Equipment	66,805.00		
Employee Blanket Dishonesty	2,500,000.00		
Valuable Papers	10,000,000.00		
Accounts Receivable	10,000,000.00		
Depositor's Forgery	100,000.00		
Theft, Disappearance and Destruction:			
Inside	5,000.00		
Outside	5,000.00		
Miscellaneous Tools and Equipment	10,000.00		
Boiler and Machinery	100,000,000.00		
	<u>Property Damage</u>	<u>Bodily Injury</u>	
Liability:			
General Liability, Property and Bodily Damage (Combined Single Limit)	\$ 10,000,000.00		1/1/2012 *
Auto Fleet:			
Liability (Combined Single Limit)	\$ 10,000,000.00		1/1/2012 *
Uninsured Motorists	10,000,000.00		
Public Officials Liability	3,000,000.00		1/1/2012 *
Ocean Outfall - Flood and Earthquake	5,000,000.00		1/1/2012 *
Workmen's Compensation	Statutory	1,000,000.00	1/1/2012 *
Excess Liability	3,000,000.00		1/1/2012

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

\*Policies were renewed.

**GENERAL COMMENTS AND RECOMMENDATIONS**

**GENERAL COMMENTS**  
**NOVEMBER 30, 2011**

Cash Balances

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

The Petty Cash was counted.

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

The Members and Executive Director of the Authority have the responsibility of determining whether any contract or agreement might result in violation of the statute and, when necessary, the Authority Counsel 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 2011 bid threshold was \$36,000.

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

Sewer Line Repairs	Liquid Oxygen
Sodium Hypochlorite	Furnishing and Delivery of Aqueous
Sludge Removal, Transportation and Disposal	Calcium Nitrate

The minutes indicate that resolutions were adopted and advertised authorizing the awarding of contracts or agreements for "Professional Services" per N.J.S. 40A:11-5 (As Amended).

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.

Our examination of expenditures did not reveal any individual payments, contracts or agreements in excess of \$36,000.00 "for the performance of any work or the furnishing or hiring of any materials or supplies" other than those commented on hereinafter or where bids had been previously sought by public advertisement or where a resolution had been previously adopted under the provisions of N.J.S. 40A:11-6 (As Amended).

Emergency expenditures were made under the provisions of N.J.S.A. 40A:11-6 for the replacement of the Deal Lake Siphon.

**GENERAL COMMENTS**  
**NOVEMBER 30, 2011 - (CONTINUED)**

Delinquent Sewer Charges and Initial Service Charges

A detail of all unpaid sewer charges and initial service charges is being properly carried on the Authority's records. An abstract taken from these records as at November 30, 2011 covering all unpaid charges on that date was verified with the accounting control figures shown in this report.

A test verification of delinquent charges outstanding at November 30, 2011, and accounts with no balances was made; and the results indicated that the accounts of the Authority were in order, based on the replies returned on the verifications mailed.

Collection of Interest on Delinquent Sewer Charges

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

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

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

Interest Requirements

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

Bond Resolution Covenants

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

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

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

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

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

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

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

**GENERAL COMMENTS**  
**NOVEMBER 30, 2011 - (CONTINUED)**

Bond Resolution Covenants - (Continued)

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

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

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

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

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

Revenues

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

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

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

Expenditures

In accordance with the bond resolution, Section 610, the Authority adopted an annual operating budget for the fiscal year ending November 30, 2011.

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

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

Payroll

An examination was made of the employees' compensation records, including compensated absences and employees' contribution towards health coverage for the year ended November 30, 2011 and no exceptions were noted.

**GENERAL COMMENTS**  
**NOVEMBER 30, 2011 - (CONTINUED)**

Payroll - Continued

**Finding:**

**Condition:** Our examination revealed that the Authority's Executive Director is preparing biweekly payroll, maintaining personnel records, distributing payroll checks for the few employees not on direct deposit, directing payment of payroll taxes and reconciling the payroll bank statement.

**Cause:** The cause of the condition is a attrition in administrative staff.

**Criteria:** Segregation of duties is a fundamental element of internal control.

**Client Response:** Management is aware of the lack of segregation of duties over payroll preparation and processing and has a plan to strengthen this control element.

**Recommendation:** It is recommended that the existing interlocal services agreement for administrative services be expanded to include payroll account reconciliation.

Other

An exit audit conference with the Authority was held.

Acknowledgment

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

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

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

**RECOMMENDATIONS**  
**NOVEMBER 30, 2011**

It is recommended:

2011-1. That the existing interlocal services agreement with the Township of Ocean for administrative services be expanded to include payroll account reconciliation.

Summary Schedule of Prior Year Findings

There were no 2010 audit findings.

A corrective action plan addressing the above recommendations must be implemented by the Authority. Should you desire my assistance in developing or implementing this plan, please do not hesitate to contact me.

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

Very truly yours,



David A. Kaplan  
Certified Public Accountant

For The Firm  
DAK CPA  
Certified Public Accountants