

**SOUTH TOMS RIVER SEWERAGE AUTHORITY
(A Component Unit of the Borough of South Toms River,
County of Ocean, State of New Jersey)**

Financial Statements

For the years ended December 31, 2009 and 2008

(With Independent Auditors' Report thereon)

SOUTH TOMS RIVER SEWERAGE AUTHORITY
(A Component Unit of the Borough of South Toms River,
County of Ocean, State of New Jersey)
Financial Statements and Supplementary Data
December 31, 2009 and 2008

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
South Toms River Sewerage Authority

We have audited the accompanying financial statements of the business-type activities of the South Toms River Sewerage Authority, a component unit of the Borough of South Toms River, County of Ocean, State of New Jersey as of December 31, 2009 and 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended, which collectively comprise the Authority's basic financial statements. These financial statements are the responsibility of the South Toms River Sewerage Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 and in compliance with audit standards prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the South Toms River Sewerage Authority, a component unit of the Borough of South Toms River, County of Ocean, State of New Jersey as of December 31, 2009 and 2008, and the results of its operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America and as prescribed by the Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2010, on our consideration of the South Toms River Sewerage Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 5 through 7 and 19 through 20 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

HOLMAN + FRENIA, P.C.

HOLMAN & FRENIA, P.C.

Certified Public Accountants

January 27, 2010
Toms River, New Jersey

**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***

Board of Commissioners
South Toms River Sewerage Authority

We have audited the financial statements of the business-type activities of South Toms River Sewerage Authority as of and for the year ended December 31, 2009, and have issued our report thereon dated January 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South Toms River Sewerage Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Board of Commissioners of the South Toms River Sewerage Authority, State of New Jersey, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

HOLMAN & FRENIA, P.C.

HOLMAN & FRENIA, P.C.

Certified Public Accountants

January 27, 2010
Toms River, New Jersey

January 27, 2010

Board of Commissioners
South Toms River Sewerage Authority
County of Ocean
Toms River, New Jersey 08753

The Management's Discussion and Analysis (MD&A) provides an overview and analysis of the South Toms River Sewerage Authority's (the Authority) financial activities for the fiscal year ended December 31, 2009 and as compared to the prior year. It should be read in conjunction with the accompanying financial statements.

Financial Statements

The financial statements included on this report are the Statements of Net Assets, Statements of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows as of and for the years ended December 31, 2009 and 2008.

The Statements of Net Assets show the financial position of the South Toms River Sewerage Authority (the Authority) at December 31st of each year. Assets are compared with liabilities and net assets are the result.

The Statements of Revenues, Expenses, and Changes in Net Assets measure performance for each year and how this performance impacts net assets.

Finally, the Statements of Cash Flows demonstrate why cash balances increased or decreased during the two years.

Financial Analysis

At December 31, 2009, the Authority had total assets of \$4,011,014 compared to \$4,037,595 at December 31, 2008. The decrease of \$26,581 can be attributed to depreciation expense for the current year.

The Authority's total liabilities of \$21,342 at December 31, 2009 increased \$595 over the year.

In summary, net assets decreased \$27,176 for the year ended December 31, 2009.

The Authority's Statements of Revenues, Expenses, and Changes in Net Assets accounts for this decrease in net assets. The Authority's net loss for the year was \$27,176.

Condensed Financial Information

Key Authority financial information for the years ended December 31, 2009 and 2008 include the following balances:

Financial Position:

<i>ASSETS</i>	<u>2009</u>	<u>2008</u>
Current assets	\$ 407,615	\$ 404,120
Property, plant and equipment	<u>3,603,399</u>	<u>3,633,475</u>
Total assets	<u>4,011,014</u>	<u>4,037,595</u>
 <i>LIABILITIES</i>		
Current liabilities	<u>21,342</u>	<u>20,747</u>
 <i>NET ASSETS</i>		
Net assets	<u>\$ 3,989,672</u>	<u>\$ 4,016,848</u>

Other Financial Information:

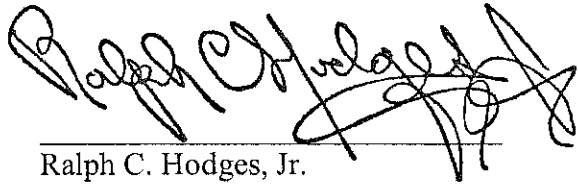
	<u>2009</u>	<u>2008</u>
Revenues	\$ 502,680	\$ 230,095
Expenses	<u>(529,856)</u>	<u>(513,421)</u>
Change in net assets	<u>\$ (27,176)</u>	<u>\$ (283,326)</u>

Authority revenues showed an unfavorable variance of \$15,568 for 2009 when compared to budget. However, Authority expenses showed a favorable variance of \$50,469 when compared to budget. Savings can be attributed to lower than expected expenses "across the board."

Note from the Authority's Management

The Authority's financial report is designed to provide users of the financial statements with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. The financial statements of the Authority are a matter of public record and may be examined at 148 Mill Street, South Toms River, New Jersey during the Authority's business hours.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "Ralph C. Hodges, Jr.", written over a horizontal line.

Ralph C. Hodges, Jr.
Chairman

SOUTH TOMS RIVER SEWERAGE AUTHORITY

Statements of Net Assets

December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets:		
Cash	\$ 316,939	\$ 364,056
Accounts receivable	62,144	13,896
Prepaid expenses	28,532	26,168
Total current assets	<u>407,615</u>	<u>404,120</u>
Property, plant and equipment	5,777,444	5,721,995
Less: accumulated depreciation	<u>(2,174,045)</u>	<u>(2,088,520)</u>
Net property, plant and equipment	<u>3,603,399</u>	<u>3,633,475</u>
Total assets	<u>4,011,014</u>	<u>4,037,595</u>
LIABILITIES		
Current liabilities:		
Accounts payable	10,498	5,381
Accrued expenses	9,985	6,656
Payroll taxes payable	547	1,730
Deferred sewerage charges	312	6,980
Total current liabilities	<u>21,342</u>	<u>20,747</u>
NET ASSETS		
Net assets:		
Investments in capital assets, net of related debt	3,603,400	3,633,475
Unrestricted net assets	<u>386,272</u>	<u>383,373</u>
Total net assets	<u>\$ 3,989,672</u>	<u>\$ 4,016,848</u>

See independent auditors' report.

See accompanying notes to financial statements.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Statements of Revenues, Expenses, and Changes in Net Assets
For the years ended December 31, 2009 and 2008

	2009	2008
Operating revenues:		
User charges (See Note 8)	\$ 496,809	\$ 202,451
Delinquent charges	4,194	2,784
Connection fees	-	13,544
Inspection and review fees	-	1,858
	501,003	220,637
Operating expenses:		
Maintenance and treatment	295,789	290,854
Administration	148,542	141,015
Depreciation	85,525	81,552
	529,856	513,421
Operating income	(28,853)	(292,784)
Non-operating revenues:		
Interest revenue	1,677	9,458
	1,677	9,458
Change in net assets	(27,176)	(283,326)
Net assets - beginning of the year	4,016,848	4,300,174
Net assets - end of the year	\$ 3,989,672	\$ 4,016,848

See independent auditors' report.
See accompanying notes to financial statements.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Statements of Cash Flows
For the years ended December 31, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Cash received from service users	\$ 446,087	\$ 190,846
Cash paid to suppliers and employees	(439,432)	(434,652)
Interest received	1,677	9,458
	8,332	(234,348)
Cash flows from investing activities:		
Purchase of fixed assets	(55,449)	(34,847)
	(55,449)	(34,847)
Net decrease in cash	(47,117)	(269,195)
Cash at beginning of year	364,056	633,251
Cash at end of year	\$ 316,939	\$ 364,056
Reconciliation of operating income to cash from operating activities:		
Operating income	\$ (27,176)	\$ (283,326)
Items which did not use cash:		
Depreciation	85,525	81,552
Working capital changes which provided (used) cash:		
Accounts receivable	(48,248)	(12,986)
Prepaid expenses	(2,364)	(7,111)
Accounts payable	5,117	2,293
Accrued expenses	3,329	1,656
Payroll taxes payable	(1,183)	1,730
Deferred sewerage charges	(6,668)	(18,156)
	8,332	(234,348)
Net cash from operating activities	\$ 8,332	\$ (234,348)

See independent auditors' report.
See accompanying notes to financial statements.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements
For the years ended December 31, 2009 and 2008

NOTE 1: GENERAL

Authority Legislation

South Toms River Sewerage Authority is a public body, politic and corporate, constituting a political subdivision of the State of New Jersey created under Chapter 138 of the Sewerage Authorities Law of New Jersey of 1946 by a municipal ordinance adopted on December 18, 1974. The Authority was created pursuant to the act for the purpose of constructing and operating a sewerage system consisting of a wastewater collection system. Its service area is co-terminus with the territorial limits of the Borough of South Toms River.

As a public body, under existing statutes, the Authority is exempt from both Federal and State taxation.

Service Contract with Borough of South Toms River

The Authority and the Borough of South Toms River entered into an agreement dated May 31, 1974, whereby the Borough undertakes to pay annual charges to the Authority for the disposal of sewerage and other wastes originating in the Borough. The following summary is a brief outline of certain provisions contained in the service contract. In the opinion of bond counsel to the Authority, the service contract is a valid and legally binding instrument in accordance with its terms, obligating the Borough to make payment to the Authority of annual charges as and when due under its terms.

The service contract provides that the Authority may not permit any property located outside the Borough to be connected to the system unless consented to in writing by the Borough. The Borough in turn will not construct any competitive sewerage facilities unless consented to in writing by the Authority. The service contract does not, however, restrict the right and power of the Authority to participate in any county or regional sewerage system.

Under the service contract, the Authority will impose service charges for use of and on every connection with the system, rates sufficient to provide in each year for operating and maintenance expenses, principal and interest on all bonds as they become due, such reserves or sinking funds as may be required or deemed desirable, and compliance in all respects with the terms and provisions of the bond resolution.

In addition, the Authority will charge the Borough, and the Borough will pay to the Authority, annual charges sufficient to cover, in each fiscal year, any shortfall in meeting the expenses of the Authority (including operation and maintenance, debt service, deficits resulting from failure to receive sums due to the Authority from others, and such reserves or sinking funds as may be required or deemed desirable) out of the funds and revenues of the Authority (including service charges, bond proceeds, insurance proceeds, investments proceeds, and contributions and reserves on hand).

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2009 and 2008

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies:

a. Basis of Accounting and Presentation

The financial statements of the Authority have been prepared on the accrual basis and in accordance with generally accepted accounting principles applicable to enterprise funds of governmental units in accordance with standards established by Statement No. 1 issued by the National Council of Governmental Accounting. Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business.

b. Grants

Contributions received from various sources, such as grants, are recorded in the period received. Developer financed constructions are recorded in the period in which applicable construction costs are incurred. 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 are identified as grants-in-aid.

c. Inventory

Treatment of sewerage and sludge is provided by the Ocean County Utilities Authority. As a result, there is no inventory of chemicals or other materials required.

d. Property, Plant and Equipment

Property, plant and equipment are stated at cost, which includes direct construction costs and other expenditures related to construction.

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

Sewer mains	75
Office building	40
Building renovations	15
Equipment	5-15

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

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2009 and 2008

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 3: CASH AND INVESTMENTS

This Authority is governed by the deposit and investment limitations of New Jersey state law. The deposits and investments held at December 31, 2009, and reported at fair value, are as follows:

Type	Rating	Maturities	Carrying Value
Deposits:			
Demand deposits			<u>\$ 316,939</u>
Reconciliation of Statements of Net Assets			
Current assets:			
Cash			<u>\$ 316,939</u>

a. Custodial Credit Risk

Deposits in financial institutions, reported as components of cash, cash equivalents and investments had a bank balance of \$303,142 at December 31, 2009. Of the bank balance \$303,142 was fully insured by the FDIC (Federal Depository Insurance Corporation). At any time during the Authority's fiscal year, if bank balances exceeded FDIC limits, they were secured by a collateral pool held by the bank, but not in the Authority's name, as required by New Jersey's Governmental Unit Deposit Protection Act (GUDPA). The Governmental Unit Deposit Protection Act is more fully described in Note 4 of these financial statements.

b. Investment Interest Rate Risk

The District has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Maturities of investment held at December 31, 2009, are provided in the above schedule.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2009 and 2008

NOTE 3: CASH AND INVESTMENTS (continued)

c. Investment Credit Risk

The Authority has no investment policy that limits its investment choices other than the limitation of state law as follows:

- Bonds or other obligations of the United States of America or obligations guaranteed by the United States of America;
- Government money market mutual funds;
- Any obligation that a federal agency or federal instrumentality has issued in accordance with an act of Congress, which security has a maturity date not greater than 397 days from the date of purchase, provided that such obligations bear a fixed rate of interest not dependent on any index or other external factor;
- Bonds or other obligations of the Authority or bonds or other obligations of the local unit or units within which the Authority is located;
- Bonds or other obligations, having a maturity date of not more than 397 days from the date of purchase, approved by the Division of Investment in the Department of Treasury for investment by the Authority;
- Local Governments investment pools;
- Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c.281; or
- Agreements for the repurchase of fully collateralized securities with certain limitations.

d. Concentration of Investment Credit Risk

The Authority places no limit on the amount it may invest in any one issuer. The Authority is secured by a collateral pool held by the banks. At December 31, 2009, all of the Authority's investments were held by TD Bank and the State of New Jersey Cash Management Fund.

NOTE 4: GOVERNMENTAL UNIT DEPOSIT PROTECTION ACT (GUDPA)

The Board has deposited cash in 2009 with an approved public fund depository qualified under the provisions of the Governmental Unit Deposit Protection Act. In addition to savings and checking accounts, the Board invests monies in certificates of deposits.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2009 and 2008

NOTE 4: GOVERNMENTAL UNIT DEPOSIT PROTECTION ACT (GUDPA) (continued)

The Governmental Unit Deposit Protection Act P.L. 1970, Chapter 236 was passed to afford protection against bankruptcy or default by a depository. C.17:9-42 provides that no governmental unit shall deposit funds in a public depository unless such funds are secured in accordance with this act. C.17:9-42 provides that every public depository having public funds on deposit shall, as security for such deposits, maintain eligible collateral having a market value at least equal to either (1) 5% of the average daily balance of collected public funds on deposit during the six month period ending on the next preceding valuation date (June 30 or December 31) or (2) at the election of the depository, at least equal to 5% of the average balance of collected public funds on deposit on the first, eighth, fifteenth, and twenty-second days of each month in the six month period ending on the next preceding valuation date (June 30 or December 31). No public depository shall be required to maintain any eligible collateral pursuant to this act as security for any deposit or deposits of any governmental unit to the extent such deposits are insured by the FDIC or any other U.S. agency, which insures public depository funds.

No public depository shall at any time receive and hold on deposit for any period in excess of 15 days public funds of a governmental unit(s), which, in aggregate, exceed 75% of the capital funds of the depository, unless such depository shall, in addition to the security required to be maintained under the paragraph above, secure such excess by eligible collateral with a market value at least equal to 100% of such excess.

In the event of a default, the Commissioner of Banking within 20 days after default occurrence shall ascertain the amount of public funds on deposit in the defaulting depository and the amounts covered by federal deposit insurance and certify the amounts to each affected governmental unit. Within 10 days after receipt of this certification, each unit shall furnish to the Commissioner verified statements of its public deposits. The Commissioner shall ascertain the amount derived or to be derived from the liquidation of the collateral maintained by the defaulting depository and shall distribute such proceeds pro rata among the governmental units to satisfy the net deposit liabilities to such units.

If the proceeds of the sale of the collateral are insufficient to pay in full the liability to all affected governmental units, the Commissioner shall assess the deficiency against all other public depositories having public funds on deposit determined by a formula determined by law. All sums collected by the Commissioner shall be paid to the governmental units having deposits in the defaulting depository in the proportion that the net deposit liability to each governmental unit bears to the aggregate of the net deposit liabilities to all such governmental units.

All public depositories are required to furnish information and reports dealing with public funds on deposit every six months (June 30 and December 31) with the Commissioner of Banking. Any public depository, which refuses or neglects to give any such information so requested, may be excluded from the right to receive public funds for deposit until such time as the Commissioner shall acknowledge that such depository has furnished the information requested.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2009 and 2008

NOTE 4: GOVERNMENTAL UNIT DEPOSIT PROTECTION ACT (GUDPA) (continued)

Upon review and approval of the Certification Statement that the public depository complies with statutory requirements, the Commissioner issues forms approving the bank as a municipal depository. The municipality should request copies of these approval forms semiannually to assure that all depositories are complying with requirements.

NOTE 5: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
Collection system	\$5,464,617	\$5,464,617
Administration buildings	147,971	142,121
Equipment	<u>164,856</u>	<u>115,257</u>
Total property plant and equipment	5,777,444	5,721,995
Less: accumulated depreciation	<u>(2,174,045)</u>	<u>(2,088,520)</u>
Net property, plant and equipment	<u>\$3,603,399</u>	<u>\$3,633,475</u>

NOTE 6: ACCRUED EXPENSES

As of December 31, 2009, accrued expenses of \$9,985 consisted of accounting fees and compensated absences. Accrued expenses of \$6,656 at December 31, 2008 also consisted of accounting fees and compensated absences.

NOTE 7: DEFERRED SEWERAGE CHARGE INCOME

The Authority's customers are billed in December for the following quarter beginning January 1st. Appropriately, customer payments received in December for the following quarter are included in the Authority's liabilities as deferred income and not recognized as revenue until the following year. As of December 31, 2009 and 2008, these balances totaled \$312 and \$6,980, respectively.

NOTE 8: USER CHARGES

In February 2008, the Authority's Commissioners adopted a budget that gave all service units a \$196 credit that offset billings in 2008, which is approximately half a year of revenue.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2009 and 2008

NOTE 9: RATE STRUCTURE

The Authority adopted an annual rate for each service unit in the amount of \$392 effective January 1, 2008. On December 9, 1988, the Authority adopted the following uniform annual rate structure for users of the system:

a. Residential User Charges

1. A residential private dwelling, single family house having four bedrooms or less shall be charged at the rate of one unit.
2. Multiple residential dwellings; each apartment shall be charged at the rate of one unit.
3. Condominiums, high-rise apartment buildings; duplex apartment buildings shall be charged at the rate of one unit for each apartment. Any such building having a common laundry type room(s) shall be charged for an additional two units for each common laundry type room.

b. Commercial User Charges

1. Gas stations shall be charged on the basis of employees. Stations having one to three employees shall be charged two units. Four to six employees shall be charged three units and one additional unit for every three or less employees thereafter.
2. Restaurants or bars shall be charged on the basis of capacity, an establishment having a capacity of ten or less shall be charged two units, and, thereafter, each ten or less additional capacity shall be charged an additional unit.
3. Offices and other business establishments having one to eight employees shall be charged at the rate of one unit. For 9-16 employees, the charge is two units, thereafter, each additional eight or less employees the charge shall be one additional unit.
4. Churches and houses of worship shall be charged at the rate of one unit.
5. Schools shall be charged at the following schedule:
 - a) The main public school facility shall be charged at the rate of 47 units.
 - b) Auxiliary public school facilities (recreation building) shall be charged at the rate of two units.
6. Other public buildings and playgrounds with facilities shall be charged at the rate of one unit.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2009 and 2008

NOTE 9: RATE STRUCTURE (continued)

7. Self-service laundries having three washers or less shall be charged at the rate of one unit; four to six washers, two units; seven to nine washers shall be charged three units; 10-12 washers shall be charged four units; and each three washers or less shall be charged one additional unit thereafter.
8. Beauty parlors having two or less employees shall be charged two units, and each additional three employees shall be charged one additional unit thereafter.
9. Marinas shall be charged on the following schedule:
 - a) Marinas shall be charged at the rate of two units.
 - b) Marinas with private club facilities shall be charged seven units.
10. Other establishments not covered above shall be charged at the rate as determined by the South Toms River Sewerage Authority.
11. Employees shall be persons working for establishments regardless of whether working part-time or full-time.

NOTE 10: PENSIONS AND RETIREMENT PLANS

a. Plan Description

The Authority contributes to a cost-sharing multiple-employer defined benefit pension plan administered by Public Employees' Retirement System (PERS) of New Jersey, which is part of the Division of Pensions in the Department of the Treasury, State of New Jersey. It provides retirement, disability, annual cost-of-living and death benefits to plan members and beneficiaries. The State administered funds were established by an Act of the State Legislature which assigns the authority to establish and amend benefit provisions to the plan's board of trustees. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to PERS.

b. Funding Status and Progress

Plan members were required to contribute 5.0% through June 30, 2008 and 5.5% thereafter of their annual covered salaries in 2009 and 2008 and the Authority is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the Authority are established and may be amended by the plan's board of trustees. For the years ending December 31, 2009 and 2008 the Authority contributed \$3,750 and \$1,883 to the PERS pension plan. State law requires that funds be subject to actual valuation every year and actuarial investigation every three years.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Schedule of Operating Revenues and Costs Funded by Operations - Budget to Actual
For the year ended December 31, 2009

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating revenues:				
User charges	\$ 512,248	\$ 512,248	\$ 496,809	\$ (15,439)
Delinquent charges	5,000	5,000	4,194	(806)
Interest	1,000	1,000	1,677	677
Total operating revenues	<u>\$ 518,248</u>	<u>\$ 518,248</u>	<u>502,680</u>	<u>(15,568)</u>
Maintenance and treatment expenses:				
OCUA fees	\$ 300,000	\$ 300,000	273,182	26,818
Engineering	1,000	1,000	-	1,000
Maintenance salaries and payroll taxes	15,800	15,800	15,785	15
Maintenance of system	5,000	5,000	3,822	1,178
Garage rental	-	-	3,000	(3,000)
Renewal and replacement	15,000	15,000	-	15,000
Total maintenance and treatment expenses	<u>336,800</u>	<u>336,800</u>	<u>295,789</u>	<u>41,011</u>
Administrative expenses:				
Salaries, wages & payroll taxes	50,000	50,000	52,122	(2,122)
Fringe benefits	7,000	7,000	6,879	121
Health insurance	13,000	13,000	13,582	(582)
Legal	10,000	10,000	7,509	2,491
Audit & consulting	19,000	19,000	17,885	1,115
Financial agent	2,500	2,500	-	2,500
Data processing	3,500	3,500	4,432	(932)
Office expenses and supplies	12,000	12,000	8,271	3,729
Office cleaning and maintenance	5,000	5,000	2,478	2,522
Insurance	20,000	20,000	18,440	1,560
Postage	4,000	4,000	2,389	1,611
Telephone	4,000	4,000	4,031	(31)
Utilities	6,000	6,000	5,796	204
Advertising	1,500	1,500	-	1,500
Licenses & permits	-	-	4,385	(4,385)
Miscellaneous	500	500	343	157
Total administrative expenses	<u>158,000</u>	<u>158,000</u>	<u>148,542</u>	<u>9,458</u>
Excess of revenues over expenses	<u>23,448</u>	<u>23,448</u>	<u>58,349</u>	<u>34,901</u>
Total costs funded by operations	<u>\$ 518,248</u>	<u>\$ 518,248</u>	<u>\$ 502,680</u>	<u>\$ (15,568)</u>

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Schedule of Operating Revenues and Costs Funded by Operations - Budget to Actual
For the year ended December 31, 2008

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating revenues:				
User charges	\$ 266,000	\$ 266,000	\$ 202,451	\$ (63,549)
Connection fees	89,000	89,000	13,544	(75,456)
Delinquent charges	6,000	6,000	2,784	(3,216)
Inspection and review fees	-	-	1,858	1,858
Interest	25,000	25,000	9,458	(15,542)
Total operating revenues	<u><u>\$ 386,000</u></u>	<u><u>\$ 386,000</u></u>	<u><u>\$ 230,095</u></u>	<u><u>\$ (155,905)</u></u>
Maintenance and treatment expenses:				
OCUA fees	\$ 300,000	\$ 300,000	\$ 266,588	\$ 33,412
Engineering	7,000	7,000	375	6,625
Maintenance salaries and payroll taxes	25,000	25,000	15,130	9,870
Maintenance of system	8,000	8,000	8,761	(761)
Renewal and replacement	25,000	25,000	-	25,000
Total maintenance and treatment expenses	<u><u>365,000</u></u>	<u><u>365,000</u></u>	<u><u>290,854</u></u>	<u><u>74,146</u></u>
Administrative expenses:				
Salaries, wages & payroll taxes	36,000	36,000	52,167	(16,167)
Fringe benefits	6,000	6,000	2,739	3,261
Health insurance	14,000	14,000	12,674	1,326
Legal	22,000	22,000	6,920	15,080
Audit & consulting	19,000	19,000	20,500	(1,500)
Financial agent	2,500	2,500	-	2,500
Data processing	5,000	5,000	4,395	605
Office expenses and supplies	18,000	18,000	11,774	6,226
Office cleaning and maintenance	6,000	6,000	2,118	3,882
Insurance	19,000	19,000	16,622	2,378
Postage	5,000	5,000	1,535	3,465
Telephone	5,000	5,000	3,660	1,340
Utilities	6,000	6,000	5,538	462
Advertising	1,500	1,500	-	1,500
Miscellaneous	1,000	1,000	373	627
Total administrative expenses	<u><u>166,000</u></u>	<u><u>166,000</u></u>	<u><u>141,015</u></u>	<u><u>24,985</u></u>
Excess of revenues over expenses	<u><u>(145,000)</u></u>	<u><u>(145,000)</u></u>	<u><u>(201,774)</u></u>	<u><u>(56,774)</u></u>
Total costs funded by operations	<u><u>\$ 386,000</u></u>	<u><u>\$ 386,000</u></u>	<u><u>\$ 230,095</u></u>	<u><u>\$ (155,905)</u></u>

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Board of Commissioners and Management
December 31, 2009

Ralph C. Hodges, Jr.	Chairman
William O. Britton	Vice Chairman
David Engelhardt	Secretary
William Gleason	Treasurer
Patricia Kelly	Assistant Treasurer

To the Chairman and Commissioners of
the South Toms River Sewerage Authority
South Toms River, New Jersey 08753

We have audited the financial accounts and transactions of the South Toms River Sewerage Authority, a component unit of the Borough of South Toms River, County of Ocean, State of New Jersey for the year ended December 31, 2009. In accordance with requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the following are the *General Comments and Recommendations* for the year then ended.

GENERAL COMMENTS AND RECOMMENDATIONS

Contracts and Agreements Required to be advertised by (N.J.S.A.40A:11-4)

N.J.S.A.40A:11-4 - Every contract or agreement, for the performance of any work or furnishing or hiring of any materials or supplies, the cost or the contract price whereof is to be paid with or out of public funds not included within the terms of Section 3 of this act, shall be made or awarded only by the governing body of the contracting unit after public advertising for bids and bidding therefore, except as is provided otherwise in this act or specifically by any other Law. No work, materials or supplies shall be undertaken, acquired or furnished for a sum exceeding in the aggregate \$21,000 except by contract or agreement.

It is pointed out that the Members of the Authority have the responsibility of determining whether the expenditures in any category will exceed the statutory minimum within the fiscal year. Where question arises as to whether any contract or agreement might result in violation of the statute, the solicitor's opinion should be sought before a commitment is made.

Review of the minutes and financial transactions did not identify any bids requested by public advertising.

The minutes indicate that resolutions were adopted authorizing the awarding of contracts or agreements for "Professional Services," per *N.J.S.A.40A:11-5*.

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

The examination of expenditures revealed one payment, contract or agreement in excess of \$3,150 "for the performance of any work or the furnishing or hiring of any materials or supplies", other than those

where bids had been previously sought by public advertisement or where a resolution had been previously adopted under the provision of (N.J.S.A.40A:11-6.1).

The minutes indicate that quotes were requested for the replacement of the roof at the Authority's administrative office.

Examination of Bills

A test check of paid bills was made and each bill, upon proper approval, was considered as a separate and individual contract unless the records disclosed it to be a part payment or estimate. The results of the examination did not disclose any discrepancies with respect to signatures, certification or supporting documentation.

Payroll Fund

The examination of the payroll account included the detailed computation of various deductions or other credits from the payroll of the Authority employees and ascertained that the accumulated withholdings were disbursed to the proper agencies.

Property, Plant & Equipment

The property, plant and equipment subsidiary ledger was maintained properly and a reconciliation between the physical and perpetual inventory records was performed at year-end.

General Ledger

The general ledger was complete with the required journal entries.

Budget Adoption

The State of New Jersey requires that Authority operating and capital budgets be approved and adopted for each fiscal year. The Authority adopted its operating budget on February 11, 2009.

Follow-Up of Prior Years' Findings

In accordance with government auditing standards we have included a review of all prior year findings. During the audit it was noted that prior year findings were corrected.

Finding 2008-01:

Condition:

During a test of timely deposits it was noted that certain receipts were not deposited within forty-eight (48) hours of receipt as per N.J.S.A.40:5-15.

Current Status:

This condition has been corrected.

Acknowledgment

We received the complete cooperation of all the Authority Officials and employees and we greatly appreciate the courtesies extended to the members of the audit team.

Should you have any questions concerning our comments or recommendations, or should you desire any assistance in implementing our recommendations, please call me.

HOLMAN & FRENIA, P.C.

HOLMAN & FRENIA, P.C.
Certified Public Accountants

January 27, 2010
Toms River, New Jersey

Synopsis of audit report of the South Toms River Sewerage Authority for the fiscal year ended December 31, 2009 , as required by N.J.S. 40A:5A-16.

Comparative Statements of Net Assets

	2009	2008
ASSETS		
Current assets:		
Cash	\$ 316,939	\$ 364,056
Accounts receivable	62,144	13,896
Prepaid expenses	28,532	26,168
Total current assets	407,615	404,120
Property, plant and equipment, net	3,603,399	3,633,475
Total assets	\$ 4,011,014	\$ 4,037,595
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 10,498	\$ 5,381
Accrued expenses	9,985	6,656
Payroll taxes payable	547	1,730
Deferred sewerage charges	312	6,980
Total current liabilities	21,342	20,747
NET ASSETS		
Net assets:		
Investment in capital assets, net of related debt	3,603,400	3,633,475
Unrestricted net assets	386,272	383,373
Total net assets	\$ 3,989,672	\$ 4,016,848

Statement of Revenues, Expenditures and Changes in Fund Balance
For the years then ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Operating revenues:		
User fees	\$ 496,809	\$ 202,451
Delinquent charges	4,194	2,784
Connection fees	-	13,544
Inspection and review fees	-	1,858
	<u>501,003</u>	<u>220,637</u>
 Operating expenses:		
Maintenance and treatment	295,789	290,854
Administration	148,542	141,015
Depreciation and amortization	85,525	81,552
	<u>529,856</u>	<u>513,421</u>
 Non-operating revenues:		
Interest revenue	1,677	9,458
	<u>1,677</u>	<u>9,458</u>
 Change in net assets	(27,176)	(283,326)
 Net assets - beginning of the year	<u>4,016,848</u>	<u>4,300,174</u>
 Net assets - end of the year	<u>\$ 3,989,672</u>	<u>\$ 4,016,848</u>

General Comments and Recommendations

There are no recommendations for the fiscal year ended December 31, 2009.

The above synopsis was prepared from the report of the audit of the South Toms River Sewerage Authority as of December 31, 2009.

This audit report, submitted by Holman & Frenia, P.C., Certified Public Accountants, is available by contacting the office of the South Toms River Sewerage Authority, 148 Mill Street, South Toms River, New Jersey 08757.