

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY

COUNTY OF MONMOUTH, NEW JERSEY

COMPONENT UNIT

REPORT OF AUDIT

FISCAL YEARS ENDED DECEMBER 31, 2012

AND NOVEMBER 30, 2011

Prepared by:

David A. Kaplan, CPA, RMA

For the Firm:

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TOWNSHIP OF OCEAN SEWERAGE AUTHORITY

COMPONENT UNIT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements and the related notes to financial statements of the Township of Ocean Authority ("Authority") as of and for the fiscal years ended December 31, 2012 and 2011, as listed in the accompanying table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2012 and 2011 and the respective changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 limited procedures, which consisted principally of inquiries of management regarding 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The information contained in the supplementary information is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2013, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



David A. Kaplan, CPA
Registered Municipal Accountant #433

DAK CPA

DAK CPA
Certified Public Accountants

Long Branch, New Jersey
February 25, 2013

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. Please note the Authority changed their fiscal year end from November 30 to December 31, effective with the year ended December 31, 2012, which is a thirteen month fiscal period.

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 Position, the Comparative Statement of Revenues, Expenses and Changes in Net Fund Net Position, 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 position remained good at year end, as depicted by the financial data which follows.

Comparative Statement of Net Position

The Authority's total assets decreased by \$4,013,063. Total liabilities decreased by \$6,106,006. Assets exceeded liabilities by \$24,304,638. This compares to 2011 where assets exceeded liabilities by \$22,211,696.

The Authority's Net Position of \$24,304,638 is comprised of the following:

1. Investment in Capital Assets of \$22,467,071, 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	\$	37,987,284
Less:		
Bonds Payable - Current		(1,459,125)
Bonds Payable - Long Term		(17,926,440)
Add:		
Due from NJ EIT		1,654,050
Unexpended Bond Proceeds		1,812,649
Unamortized Bond Issue Costs		398,652
Investment in Capital Assets	\$	22,467,071

Investment in Capital Assets increased by \$3,845,492.

2. Net Position of \$500,000 restricted for the purpose of Renewal and Replacement of "the System", which is determined each year by an independent consulting engineer.
3. Net Position of \$122,188 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 Position of \$1,033,360 restricted 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 position of \$44,369 represents the portion available to maintain the Authority's continuing obligations to the contractual customers of its service area, its creditors and current liabilities. This amount decreased by \$1,404,420 from 2011.

Comparative Condensed Statements of Net Position

	<u>December 31,</u> <u>2012</u>	<u>As of</u> <u>November 30,</u>	
		<u>2011</u>	<u>2010</u>
Total Current Assets	\$ 3,382,274	\$ 3,377,455	\$ 2,897,077
Total Restricted Assets	3,967,773	7,494,897	8,795,965
Capital Assets, Net	37,987,284	38,421,334	35,823,004
Deferred Costs	<u>398,652</u>	<u>455,361</u>	<u>471,915</u>
Total Assets	<u>\$ 45,735,984</u>	<u>\$ 49,749,048</u>	<u>\$ 47,987,962</u>
Total Current Liabilities Payable from Unrestricted Assets	\$ 307,781	\$ 941,882	\$ 943,162
Total Current Liabilities Payable from Restricted Assets	1,743,639	3,577,690	3,887,196
Accrued Noncurrent Employee Benefits	1,239,835	1,227,969	992,002
Compensated Absences Payable	71,871	85,838	86,437
Non Current Obligations, Net	<u>18,068,222</u>	<u>21,703,973</u>	<u>22,166,308</u>
Total Liabilities	<u>\$ 21,431,346</u>	<u>\$ 27,537,352</u>	<u>\$ 28,075,105</u>
Net Position	<u>\$ 24,304,638</u>	<u>\$ 22,211,696</u>	<u>\$ 19,912,857</u>

Total Current Assets have remained relatively unchanged.

Total Restricted Assets have decreased because of the amounts received from the 2010 New Jersey Environmental Infrastructure Trust Loan and because of reductions in restricted cash.

Capital Assets, Net have decreased because assets capitalized were less than depreciation expense.

Total Current Liabilities Payable from Unrestricted Assets have decreased because, with the change in fiscal year end, deferred revenue was eliminated.

Total Current Liabilities Payable from Restricted Assets have decreased because of decreases in accrued interest, accounts payable and the current portion of revenue bonds payable.

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

Total Net Position has increased as a result of the reported positive change in Net Position for the 2012 fiscal year.

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

	<u>Fiscal Years Ended</u>		
	<u>December 31,</u> <u>2012</u>	<u>November 30,</u> <u>2011</u> <u>2010</u>	
Total Operating Revenues	\$ <u>7,837,088</u>	\$ <u>7,460,137</u>	\$ <u>7,093,684</u>
Operating Expenses	4,186,232	3,730,270	3,828,250
Depreciation	<u>1,123,550</u>	<u>1,049,323</u>	<u>791,621</u>
Total Operating Expenses	<u>5,309,782</u>	<u>4,779,593</u>	<u>4,619,871</u>
Operating Income	2,527,306	2,680,544	2,473,813
Non-Operating Revenues/ (Expenses) - Net	<u>(434,364)</u>	<u>(381,706)</u>	<u>238,819</u>
Change in Net Position	2,092,942	2,298,838	2,712,632
Net Position Beginning	<u>22,211,696</u>	<u>19,912,857</u>	<u>17,200,225</u>
Net Position Ending	\$ <u><u>24,304,638</u></u>	\$ <u><u>22,211,696</u></u>	\$ <u><u>19,912,857</u></u>

Total Operating Revenues increased from the prior year.

Operating Income decreased by \$205,897 from the prior year.

Operating Expenses increased by \$530,190. The most significant change was in the cost of providing service, mainly due to fiscal 2012 running for thirteen months.

Total Net Position increased by \$2,092,942, from \$22,211,296 to \$24,304,638.

Statement of Cash Flows

Cash and Cash Equivalents decreased by \$2,710,170, attributable in part to the repayment of 2002 Revenue bonds. This compares to a net increase of \$1,798,206 in 2011.

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 again this year.

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 December 31, 2012 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 \$4.3 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 2012 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 and de-obligated a portion of the Authority's 2007 bonds. In addition, the Authority achieved debt service savings 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 or by visiting the Authority's website at www.tosa-nj.org.

BASIC FINANCIAL STATEMENTS

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
COMPARATIVE STATEMENT OF NET POSITION
DECEMBER 31, 2012 AND NOVEMBER 30, 2011

	<u>December 31,</u> <u>2012</u>	<u>November 30,</u> <u>2011</u>
<u>ASSETS</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 2,716,018	\$ 2,770,907
Petty Cash and Change Funds	350	350
	2,716,368	2,771,257
Customer Accounts Receivable	605,839	550,264
Prepaid Expenses	28,048	20,055
Inventory	32,019	35,878
Total Current Assets	3,382,274	3,377,454
Restricted Assets:		
Developer Deposits:		
Cash and Cash Equivalents	42,775	40,865
Debt Service Account:		
Cash and Cash Equivalents	336,102	1,881,365
Debt Service Reserve Account:		
Cash and Cash Equivalents	122,196	969,153
Construction Account:		
Cash and Cash Equivalents	1,812,649	2,077,621
Due from NJ Environmental Infrastructure Trust	1,654,050	2,525,893
Total Restricted Assets	3,967,773	7,494,897
Noncurrent Assets:		
Capital Assets:		
Non-Depreciable	498,928	494,106
Depreciable - Net	37,488,356	37,927,228
Total Noncurrent Assets	37,987,284	38,421,334
Other Assets:		
Deferred Charges:		
Unamortized Debt Issue Costs	398,652	455,361
Total Assets	\$ 45,735,985	\$ 49,749,048

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 POSITION
DECEMBER 31, 2012 AND NOVEMBER 30, 2011

	<u>December 31,</u> <u>2012</u>	<u>November 30,</u> <u>2011</u>
<u>LIABILITIES</u>		
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable	\$ 230,156	\$ 286,582
Accrued Expenses	56,524	44,013
Customer Overpayments	18,460	16,556
Payroll Taxes Payable	2,641	3,307
Unearned Revenue	<u> </u>	<u>591,424</u>
Total Current Liabilities Payable from Current Assets	<u>307,781</u>	<u>941,882</u>
Current Liabilities Payable from Restricted Assets:		
Reserve for Developer's Escrow Deposits	37,954	36,453
Accrued Interest on Revenue Bonds Payable	85,173	168,700
Accounts Payable	161,386	294,163
Revenue Bonds Payable - Current Portion	<u>1,459,125</u>	<u>3,078,374</u>
Total Current Liabilities Payable from Restricted Assets	<u>1,743,639</u>	<u>3,577,690</u>
Non-Current Liabilities:		
Long-Term Revenue Bonds Payable	17,926,440	21,515,284
Less: Unamortized Loss on Defeasance	85,597	123,958
Less: Unamortized Bond Discounts/(Premium)	<u>(227,378)</u>	<u>(312,647)</u>
	18,068,222	21,703,973
Accrued Noncurrent Employee Benefits	1,239,835	1,227,969
Compensated Absences Payable	<u>71,871</u>	<u>85,838</u>
Total Non-Current Liabilities	<u>19,379,927</u>	<u>23,017,780</u>
Total Liabilities	<u>\$ 21,431,346</u>	<u>\$ 27,537,352</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 NET POSITION
DECEMBER 31, 2012 AND NOVEMBER 30, 2011

	December 31, <u>2012</u>	November 30, <u>2011</u>
<u>NET POSITION</u>		
Restricted for:		
Rate Stabilization	\$ 137,651	\$ 83,829
Future Debt Service	122,188	276,579
Renewal and Replacement	500,000	500,000
Working Capital	1,033,360	1,015,947
Investment in Capital Assets	22,467,071	18,886,551
Unrestricted Net Position	44,369	1,448,789
 Total Net Position	 \$ 24,304,638	 \$ 22,211,696

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 FUND NET POSITION
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2012 AND NOVEMBER 30, 2011

	Fiscal Years Ended	
	December 31, 2012	November 30, 2011
Operating Revenues:		
User Charges	\$ 7,033,372	\$ 7,239,828
Initial Service Charges	212,292	220,309
Total Operating Revenues	7,245,664	7,460,137
Operating Expenses:		
Cost of Providing Services	2,904,237	2,330,777
Administration and General	1,281,995	1,399,493
Depreciation	1,123,550	1,049,323
Total Operating Expenses	5,309,782	4,779,592
Operating Income	1,935,882	2,680,545
Non-Operating Revenues/(Expenses):		
Amortization of Debt Issue Costs	(63,618)	(59,808)
Interest Expense	(502,084)	(437,342)
Major Repairs and Costs	(24,336)	
Interest on Investments	9,749	8,485
Miscellaneous Income/(Expenses)	145,925	106,958
Total Non-Operating Revenues/(Expenses)	(434,364)	(381,706)
Change in Net Position Before Special Item	\$ 1,501,518	\$ 1,164,426
Special Item:		
Release of Deferred Revenue	591,424	
Change in Net Position After Special Item	2,092,942	2,298,839
Net Position Beginning of Year	22,211,696	19,912,857
Net Position End of Year	\$ 24,304,638	\$ 22,211,696

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 DECEMBER 31, 2012 AND NOVEMBER 30, 2011

	Fiscal Years Ended	
	December 31, 2012	November 30, 2011
Cash Flows from Operating Activities:		
Change in Net Position	\$ 2,092,942	\$ 2,298,839
Adjustments to Reconcile Net Income to Net Cash Provided by/(Used in) Operating Activities:		
Depreciation	1,123,550	1,049,323
Amortization of Debt Issue Costs	63,618	59,808
Amortization of Loss on Defeasance	38,362	35,411
Amortization of Bond Discount/(Premium)	(85,269)	(116,344)
Changes in Assets and Liabilities:		
Unrestricted Accounts	(59,709)	(84,824)
Restricted Accounts	871,843	2,703,721
Increase/(Decrease) in Current Liabilities:		
Payable from Unrestricted Assets	(634,101)	(1,280)
Payable from Restricted Assets	(1,834,051)	(309,507)
(Decrease) Increase in Other Liabilities	(2,102)	235,368
Total Adjustments to Change in Net Assets	(517,860)	3,571,675
Net Cash Provided by/(Used In) Operating Activities	1,575,082	5,870,514
Cash Flows from Capital and Related Financing Activities:		
Net Increase in Property, Plant and Equipment	(689,500)	(3,647,653)
Original Issue Discount/Premium 2011 Bonds		17,491
Costs of Issuance	(6,909)	(89,381)
Cost of Redemption of 1998 C Bonds		(34,392)
Net (Decrease)/Increase in Long-Term Bonds Payable	(3,588,843)	(318,373)
Net Cash (Used in)/ Provided by Capital and Related Financing Activities	(4,285,252)	(4,072,308)
Net Increase in Cash and Cash Equivalents	(2,710,170)	1,798,206
Cash and Cash Equivalents at Beginning of Year	7,740,261	5,942,055
Cash and Cash Equivalents at End of Year	\$ 5,030,091	\$ 7,740,261
Reconciliation to Statement of Net Assets:		
Unrestricted Cash and Cash Equivalents	\$ 2,716,368	\$ 2,771,257
Restricted Cash and Cash Equivalents	2,313,723	4,969,004
	\$ 5,030,091	\$ 7,740,261

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 DECEMBER 31, 2012 AND
NOVEMBER 30, 2011

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.

The Authority changed its fiscal year end to December 31 from the previous fiscal year end of November 30, effective with the fiscal year ended December 31, 2012, which ran for a thirteen month period in this transitional year.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Grants

Contributions received from various sources as grants are recorded in the period they become measurable. 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 at cost, as of December 31, 2012 and November 30, 2011 were \$32,019 and \$35,878, respectively.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COMPONENT UNIT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2012 AND
NOVEMBER 30, 2011

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, 2011	<u>Current Year's Activity</u>		Balance December 31, 2012
		<u>Increase</u>	<u>Transfers</u>	
Non-Depreciable Assets:				
Land	\$ 487,419	\$		\$ 487,419
Construction in Progress	6,687	11,509	(6,687)	11,509
Depreciable Assets:				
Treatment Plant and Collection System	47,775,809	634,376	6,687	48,416,872
Collection System (Contributed)	1,811,321			1,811,321
Treatment Plant (Contributed)	1,862,703			1,862,703
Machinery and Equipment	729,090	43,615		772,705
	52,673,029	689,500		53,362,529
Less: Accumulated Depreciation	14,251,695	1,123,550		15,375,245
	<u>\$ 38,421,334</u>	<u>\$ 1,813,050</u>		<u>\$ 37,987,284</u>

It is the Authorities policy to record capital assets when their cost exceeds \$2,000. Depreciation expense for the fiscal years ended December 31, 2012 and November 30, 2011 was \$1,123,550 and \$1,049,323, respectively. Depreciation on assets acquired with grants-in-aid and contributed capital assets is recorded as a reduction of contributed capital.

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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 2001, 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 \$904,436 and \$840,818 as of December 31, 2012 and November 30, 2011, 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.

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

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net position is 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 include petty cash, amounts on deposit and short-term investments with original maturities of three months or less.

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

A. Deposits

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

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

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

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

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

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COMPONENT UNIT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2012 AND
NOVEMBER 30, 2011

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

A. Deposits (Continued)

As of December 31, 2012, Cash and Cash Equivalents (Deposits) of the Authority consisted of a petty cash fund and interest bearing checking and money market accounts and a certificate of deposit totaling \$5,030,091.

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 December 31, 2012, 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 DECEMBER 31, 2012 AND
NOVEMBER 30, 2011

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, 2013 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 \$210,000 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. The bonds were repaid in full with the final principal installment made on December 1, 2012.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COMPONENT UNIT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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NOVEMBER 30, 2011

Note 4. LONG-TERM LIABILITIES (CONTINUED)

2002 Series B Revenue Refunding Bonds

Description – The Authority’s Sewer Revenue Refunding Bonds, 2002 Series B were issued on September 3, 2002 in the aggregate principal amount of \$12,690,000. The 2002 Series B Bonds were issued to: (i) currently refund on a forward basis a portion of the Authority’s outstanding Series 1992B bonds, (ii) fund the Debt Service Reserve Requirement and (iii) pay certain costs of issuance. The bonds were repaid in full with the final principal installment made on December 1, 2011.

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 \$100,000 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.

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.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2012 AND
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Note 4. LONG-TERM LIABILITIES (CONTINUED)

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

On November 8, 2007, the Authority issued \$6,030,500 in Revenue Bonds through the New Jersey Environmental Infrastructure Trust. The "Fund" (Federal Funds) portion of the Bond Issue, \$2,960,500 was issued with no interest rate. The Bonds mature semi-annually through 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.

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

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

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

2010 ARRA Revenue Bonds

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

2010 Traditional Revenue Bonds

The Traditional portion of the Revenue Bonds totaled \$3,524,650. This amount was segregated into two portions: Trust Loan Bonds of \$865,000 which mature annually on August 1 of each year through 2029 in amounts ranging from \$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.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
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Note 4. LONG-TERM LIABILITIES (CONTINUED)

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 2.75% 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 \$100,000 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
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2012 AND
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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>
02/01/13	\$ 426,277	\$ 235,860	\$ 662,137
08/01/13	1,032,847	231,735	1,264,582
	<u>1,459,124</u>	<u>467,595</u>	<u>1,926,719</u>
02/01/14	428,828	217,668	646,496
08/01/14	1,067,525	213,393	1,280,918
	<u>1,496,353</u>	<u>431,061</u>	<u>1,927,414</u>
02/01/15	426,656	203,303	629,959
08/01/15	1,084,679	198,953	1,283,632
	<u>1,511,335</u>	<u>402,256</u>	<u>1,913,591</u>
02/01/16	433,659	185,478	619,137
08/01/16	1,134,888	180,903	1,315,791
	<u>1,568,547</u>	<u>366,381</u>	<u>1,934,928</u>
02/01/17	425,110	167,578	592,688
08/01/17	1,164,560	162,003	1,326,563
	<u>1,589,670</u>	<u>329,581</u>	<u>1,919,251</u>
2018-2022	6,810,928	1,093,382	7,904,310
2023-2027	3,675,319	477,700	4,153,019
2028-2031	1,274,285	74,000	1,348,285
	<u>\$ 19,385,561</u>	<u>\$ 3,641,956</u>	<u>\$ 23,027,517</u>

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COMPONENT UNIT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2012 AND
NOVEMBER 30, 2011

Note 4. LONG-TERM LIABILITIES (CONTINUED)

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

	Balance November 30, <u>2011</u>	<u>Principal</u> Paid	<u>De-Obligated</u>	Balance December 31, <u>2012</u>	Current <u>Portion</u>
Revenue Bonds	\$ <u>24,593,656</u>	\$ <u>5,003,374</u>	\$ <u>204,719</u>	\$ <u>19,385,561</u>	\$ <u>1,459,125</u>
	\$ <u><u>24,593,656</u></u>	\$ <u><u>5,003,374</u></u>	\$ <u><u>204,719</u></u>	\$ <u><u>19,385,561</u></u>	\$ <u><u>1,459,125</u></u>

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 December 31, 2012 and November 30, 2011 is \$71,871 and \$85,838, respectively, exclusive of fringe benefits associated thereon, which it provides for through annual budget appropriations. This liability is fully funded.

Note 6. PENSION PLAN

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.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COMPONENT UNIT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2012 AND
NOVEMBER 30, 2011

Note 6. PENSION PLAN - (CONTINUED)

Funding Policy and Contributions

Employee contributions were 6.5% of pensionable wages through June 30, 2012 and 6.64% thereafter. 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>Employees'</u> <u>Contributions</u>	<u>Employers'</u> <u>Contributions</u>
2012	\$ 87,752	\$ 136,794
2011	71,446	132,323
2010	67,475	93,721

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

All amounts required by the bond resolution to be held in the debt service and debt service reserve funds were as required at December 31, 2012 and November 30, 2011.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COMPONENT UNIT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2012 AND
NOVEMBER 30, 2011

Note 9. NET POSITION

Restricted for Rate Stabilization - The \$137,651 Reserve for Rate Stabilization at December 31, 2012 was not utilized as revenue in the succeeding year's budget.

Restricted for Future Debt Service – The Authority's Bond Resolution mandates a designation of net position for the benefit of the bond holders equal to \$122,188.

Restricted for Working Capital - The Authority's Bond Resolution mandates a designation of net position for operating costs at a level equal to one quarter of the succeeding year's operating budget, or \$1,033,360.

Restricted for Renewal and Replacement – The Authority's Bond Resolution mandates a designation of net position 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, respectively.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2012 AND
NOVEMBER 30, 2011

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 2012 and 2011.

	Fiscal Year Ended December 31, 2012		
	Per Schedule 3	Less Asset Acquisitions	Per Exhibit B
Administration	\$ 1,287,195	\$ (5,200)	\$ 1,281,995
Treatment Plant	2,374,016	(38,415)	2,335,601
Collection System	568,636		568,636
Total Cost of Providing Service	2,942,652	(38,415)	2,904,237
Totals	\$ 4,229,847	\$ (43,615)	\$ 4,186,232

	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".

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COMPONENT UNIT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2012 AND
NOVEMBER 30, 2011

Note 12. OTHER EMPLOYEE BENEFITS - CONTINUED

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	2%
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	27 years
Actuarial Cost Method	Entry Age
Amortization Method	Level Percentage of Payroll
Average Retirement Age	65

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.

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COMPONENT UNIT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2012 AND
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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 \$1,442,747.

The following are the components of the 2012 annual OPEB cost:

Normal Cost	\$ 59,389
Amortization Cost	<u>155,391</u>
ARC - 2012	\$ 214,780
Less: Retiree's health care	<u>205,598</u>
	<u>\$ 9,182</u>

As of December 31, 2012, the actuarially determined liability for unfunded OPEB obligation equaled \$6,967,297. The difference between this actuarially determined accrued liability and the sum of the liability currently recognized is being amortized over a 27 year period.

Funding Status

The Authority provides funding for the annual normal cost of OPEB benefits. The Authority has provided \$100,000 in funding for its unfunded accrued OPEB obligation. Funding alternatives are being reviewed.

Note 13. OTHER MATTERS - SPECIAL ITEM

Management has opted to change the Authority's year end from November 30 to December 31 effective with the current period. Due to this change the release of deferred revenue of \$591,424 was necessary.

Note 14. SUBSEQUENT EVENTS

There were no events occurring through the date of the independent auditor's report, February 25, 2013, 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 DECEMBER 31, 2012

	Revenue Account	Authority Reserve Account	Total
Cash and Cash Equivalents:			
December 1, 2011	\$ 2,357,132	\$ 414,125	\$ 2,771,257
Cash Receipts:			
Transfer from Authority Reserve Account	9,414		9,414
Transfer from Revenue Account		62,122	62,122
Transfer from Construction Account	300,162	11,852	312,014
Transfer from Debt Service Reserve Account	847,046		847,046
Transfer from Debt Service Account	78,978		78,978
Interest Received - Net	9,749	1,201	10,951
Customer Overpayments	18,460		18,460
Annual Service Charges	6,656,540		6,656,540
Initial Service Charges	212,292		212,292
Miscellaneous Fees and Charges	39,986		39,986
Interest on Delinquent Accounts	55,040		55,040
	<hr/>	<hr/>	<hr/>
Total Cash and Cash Equivalents Available	10,663,778	489,300	11,153,078
Cash Disbursed:			
Accounts Payable	286,582		286,582
Transfer to Revenue Account		9,414	9,414
Transfer to Authority Reserve Account	62,122		62,122
Transfer to Restricted Accounts	192,734		192,734
Transfer to Debt Service Account	3,936,741		3,936,741
Budgetary Expenditures	3,817,938		3,817,938
Accrued Expenses	44,013		44,013
Prepaid Expenses	20,055		20,055
Major Repairs and Replacements		24,336	24,336
	<hr/>	<hr/>	<hr/>
Total Cash Disbursed	8,360,184	33,750	8,393,935
Cash and Cash Equivalents, December 31, 2012	\$ <u>2,303,593</u>	\$ <u>455,550</u>	\$ <u>2,759,143</u>
Balance Comprised of:			
Petty Cash and Change Funds	\$ 350	\$	\$ 350
Cash - Money Market Funds/Checking Accounts	<u>2,303,243</u>	<u>455,550</u>	<u>2,758,793</u>
	<hr/>	<hr/>	<hr/>
	\$ <u>2,303,593</u>	\$ <u>455,550</u>	\$ <u>2,759,143</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 DECEMBER 31, 2012

	Accounts Required by				Developer's Escrow	Totals
	Debt Service Account	Revenue Bond Resolution Debt Service Reserve Account	Construction Account			
Cash and Cash Equivalents:						
December 1, 2011	\$ 1,881,365	\$ 969,153	\$ 2,077,621	\$ 40,865	\$	4,969,004
Cash Receipts:						
Interest Received	61	88	466	84		699
Transfer from Revenue Account:						
Budget for Debt Service	3,909,441					3,909,441
Other	27,300		165,434			192,734
NJEIT Proceeds			667,124			667,124
Developer's Escrow Deposits				25,956		25,956
Total Cash and Cash Equivalents Available	5,818,167	969,241	2,910,644	66,905		9,764,958
Cash Disbursed:						
Payment of Bond Principal	4,798,544					4,798,544
Payment of Interest on Bonds	577,244					577,244
Payment of NJEIT Admin. Fees	27,300					27,300
Payment of Accounts Payable			294,163			294,163
Payment of Costs of Issuance			6,909			6,909
Payment of Project Costs			484,910			484,910
Transfer to Authority Reserve Fund -Unrestricted			11,852			11,852
Reserve for Developer's Escrow				8,478		8,478
Transfer to Revenue Fund - Unrestricted	78,978	847,046	300,162	15,652		1,241,838
Total Cash Disbursed	5,482,065	847,046	1,097,996	24,130		7,451,236
Cash and Cash Equivalents, December 31, 2012	\$ 336,102	\$ 122,196	\$ 1,812,649	\$ 42,775	\$	2,313,722
Balance Comprised of:						
Cash - Checking	\$ 336,102	\$ 122,196	\$ 1,812,649	\$ 42,775	\$	42,775
Goldman US Treasury Obligation Fund						2,270,947
	\$ 336,102	\$ 122,196	\$ 1,812,649	\$ 42,775	\$	2,313,722

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 DECEMBER 31, 2012 AND NOVEMBER 30, 2011

	December 31, 2012			November 30, 2011		
	Original Budget	Final Budget	Realized	Final Budget	Realized	Variance Final to Actual
Revenues						
User Charges	\$ 7,823,290	\$ 7,781,194	\$ 7,624,796	\$ 7,006,720	\$ 7,239,828	\$ 233,108
Initial Service Charges		210,000	212,292	147,653	220,309	72,656
Interest on Investments	21,000	41,000	9,749	20,000	8,485	(11,515)
Interest on Delinquent Accounts	46,000	46,000	55,040	45,000	58,405	13,405
Miscellaneous Fees and Charges	13,000	13,000	90,885	13,000	38,117	25,117
Bond Service Reserve Release	155,110	155,110	154,391	643,738	643,738	
Total Revenues	\$ 8,058,400	\$ 8,246,304	\$ 8,147,153	\$ 8,519,849	\$ 8,852,621	\$ 332,772

	December 31, 2012			November 30, 2011		
	Original Budget	Final Budget	Paid or Charged	Final Budget	Paid or Charged	Variance Final to Actual
Expenditures						
Administration:						
Members Salaries	\$ 11,125	\$ 12,820	\$ 10,250	\$ 10,250	\$ 9,795	\$ 455
Administrative Salaries	120,000	120,000	118,988	105,000	98,929	6,071
Consultant Services			1,791	3,900	3,867	33
Office Salaries	16,900			55,900	54,874	1,026
Telephone	19,000	21,000	23,657	22,000	21,900	100
Office Supplies	9,000	12,000	13,854	11,250	12,883	(1,633)
Postage	10,000	10,000	1,746	3,000	2,918	82
Professional Fees:						
Engineering	27,500.00	136,500	136,423	113,425	10,835	102,590
Legal	27,500.00	13,500	12,479	19,000	14,002	4,998
Accounting	44,000.00	41,440	43,425	44,000	35,500	8,500
Insurance General	125,000	117,600	117,721	115,700	115,129	571

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 DECEMBER 31, 2012 AND NOVEMBER 30, 2011

	December 31, 2012			November 30, 2011			
	Original Budget	Final Budget	Paid or Charged	Variance Final to Actual	Final Budget	Paid or Charged	Variance Final to Actual
Expenditures (Continued)							
Administration (Continued):							
Travel Expense	\$ 1,000	\$ 2,000	\$ 1,843	\$ 157	\$ 500	\$ 350	\$ 150
Dues and Subscriptions	4,000	4,150	4,335	(185)	4,450	4,316	134
Hospitalization Insurance	388,200	393,200	174,351	218,849	390,050	183,652	176,398
Social Security Taxes	110,000	110,000	102,440	7,560	111,057	106,830	4,227
Public Employee Retirement System	136,794	136,794	136,794		132,336	132,323	13
Group Life Insurance	850	850	652	198	825	767	58
Advertising	2,000	2,000	594	1,406	1,250	1,198	52
Heat	2,625	2,625	2,383	242	2,500	1,926	574
Trustee and Paying Agent	56,500	69,215	64,214	5,001	56,500	67,590	(11,090)
Equipment Maintenance Contracts	10,000	8,600	8,769	(169)	9,000	8,001	999
Office Equipment	500	5,200	5,300	(100)			
Conventions and Seminars	2,500	1,900	1,836	64	1,250	1,212	39
Education and Training Courses	4,000	3,250	3,227	23	3,600	3,579	21
Safety Equipment	6,000	1,000		1,000	2,000	137	1,863
Reserve for Accumulated Vacation and Sick Time			1,536	(1,536)		40,607	(40,607)
Other Post Employment Benefits	100,000	100,000	214,780	(114,780)	84,900	397,623	(312,723)
Township of Ocean Interlocal	99,000	99,000	83,808	15,192	69,000	68,750	250
Total Administration	1,333,994	1,426,644	1,287,195	139,449	1,342,643	1,399,493	(56,850)
Treatment Plant:							
Salaries							
Base	940,000	900,000	889,103	10,897	862,100	852,984	9,116
Overtime	36,850	54,350	42,585	11,765	79,000	23,130	55,870
Water	8,125	11,925	11,135	790	7,500	6,359	1,141
Electric	441,000	421,000	441,565	(20,665)	450,000	335,441	114,559
Gas	14,250	14,250	11,694	2,556	13,000	9,767	3,233
Process Chemicals:							
Liquid Oxygen	22,500	21,500	19,858	1,642	10,500	10,264	236
Sodium Hypochlorite	53,200	50,800	55,916	(5,116)	48,200	48,169	31
Polymer	17,600	15,100	14,766	334	12,600	12,305	295
Other	3,850	3,850	4,658	(808)	6,600	1,599	4,901
Maintenance Chemicals	2,000	2,000	3,755	(1,755)	2,000	534	1,466

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 DECEMBER 31, 2012 AND NOVEMBER 30, 2011

	December 31, 2012			November 30, 2011			
	Original Budget	Final Budget	Paid or Charged	Variance Final to Actual	Final Budget	Paid or Charged	Variance Final to Actual
Expenditures (Continued)							
Treatment Plant(Continued)							
Repairs and Supplies:							
Uniforms and Lockers	\$ 4,875.00	\$ 6,350	\$ 6,729	\$ (379)	\$ 5,500	\$ 5,450	\$ 50
One Call	3,250.00	3,250	3,423	(173)	3,000	2,687	314
Pumps	14,000.00	17,150	17,195	(45)	6,500	6,037	463
Jet Truck					8,000	7,388	612
General	20,000	22,100	28,212	(6,112)	30,250	27,496	2,754
Repairs - Contractors	12,500	27,000	30,178	(3,178)	12,500	11,578	922
Truck Expenses							
Gasoline	3,000	7,950	10,050	(2,100)	9,000	7,560	1,440
Repairs	1,750	4,750	3,176	1,574	3,500	3,463	37
Other	1,000	1,500	944	556	2,250	1,670	580
Truck Acquisition		45,000	44,589	411			
Sludge Disposal	416,000	517,000	552,284	(35,284)	419,000	403,903	15,097
Grit Disposal	19,000	16,000	17,600	(1,600)	16,000	12,800	3,200
Bioxide Plant	40,000	30,000	40,935	(10,935)	11,400		11,400
Lab:							
Supplies	9,000	5,250	8,812	(3,562)	9,000	8,483	517
Equipment	5,000	2,250	3,256	(1,006)	5,000	265	4,735
Testing	13,000	18,500	19,580	(1,080)	13,000	9,085	3,915
Permit Fees	58,000	55,706	55,706	0	57,400	57,376	24
Maintenance Contracts Equipment	35,000	30,000	36,213	(6,213)	30,000	19,766	10,234
Total Treatment Plant	2,194,750	2,304,531	2,374,016	(69,485)	2,132,800	1,885,658	247,142
Collection System:							
Salaries							
Base	215,000.00	215,000	213,393	1,607	194,700	192,620	2,080
Overtime	24,000.00	41,750	32,700	9,050	63,000	17,649	45,351
Repairs and Supplies:							
Pumps	45,000.00	17,500	18,039	(539)	35,000	17,285	17,715
Controls	30,000.00	12,000	6,818	5,182	30,000	2,600	27,400
Jet Truck	8,000.00	9,000	8,940	60			
General	3,000.00	7,500	7,103	397	167,100	44,082	123,018
Repairs - Contractors	30,000.00	69,200	74,196	(4,996)	30,000	27,445	2,555

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 DECEMBER 31, 2012 AND NOVEMBER 30, 2011

	December 31, 2012			November 30, 2011			
	Original Budget	Final Budget	Paid or Charged	Variance Final to Actual	Final Budget	Paid or Charged	Variance Final to Actual
<u>Expenditures (Continued)</u>							
Collection System(Continued):							
Maintenance Chemicals:							
Bioxide	\$ 60,000	\$ 81,000	\$ 75,367	\$ 5,633	\$ 60,000	\$ 40,456	\$ 19,544
Other	16,900	9,400	9,727	(327)	16,900	15,769	1,131
Electric	55,000	55,000	55,708	(708)	50,000	46,704	3,296
Water	2,075	2,075	1,801	274	1,900	1,882	18
Truck Expenses:							
Gasoline	7,000	9,700	13,180	(3,480)	9,000	7,208	1,792
Diesel	3,570	33,570	41,034	(7,464)			
Repairs	4,500	4,500	5,069	(569)	6,500	5,715	785
Other	1,000	1,000	525	475	2,500	1,482	1,018
Manhole Maintenance	30,000	2,500	5,035	(2,535)	30,000	14,051	15,939
Total Collection System	535,045	570,695	568,636	2,059	720,170	445,119	275,051
Total Operations	4,063,789	4,301,870	4,229,847	72,023	4,195,613	3,730,270	465,344
Debt Service:							
Bond Principal	3,358,374	3,278,374	3,278,374		2,983,227	2,853,227	130,000
Interest Expense	568,335	612,238	548,992	63,247	613,441	518,275	95,166
Total Debt Service	3,926,708	3,890,612	3,827,365	63,247	3,596,668	3,371,502	225,166
Reserves:							
Rate Stabilization	67,903	53,822	53,822		83,829	83,829	
Total Reserves	67,903	53,822	53,822		83,829	83,829	
Total Expenditures	\$ 8,058,400	\$ 8,246,304	\$ 8,111,034	\$ 135,269	\$ 7,876,110	\$ 7,185,601	\$ 690,509

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

Purpose	Date of Issue	Maturities		Interest Rate	Balance November 30, 2011	De-Obligated	Paid	Balance December 31, 2012
		Date	Amount					
\$3,905,000 (Series 2001 NJEIT) Trust Loan - To provide funds for the 2001 Treatment Plant and Collection System Capital Project.	11/9/2001	8/1/2013	\$ 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						
\$3,935,900 (Series 2001 NJEIT) Fund Loan - To provide funds for the 2001 Treatment Plant and Collection System Capital Project.	11/9/2001	2/1/2013	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	167,930	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					2,103,540		211,744	1,891,796
\$3,770,000 (Series 2002A) Advance refund a portion of the 1992 Series Bonds	2/15/2002							
2002A Series Sub-Total					3,480,000		3,480,000	
\$12,690,000 (Series 2002B) Advance refund a portion of the 1992 Series Bonds	9/3/2002							
2002B Series Sub-Total					170,000		170,000	
\$1,630,000 (Series 2004A NJEIT) Trust Loan	11/4/2004	8/1/2013	100,000	5.00%				
		8/1/2014	105,000	4.00%				
		8/1/2015	105,000	4.00%				
		8/1/2016	110,000	4.00%				
		8/1/2017	115,000	5.00%				
		8/1/2018	120,000	5.00%				
		8/1/2019	130,000	5.00%				
		8/1/2020	135,000	5.00%				
8/1/2021	140,000	5.00%						
2004 Trust Loan Series Sub-Total					1,155,000		95,000	1,060,000

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

Purpose	Date of Issue	Maturities		Interest Rate	Balance November 30, 2011		De-Obligated	Paid	Balance
		Date	Amount		2011	December 31, 2012			
\$1,720,000.00 (Series 2004B NJEIT) Fund Loan	11/4/2004	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					1,048,232		105,893	942,339	
\$525,000.00 (Series 2006 NJEIT) Trust Loan	11/9/2006	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							
\$487,442.00 (Series 2006 NJEIT) Fund Loan	11/9/2006	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					339,971		33,281	306,690	

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

Purpose	Date of Issue	Maturities		Interest Rate	Balance November 30, 2011	De-Obigated	Paid	Balance December 31, 2012		
		Date	Amount							
\$3,070,000.00 (Series 2007 NJEIT) Trust Loan	11/8/2007	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					2,740,000		125,000	2,615,000
		\$2,960,500 (Series 2007 NJEIT) Fund Loan	11/8/2007	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	102,242	0%								
2007 Fund Loan Series Sub-Total					2,494,976	206,719	155,626	2,132,631		

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

Purpose	Date of Issue	Maturities		Interest Rate	Balance November 30,		Paid	Balance December 31,
		Date	Amount		2011	De-Obligated		
\$475,000 (Series 2010A NJEIT) ARRA Trust	3/10/2010	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					460,000		15,000	445,000
\$483,670 (Series 2010 NJEIT) ARRA Fund	3/10/2010	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					442,682		24,593	418,089

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

Purpose	Date of Issue	Maturities		Interest Rate	Balance			Balance December 31, 2012		
		Date	Amount		November 30, 2011	De-Obligated	Paid			
\$865,000 (Series 2010A NJEIT) Traditional Trust	3/10/2010	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					835,000		30,000	805,000
		\$2,659,650 (Series 2010 NJEIT) Traditional Fund	3/10/2010	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					2,434,255		135,237	2,299,018		

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
SCHEDULE OF REVENUE SERIAL BONDS PAYABLE
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

Purpose	Date of Issue	Maturities		Interest Rate	Balance November 30, 2011		Paid	Balance
		Date	Amount		De-Obligated	December 31, 2012		
\$1,025,000 (Series 2011 Refunding) Proceeds utilized to redeem all outstanding 1998 Series C bonds.	9/22/2011	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					1,025,000	
\$2,970,000 (Series 2011 Capital Projects) Proceeds utilized to finance the 2011 Capital Projects.	9/22/2011	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					2,970,000		125,000	2,845,000
Grand Total					\$ 24,593,656	\$ 206,719	\$ 5,001,374	\$ 19,385,563
Detail:								
Current Portion							\$ 1,459,125	
Long Term Liability							17,926,437	
							\$ 19,385,563	

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
BALANCE SHEET BY FUND AS OF DECEMBER 31, 2012

	<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>December 31,</u> <u>2012</u> <u>Total</u>
Unrestricted Assets:						
Cash	\$ 2,260,468	\$	\$	\$	\$	2,716,018
Petty Cash Fund	350					350
Customer Accounts Receivable	605,839					605,839
Inventory	32,019					32,019
Prepaid Expenses	28,048					28,048
Due from Revenue Fund	39,617				568,843	568,843
Due from Construction Fund	250,929				43,074	82,691
Due from Debt Service Fund	9					250,929
Due from Debt Service Reserve Fund	9					9
Total Unrestricted Assets	3,217,279				1,067,467	4,284,746
Restricted Assets:						
Cash and Cash Equivalents - Money Market	42,775	1,812,649	336,102	122,196		2,313,723
Due from NJ Environmental Infrastructure Trust		1,654,050				1,654,050
Total Restricted Assets	\$ 42,775	\$ 3,466,699	\$ 336,102	\$ 122,196	\$	\$ 3,967,773

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
BALANCE SHEET BY FUND AS OF DECEMBER 31, 2012

	<u>Revenue Fund</u>	<u>Construction Fund</u>	<u>Debt Service Fund</u>	<u>Debt Service Reserve Fund</u>	<u>Authority Reserve Fund</u>	<u>(Memorandum Only) December 31, 2012 Total</u>
Property, Plant and Equipment:						
Land	\$	487,419	\$	\$	\$	\$ 487,419
Construction in Progress		11,509				11,509
Treatment Plant and Collection System		48,392,223				48,392,223
Collection System (Donated)		1,811,321				1,811,321
Treatment Plant (Donated)		1,887,353				1,887,353
Machinery and Equipment		772,704				772,704
Less: Accumulated Depreciation		52,875,110				52,875,110
		15,375,245				15,375,245
		37,499,865				37,499,865
		37,987,284				37,987,284
Net Property, Plant and Equipment		398,652				398,652
Other Assets:						
Unamortized Debt Issue Costs						
Total Assets	\$ 3,260,053	\$ 41,852,636	\$ 336,102	\$ 122,196	\$ 1,067,467	\$ 46,638,454

ASSETS (CONTINUED)

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
BALANCE SHEET BY FUND AS OF DECEMBER 31, 2012

	Revenue Fund	Construction Fund	Debt Service Fund	Debt Service Reserve Fund	Authority Reserve Fund	(Memorandum Only) December 31, 2012 Total
<u>LIABILITIES AND FUND EQUITY</u>						
Current Liabilities Payable From Unrestricted Assets:						
Accounts Payable	\$ 230,156					230,156
Accrued Expenses	56,524					56,524
Customer Overpayments	18,460					18,460
Payroll Taxes Payable	2,641					2,641
Due to Authority Reserve Fund	568,843					568,843
Current Liabilities Payable from Restricted Assets:						
Accounts Payable	410	160,976				161,386
Reserve for Developer's Escrow Deposits	37,954					37,954
Revenue Bonds Payable - Current Portion		1,459,125				1,459,125
Accrued Interest on Revenue Bonds Payable			85,173			85,173
Due to Authority Reserve Fund		43,074				43,074
Due to Revenue Fund		39,617		9		290,554
Total Current Liabilities	914,988	1,702,793	336,102	9		2,953,891
Long-Term Revenue Bonds Payable		17,926,440				17,926,440
Less: Unamortized Loss on Defeasance		85,597				85,597
Less: Unamortized Bond Discounts/(Premium)		(227,378)				(227,378)
Reserve for Construction Fund		18,068,222				18,068,222
Other Non Current Post Employment Benefits Reserve for Compensated Absences	1,239,835	22,081,621				22,081,621
	71,871					1,239,835
Total Non-Current Liabilities	\$ 1,311,705	\$ 22,081,621	\$	\$	\$	\$ 23,393,326

TOWNSHIP OF OCEAN SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
COMPONENT UNIT
BALANCE SHEET BY FUND AS OF DECEMBER 31, 2012

	Revenue Fund	Construction Fund	Debt Service Fund	Debt Service Reserve Fund	Authority Reserve Fund	(Memorandum Only) December 31, 2012 Total
Fund Equity:						
Net Assets:						
Reserved for:						
Renewal and Replacement	\$	\$	\$	\$	\$	\$ 500,000
Rate Stabilization					137,651	137,651
Future Debt Service	1,033,360			122,188		122,188
Unreserved Net Assets - Designated						1,033,360
Unreserved Net Assets - Undesignated					429,817	429,817
Total Fund Equity	<u>1,033,360</u>			<u>122,188</u>	<u>1,067,467</u>	<u>2,223,015</u>
Total Liabilities and Fund Equity	<u>\$ 3,260,053</u>	<u>\$ 41,852,635</u>	<u>\$ 336,102</u>	<u>\$ 122,196</u>	<u>\$ 1,067,467</u>	<u>\$ 46,638,454</u>

LIABILITIES AND FUND EQUITY
(CONTINUED)

**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, 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, 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 December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's financial statements, and have issued our report date February 25, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the effectiveness of the Authority's internal control.

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

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

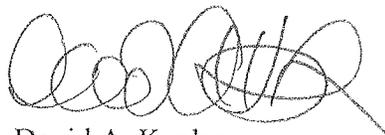
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS (CONTINUED)

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



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

DAK CPA

DAK CPA, Certified Public Accountants

Long Branch, New Jersey
February 25, 2013

OFFICIALS IN OFFICE AND SURETY BOND/INSURANCE COVERAGE

OFFICIALS IN OFFICE
AS OF DECEMBER 31, 2012

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
DECEMBER 31, 2012

			<u>Expiration Date</u>
Special Multi Peril Policy:			
Property:			
Buildings and Contents	\$ 150,000,000.00		1/1/2013 *
Contractors Equipment	5,000,000.00		
Employee Blanket Dishonesty	2,500,000.00		
Valuable Papers	10,000,000.00		
Accounts Receivable	10,000,000.00		
Depositor's Forgery	1,000,000.00		
Theft, Disappearance and Destruction:			
Inside	500,000.00		
Outside	500,000.00		
Miscellaneous Tools and Equipment	10,000.00		
Boiler and Machinery	150,000,000.00		
	<u>Property Damage</u>	<u>Bodily Injury</u>	
Liability:			
General Liability, Property and Bodily Damage (Combined Single Limit)	\$ 10,000,000.00		1/1/2013 *
Auto Fleet:			
Liability (Combined Single Limit)	\$ 10,000,000.00		1/1/2013 *
Uninsured Motorists	10,000,000.00		
Public Officials Liability	3,000,000.00		1/1/2013 *
Ocean Outfall - Flood and Earthquake	5,000,000.00		1/1/2013 *
Workmen's Compensation	Statutory	1,750,000.00	1/1/2013 *
Excess Liability	3,000,000.00		1/1/2013

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
DECEMBER 31, 2012

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 2012 bid threshold was \$36,000.00.

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

Pump Station Generator Project
Pump Station Generator Project – Additional Work

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 in regards to the Odor Control Process.

GENERAL COMMENTS
DECEMBER 31, 2012 - (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 December 31, 2012 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 December 31, 2012, 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
DECEMBER 31, 2012 - (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 December 31, 2012.

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 December 31, 2012 and no exceptions were noted.

GENERAL COMMENTS
DECEMBER 31, 2012 - (CONTINUED)

Payroll - Continued

Finding:

Condition: Our examination revealed that the imputed income for group term life insurance was not calculated correctly for certain employees.

Cause: Management oversight.

Criteria: IRS Regulations.

Client Response: Management will review all group term life insurance calculations and make appropriate corrections.

Recommendation: It is recommended that the imputed income for the group term life insurance calculation for all employees be reviewed for accuracy.

Other

Finding:

Condition: Our examination revealed that the accounts receivable subsidiary ledger is not being reconciled monthly to the general ledger.

Cause: Management was unaware that monthly reconciliations were required.

Criteria: Monthly reconciliations are a fundamental element of internal control.

Client Response: Management is now aware that monthly reconciliations are required and will do so going forward.

Recommendation: It is recommended that the accounts receivable subsidiary ledger be reconciled monthly to the general ledger.

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
DECEMBER 31, 2012

It is recommended:

- 2012-1. That the imputed income for the group term life insurance calculation for all employees be reviewed for accuracy.
- 2012-2. That the accounts receivable subsidiary ledger be reconciled monthly to the general ledger.

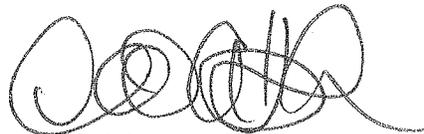
Summary Schedule of Prior Year Findings

All of the 2011 audit findings have been corrected.

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