

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 Schedules

For the years ended December 31, 2010 and 2009

(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, 2010 and 2009

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Certified Public Accountants & Consultants

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, 2010 and 2009, 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, 2010 and 2009, 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 26, 2011, 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.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South Toms River Sewerage Authority's financial statements as a whole. The supplementary schedules are presented for purposes of additional analysis and are not a required part of the financial statements, but have been 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. The supplementary schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

HOLMAN & FRENIA, P.C.
HOLMAN & FRENIA, P.C.
Certified Public Accountants

January 26, 2011
Toms River, New Jersey



Certified Public Accountants & Consultants

**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, 2010, and have issued our report thereon dated January 26, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying general comments and recommendations that we consider to be significant deficiencies in internal control over financial reporting listed as 2010-01. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying general comments and recommendations as item 2010-02.

We noted certain matters that we reported to management of South Toms River Sewerage Authority, in the general comments and recommendations portion of this report dated January 26, 2011.

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 26, 2011
Toms River, New Jersey

SOUTH TOMS RIVER SEWERAGE AUTHORITY

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January 26, 2011

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, 2010 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, 2010 and 2009.

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, 2010, the Authority had total assets of \$3,995,579 compared to \$4,011,014 at December 31, 2009. The decrease of \$15,435 can be attributed to depreciation expense for the current year.

The Authority's total liabilities of \$15,647 at December 31, 2010 decreased \$5,695 over the year.

In summary, net assets decreased \$9,740 for the year ended December 31, 2010.

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 \$9,740.

Condensed Financial Information

Key Authority financial information for the years ended December 31, 2010 and 2009 include the following balances:

Financial Position:

| <i>ASSETS</i> | <u>2010</u> | <u>2009</u> |
|-------------------------------|---------------------|---------------------|
| Current assets | \$ 477,239 | \$ 407,615 |
| Property, plant and equipment | <u>3,518,340</u> | <u>3,603,399</u> |
| Total assets | <u>3,995,579</u> | <u>4,011,014</u> |
| <i>LIABILITIES</i> | | |
| Current liabilities | <u>15,647</u> | <u>21,342</u> |
| <i>NET ASSETS</i> | | |
| Net assets | <u>\$ 3,979,932</u> | <u>\$ 3,989,672</u> |

Other Financial Information:

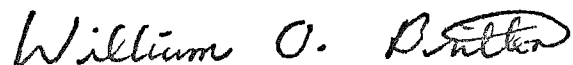
| | <u>2010</u> | <u>2009</u> |
|----------------------|--------------------|--------------------|
| Revenues | \$ 524,627 | \$ 502,680 |
| Expenses | <u>(534,367)</u> | <u>(529,856)</u> |
| Change in net assets | <u>\$ (9,740)</u> | <u>\$ (27,176)</u> |

Authority revenues showed a favorable variance of \$5,447 for 2010 when compared to budget. Authority expenses also showed a favorable variance of \$69,872 when compared to budget. Savings can be attributed to higher than expected revenues in connection fees and 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 that reads "William O. Britton". The signature is written in a cursive style with a large, looped initial "W".

William Britton
Chairman

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Statements of Net Assets
December 31, 2010 and 2009

| | 2010 | 2009 |
|--|--------------|--------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 398,976 | \$ 316,939 |
| Accounts receivable | 57,110 | 62,144 |
| Prepaid expenses | 21,153 | 28,532 |
| Total current assets | 477,239 | 407,615 |
| Property, plant and equipment | 5,777,444 | 5,777,444 |
| Less: accumulated depreciation | (2,259,104) | (2,174,045) |
| Net property, plant and equipment | 3,518,340 | 3,603,399 |
| Total assets | 3,995,579 | 4,011,014 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | 5,037 | 10,498 |
| Accrued expenses | 8,595 | 9,985 |
| Payroll taxes payable | 1,706 | 547 |
| Deferred sewerage charges | 309 | 312 |
| Total current liabilities | 15,647 | 21,342 |
| NET ASSETS | | |
| Net assets: | | |
| Investments in capital assets, net of related debt | 3,518,340 | 3,603,399 |
| Unrestricted net assets | 461,592 | 386,273 |
| Total net assets | \$ 3,979,932 | \$ 3,989,672 |

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, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|------------------------------------|---------------------|---------------------|
| Operating revenues: | | |
| User charges | \$ 494,343 | \$ 496,809 |
| Delinquent charges | 5,821 | 4,194 |
| Connection fees | 23,668 | - |
| | <u>523,832</u> | <u>501,003</u> |
| Operating expenses: | | |
| Maintenance and treatment | 305,800 | 295,789 |
| Administration | 143,508 | 148,542 |
| Depreciation | 85,059 | 85,525 |
| | <u>534,367</u> | <u>529,856</u> |
| Operating loss | (10,535) | (28,853) |
| Non-operating revenues: | | |
| Interest revenue | 795 | 1,677 |
| | <u>795</u> | <u>1,677</u> |
| Change in net assets | (9,740) | (27,176) |
| Net assets - beginning of the year | <u>3,989,672</u> | <u>4,016,848</u> |
| Net assets - end of the year | <u>\$ 3,979,932</u> | <u>\$ 3,989,672</u> |

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, 2010 and 2009

| | 2010 | 2009 |
|--|------------|-------------|
| Cash flows from operating activities: | | |
| Cash received from service users | \$ 528,863 | \$ 446,087 |
| Cash paid to suppliers and employees | (447,621) | (439,432) |
| Interest received | 795 | 1,677 |
| | 82,037 | 8,332 |
| Cash flows from investing activities: | | |
| Purchase of fixed assets | - | (55,449) |
| | - | (55,449) |
| Net increase/(decrease) in cash | 82,037 | (47,117) |
| Cash at beginning of year | 316,939 | 364,056 |
| Cash at end of year | \$ 398,976 | \$ 316,939 |
| Reconciliation of operating income to cash from operating activities: | | |
| Change in net assets | \$ (9,740) | \$ (27,176) |
| Items which did not use cash: | | |
| Depreciation | 85,059 | 85,525 |
| Working capital changes which provided (used) cash: | | |
| Accounts receivable | 5,034 | (48,248) |
| Prepaid expenses | 7,379 | (2,364) |
| Accounts payable | (5,461) | 5,117 |
| Accrued expenses | (1,390) | 3,329 |
| Payroll taxes payable | 1,159 | (1,183) |
| Deferred sewerage charges | (3) | (6,668) |
| | 82,037 | 8,332 |
| Net cash from operating activities | \$ 82,037 | \$ 8,332 |

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, 2010 and 2009

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, 2010 and 2009

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 on 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, 2010 and 2009

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.

F. Subsequent Events

South Toms River Sewerage Authority has evaluated subsequent events occurring after the Statement of Net Assets date through January 26, 2011, which is the date the financial statements were available to be issued.

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, 2010, and reported at fair value, are as follows:

| Type | Rating | Maturities | Carrying Value |
|---|--------|------------|-------------------|
| Deposits: | | | |
| Demand deposits | | | <u>\$ 398,976</u> |
| Reconciliation of Statements of Net Assets | | | |
| Current assets: | | | |
| Cash | | | <u>\$ 398,976</u> |

A. Custodial Credit Risk

Deposits in financial institutions, reported as components of cash, cash equivalents and investments had a bank balance of \$399,743 at December 31, 2010. Of the bank balance \$399,743 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.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2010 and 2009

NOTE 3: CASH AND INVESTMENTS (continued)

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, 2010, are provided in the above schedule.

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, 2010, all of the Authority's investments were held by TD Bank and the State of New Jersey Cash Management Fund.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2010 and 2009

NOTE 4: GOVERNMENTAL UNIT DEPOSIT PROTECTION ACT (GUDPA)

The Board has deposited cash in 2010 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. 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,

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2010 and 2009

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

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. 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, 2010 and 2009 consisted of the following:

| | <u>2010</u> | <u>2009</u> |
|------------------------------------|--------------------|--------------------|
| Collection system | \$5,464,617 | \$5,464,617 |
| Administration buildings | 147,971 | 147,971 |
| Equipment | <u>164,856</u> | <u>164,856</u> |
| Total property plant and equipment | 5,777,444 | 5,777,444 |
| Less: accumulated depreciation | <u>(2,259,104)</u> | <u>(2,174,045)</u> |
| Net property, plant and equipment | <u>\$3,518,340</u> | <u>\$3,603,399</u> |

NOTE 6: ACCRUED EXPENSES

As of December 31, 2010, accrued expenses of \$8,595 consisted of accounting fees and compensated absences. Accrued expenses of \$9,985 at December 31, 2009 also consisted of accounting fees and compensated absences.

NOTE 7: DEFERRED SEWERAGE CHARGES

The Authority's customers are billed in December for the previous quarter beginning October 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, 2010 and 2009, these balances totaled \$309 and \$312, respectively.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2010 and 2009

NOTE 8: 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, 2010 and 2009

NOTE 8: 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 9: 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 5.5% of their annual covered salaries in 2010 and 2009 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, 2010 and 2009 the Authority contributed \$5,918 and \$3,750 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, 2010

| | <u>Original Budget</u> | <u>Modified Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|--|----------------------------|----------------------------|-------------------|---|
| Operating revenues: | | | | |
| User charges | \$ 512,680 | \$ 512,680 | \$ 494,343 | \$ (18,337) |
| Connection fees | - | - | 23,668 | 23,668 |
| Delinquent charges | 5,000 | 5,000 | 5,821 | 821 |
| Interest | 1,500 | 1,500 | 795 | (705) |
| | <u>\$ 519,180</u> | <u>\$ 519,180</u> | <u>\$ 524,627</u> | <u>\$ 5,447</u> |
| Total operating revenues | | | | |
| Maintenance and treatment expenses: | | | | |
| OCUA fees | \$ 300,000 | \$ 300,000 | \$ 281,020 | \$ 18,980 |
| Engineering | 1,000 | 1,000 | 840 | 160 |
| Maintenance salaries and payroll taxes | 20,000 | 20,000 | 14,756 | 5,244 |
| Maintenance of system | 5,000 | 5,000 | 5,584 | (584) |
| Sewer maintenance supplies | 4,000 | 4,000 | - | 4,000 |
| Garage rental | 3,600 | 3,600 | 3,600 | - |
| Renewal and replacement | 15,000 | 15,000 | - | 15,000 |
| | <u>348,600</u> | <u>348,600</u> | <u>305,800</u> | <u>42,800</u> |
| Total maintenance and treatment expenses | | | | |
| Administrative expenses: | | | | |
| Salaries, wages & payroll taxes | 65,000 | 65,000 | 55,350 | 9,650 |
| Fringe benefits | 7,000 | 7,000 | 4,729 | 2,271 |
| Health insurance | 14,000 | 14,000 | 15,651 | (1,651) |
| Legal | 10,000 | 10,000 | 6,454 | 3,546 |
| Audit & consulting | 19,000 | 19,000 | 15,590 | 3,410 |
| Financial agent | 2,500 | 2,500 | - | 2,500 |
| Data processing | 1,500 | 1,500 | 4,327 | (2,827) |
| Office expenses and supplies | 12,000 | 12,000 | 7,463 | 4,537 |
| Office cleaning and maintenance | 3,000 | 3,000 | 2,365 | 635 |
| Insurance | 20,000 | 20,000 | 16,342 | 3,658 |
| Postage | 3,000 | 3,000 | 1,500 | 1,500 |
| Telephone | 4,000 | 4,000 | 4,115 | (115) |
| Utilities | 7,000 | 7,000 | 5,118 | 1,882 |
| Fuel | 1,000 | 1,000 | - | 1,000 |
| Advertising | 1,000 | 1,000 | - | 1,000 |
| Licenses & permits | - | - | 4,000 | (4,000) |
| Miscellaneous | 580 | 580 | 504 | 76 |
| | <u>170,580</u> | <u>170,580</u> | <u>143,508</u> | <u>27,072</u> |
| Total administrative expenses | | | | |
| Excess of revenues over expenses | <u>-</u> | <u>-</u> | <u>75,319</u> | <u>75,319</u> |
| Total costs funded by operations | <u>\$ 519,180</u> | <u>\$ 519,180</u> | <u>\$ 524,627</u> | <u>\$ 5,447</u> |

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
Board of Commissioners and Management
December 31, 2010

| | |
|--------------------|---------------------------|
| William O. Britton | Chairman |
| David Engelhardt | Vice Chairman & Secretary |
| William Gleason | Treasurer |
| Andy Howard | Assistant Treasurer |
| Carol Williams | Commissioner |



Certified Public Accountants & Consultants

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, 2010. 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 did not reveal any contracts or agreements 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 do not indicate that quotes were obtained for any services.

MEDFORD OFFICE

618 Stokes Road • Medford, New Jersey 08055
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22
www.holmanfrenia.com

TOMS RIVER OFFICE

10 Allen Street, Suite 2B • Toms River, NJ 08753
Tel: 732.797.1333 • Fax: 732.797.1022

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

During our review of the general ledger, we noted the following:

Finding 2010-01:

South Toms River Sewerage Authority does not maintain a complete and accurate general ledger system.

Recommendation:

The Authority must properly maintain a complete and accurate general ledger complete with all necessary accruals.

Cash Receipts

During our review of cash receipts, we noted the following:

Finding 2010-02:

During a test of timely deposits, it was noted that five out of thirty receipts were not deposited within forty-eight (48) hours of receipt as per N.J.S.A.40:5-15. Management noted that in these instances, the courier service was either not deemed necessary due to the small size of the deposit or the courier service did not come at its scheduled time.

Recommendation:

All deposits must be made within forty-eight (48) hours of receipt.

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 December 1, 2009.

Follow-Up of Prior Years' Findings

In accordance with government auditing standards we have included a review of all prior year findings. Our review indicated that corrective action has been taken on all prior year findings.

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.

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

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 26, 2011
Toms River, New Jersey

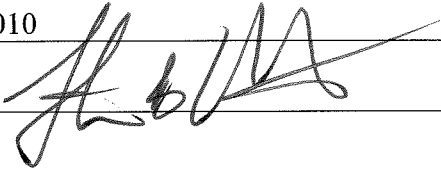
APPENDIX A

AUDIT QUESTIONNAIRE FOR AUTHORITY AUDITS

Each question must be answered. Please circle Yes or No. If any are not applicable, insert N/A as your answer.

AUTHORITY South Toms River Sewerage Authority

YEAR UNDER AUDIT December 31, 2010

AUDITOR SIGNATURE 

AUDITOR FIRM Holman & Frenia, P.C.

AUDITOR ADDRESS 10 Allen Street, Suite 2B
Toms River, NJ 08753

AUDITOR PHONE # (732) 797-1333

"NO" answers must be explained in detail. Attach additional sheets if more space is required. Answers to questions which indicate corrections or improvements are required and must be covered by comment and recommendation in the audit report. If not covered, explain in detail.

AUDIT QUESTIONNAIRE

AUTHORITY: South Toms River Sewerage Authority

General

- | | | | |
|----|---|--------------------------------------|-------------------------------------|
| 1. | Is a general ledger maintained by the authority? | <input checked="" type="radio"/> YES | <input type="radio"/> NO |
| 2. | Are key employees bonded in amounts required by organization policy? | <input checked="" type="radio"/> YES | <input type="radio"/> NO |
| 3. | Is insurance coverage in force for at least the following: | <input checked="" type="radio"/> YES | <input type="radio"/> NO |
| | Loss or damage to assets from fire or other hazards | <input checked="" type="radio"/> YES | <input type="radio"/> NO |
| | Public liability and property damage | <input checked="" type="radio"/> YES | <input type="radio"/> NO |
| | Robbery, burglary, theft and disappearance | <input checked="" type="radio"/> YES | <input type="radio"/> NO |
| | Worker's compensation | <input checked="" type="radio"/> YES | <input type="radio"/> NO |
| 4. | Are loans to employees prohibited? | <input checked="" type="radio"/> YES | <input type="radio"/> NO |
| 5. | Has the Bureau of Authority Regulation been notified of deficiencies in the accounting system or records? | <input type="radio"/> YES | <input checked="" type="radio"/> NO |
| 6. | Has a corrective action plan been filed for the previous year audit report? | <input checked="" type="radio"/> YES | <input type="radio"/> NO |

Cash and Investments

- | | | | |
|----|---|--------------------------------------|-------------------------------------|
| 1. | Has the authority adopted a cash management plan? | <input checked="" type="radio"/> YES | <input type="radio"/> NO |
| 2. | Are all depositories and accounts authorized by resolution of the governing body? | <input checked="" type="radio"/> YES | <input type="radio"/> NO |
| 3. | Are receipts deposited within 48 hours? | <input type="radio"/> YES | <input checked="" type="radio"/> NO |
| 4. | Are the duties of personnel who receive and deposit cash separate from investments, cash disbursing, and bookkeeping? | <input checked="" type="radio"/> YES | <input type="radio"/> NO |
| 5. | Are cash receipts adequately safeguarded before deposit? | <input checked="" type="radio"/> YES | <input type="radio"/> NO |
| 6. | Is responsibility for the petty cash fund vested in only one person? | <input checked="" type="radio"/> YES | <input type="radio"/> NO |

- | | | | | |
|-----|---|--------------------------------------|---------------|-----|
| 7. | Are petty cash disbursements supported by signed receipts which are attached to reimbursement vouchers? | <input checked="" type="radio"/> YES | NO | |
| 8. | Are check signers designated by resolution? | <input checked="" type="radio"/> YES | NO | |
| 9. | If a mechanical check signer is used, is the signature plate under adequate control? | YES | NO | N/A |
| | Are there procedures to control and record the check numbers and amount of checks signed? | <input checked="" type="radio"/> YES | NO | |
| 10. | Is there adequate security over blank checks? | <input checked="" type="radio"/> YES | NO | |
| 11. | Are the duties of the personnel who disburse cash separate from the function of approving vouchers? | <input checked="" type="radio"/> YES | NO | |
| 12. | Are bank statements reconciled monthly? | <input checked="" type="radio"/> YES | NO | |
| | Is the sequence of check numbers accounted for? | <input checked="" type="radio"/> YES | NO | |
| | Are check endorsements scrutinized? | <input checked="" type="radio"/> YES | NO | |
| 13. | Are outstanding checks older than 6 months investigated? | <input checked="" type="radio"/> YES | NO | |
| 14. | Are investments under the control of a responsible official who does not receive or disburse cash? | <input checked="" type="radio"/> YES | NO | |
| 15. | Are all investments issued in the name of the authority? | <input checked="" type="radio"/> YES | NO | |
| 16. | Are all investment transactions approved by the governing body? | <input checked="" type="radio"/> YES | NO | |
| 17. | Are all investments permitted by law or bond agreement? | <input checked="" type="radio"/> YES | NO | |
| 18. | Are perpetual records of investments reflecting all pertinent information maintained? | <input checked="" type="radio"/> YES | NO | |
| 19. | Is interest income verified? | <input checked="" type="radio"/> YES | NO | |
| | Is it promptly recorded in the accounting records? | <input checked="" type="radio"/> YES | NO | |
| 20. | Are investments examined periodically and verified with the detail record and control account? | <input checked="" type="radio"/> YES | NO | |
| 21. | Are investments protected against loss or theft? | <input checked="" type="radio"/> YES | NO | |

Accounts Receivable and Income

- | | | | |
|----|---|--------------------------------------|----|
| 1. | Are billings to users independently verified? | <input checked="" type="radio"/> YES | NO |
| 2. | Is there segregation of duties between accounts receivable, record maintenance, billing, and receipt of cash? | <input checked="" type="radio"/> YES | NO |
| 3. | Are total accounts receivable balances verified with the accounts receivable control periodically? | <input checked="" type="radio"/> YES | NO |
| 4. | Are delinquent accounts receivable reviewed and collection procedures initiated by a responsible official? | <input checked="" type="radio"/> YES | NO |
| 5. | Are accounts receivable records promptly posted? | <input checked="" type="radio"/> YES | NO |
| | Billings to users? | <input checked="" type="radio"/> YES | NO |
| | Cash receipts? | <input checked="" type="radio"/> YES | NO |
| 6. | Are adjustments to accounts receivable approved by a responsible official? | <input checked="" type="radio"/> YES | NO |

Inventory

- | | | | |
|----|---|--------------------------------------|----|
| 1. | Are inventories of material and supplies under physical control of a designated employee who is not responsible for purchasing? | <input checked="" type="radio"/> YES | NO |
| 2. | Is the storage area properly safeguarded to prevent damage to materials and unauthorized removal? | <input checked="" type="radio"/> YES | NO |
| 3. | Do quantities appear reasonable for normal consumption? | <input checked="" type="radio"/> YES | NO |
| 4. | Are physical inventories taken annually and supervised by non-store room personnel? | <input checked="" type="radio"/> YES | NO |
| 5. | Are responsible officials advised of significant inventory discrepancies? | <input checked="" type="radio"/> YES | NO |

Accounts Payable and Purchasing

- | | | | |
|----|---|----------------------------------|----|
| 1. | Are the following requirements of the Local Public Contracts Law (40A:11) being followed and documented | <input checked="" type="radio"/> | NO |
| | Competitive bidding and contract award? | <input checked="" type="radio"/> | NO |
| | Informal quotations on purchases not requiring public bidding (40A:11-6.1)? | <input checked="" type="radio"/> | NO |
| | Certificate of availability of funds prior to award of contracts(Reg.5:30-14.5)? | <input checked="" type="radio"/> | NO |
| | Resolutions adopted and advertised authorizing agreements for professional services (40A:11-5)? | <input checked="" type="radio"/> | NO |
| | Emergency purchases and contracts (40A:11-6)? | <input checked="" type="radio"/> | NO |
| 2. | Are prenumbered purchase orders issued for all purchases, except petty cash purchases? | <input checked="" type="radio"/> | NO |
| 3. | Is there a record of all purchase orders issued? | <input checked="" type="radio"/> | NO |
| 4. | Are quantities and description of materials and supplies received: | <input checked="" type="radio"/> | NO |
| | Compared to purchase orders? | <input checked="" type="radio"/> | NO |
| | Compared to vendors' invoices? | <input checked="" type="radio"/> | NO |
| | Verified with packing or delivery slips? | <input checked="" type="radio"/> | NO |
| 5. | Are open purchase orders reviewed periodically? | <input checked="" type="radio"/> | NO |
| 6. | Do vouchers approved for payment contain: | <input checked="" type="radio"/> | NO |
| | Signature of person who verified quantities and description of materials received or services rendered? | <input checked="" type="radio"/> | NO |
| | Copies of purchase order, delivery slips, etc.? | <input checked="" type="radio"/> | NO |
| 7. | Were all vouchers approved by the governing body? | <input checked="" type="radio"/> | NO |
| 8. | Is there segregation of duties between the purchasing, receiving and cash disbursement functions? | <input checked="" type="radio"/> | NO |
| 9. | Are total accounts payable balances verified with the accounts payable control periodically? | <input checked="" type="radio"/> | NO |

Payroll

- | | | | |
|-----|---|-------|----|
| 1. | Are payrolls approved by a responsible official outside the payroll department? | (YES) | NO |
| 2. | Are the functions of payroll preparation and distribution separated? | (YES) | NO |
| 3. | Are the personnel records maintained separately from payroll preparation and distribution? | (YES) | NO |
| 4. | Are names added to and deleted from payroll and rates of pay changed only upon written authorization? | (YES) | NO |
| 5. | Are new employees, employee promotions and rates of pay approved by the governing body? | (YES) | NO |
| 6. | Are all payroll deductions supported by signed authorizations on file? | (YES) | NO |
| 7. | Are payroll deductions promptly paid to the proper agencies? | (YES) | NO |
| 8. | Are records maintained to control and verify vacation time, sick leave, etc., taken and accumulated? | (YES) | NO |
| 9. | Are all employees paid by check? | (YES) | NO |
| 10. | Are payroll check endorsements scrutinized? | (YES) | NO |
| 11. | Are old outstanding payroll checks investigated by someone independent of the payroll preparation? | (YES) | NO |
| 12. | Is there a separate bank account for payroll disbursements? | (YES) | NO |
| | Are deposits in exact amount of payroll? | (YES) | NO |
| | Is the payroll bank balance reconciled monthly by someone independent of payroll preparation? | (YES) | NO |
| | Are payroll procedures established by resolution of the governing body? | (YES) | NO |

Property, Plant and Equipment

- | | | | |
|----|--|-------|----|
| 1. | Are detailed fixed asset records maintained? | (YES) | NO |
| | Are fixed assets properly identified with the fixed asset records? | (YES) | NO |
| | Are additions and deletions properly authorized and promptly recorded? | (YES) | NO |

- | | | | |
|----|---|-------|----|
| 2. | Is the documentation substantiating the cost of fixed assets permanently filed? | (YES) | NO |
| 3. | Is there a written policy defining items to be capitalized and those to be expensed? | (YES) | NO |
| 4. | Does the capitalization of interest and other indirect costs conform to accounting principles? | (YES) | NO |
| 5. | Is a physical inventory of fixed assets taken periodically and verified to fixed asset records? | (YES) | NO |
| 6. | Are dispositions of fixed assets properly recorded and sales proceeds promptly accounted for in the accounting records? | (YES) | NO |
| 7. | Are fixed assets properly safeguarded against loss by fire, unauthorized use or theft? | (YES) | NO |

Long and Short Term Debt

- | | | | |
|----|---|-------|----|
| 1. | Is a detailed record such as a bond or note register maintained of debt issued and outstanding? | (YES) | NO |
| | Are principal and interest due dates and amounts reflected and date of payment recorded? | (YES) | NO |
| 2. | Are debt issues properly authorized by the governing body? | (YES) | NO |
| 3. | Does the expenditure of borrowed funds conform to the purposes authorized? | (YES) | NO |
| 4. | Are paid bonds and notes properly cancelled and accounted for? | (YES) | NO |
| 5. | Are required sinking fund deposits promptly made? | (YES) | NO |

Budget System

- | | | | |
|----|---|-------|----|
| 1. | Were the adopted operating and capital budgets and amendments there to approved by the Director of Local Government Services? | (YES) | NO |
| 2. | Were the adopted budgets and amendments recorded in the minutes? | (YES) | NO |
| 3. | Are there sufficient controls to monitor expenses and revenues against budgeted amounts? | (YES) | NO |

- | | | | |
|----|---|-------|----|
| 4. | Is a budget status report periodically furnished to the governing body? | (YES) | NO |
| 5. | Are appropriations encumbered when purchase orders are issued? | (YES) | NO |
| 6. | Are fixed assets acquired through budget appropriations properly capitalized? | (YES) | NO |

Grant Management

- | | | | |
|----|---|-------|----|
| 1. | Is a permanent file of each grant maintained? | (YES) | NO |
| 2. | Does the accounting system provide details of eligible expenditures to be reimbursed from each grant? | (YES) | NO |
| 3. | Is each expenditure reviewed for compliance with the terms of the applicable grant? | (YES) | NO |
| 4. | Does the authority have a grant manager? | (YES) | NO |
| 5. | Are all required reports promptly filed with the grant or agency? | (YES) | NO |
| 6. | Were grant reimbursement requests filed promptly? | (YES) | NO |
| 7. | Are assets acquired from grant funds properly identified? | (YES) | NO |
| 8. | If indirect costs are chargeable to grants, has the method of allocation been approved? | (YES) | NO |

Electronic Data Processing

- | | | | |
|----|---|-------|----|
| 1. | Does the authority utilize electronic data processing for accounting or financial functions? <i>(If "no," disregard items 2 through 14).</i> | (YES) | NO |
| 2. | If "yes," was the system approved by the Division of Local Government Services? | (YES) | NO |
| 3. | Are there sufficient audit trails to identify documents being processing and identify output? | (YES) | NO |

- | | | | |
|-----|--|----------------------------------|----|
| 4. | Are there daily printouts of: | <input checked="" type="radio"/> | NO |
| | Transactions? | <input checked="" type="radio"/> | NO |
| | Rejected transactions? | <input checked="" type="radio"/> | NO |
| | Error corrections? | <input checked="" type="radio"/> | NO |
| 5. | Are the daily printouts reviewed and approved by supervisory personnel? | <input checked="" type="radio"/> | NO |
| 6. | Are journal entries and error corrections authorized by supervisory personnel? | <input checked="" type="radio"/> | NO |
| 7. | Are master files updated periodically and on schedule prevent loss of data in transaction files? | <input checked="" type="radio"/> | NO |
| 8. | Are there periodic printouts of updated files by E.D.P. transactions? | <input checked="" type="radio"/> | NO |
| 9. | Are authorized users validated by user codes and passwords? | <input checked="" type="radio"/> | NO |
| 10. | Are terminals located in a secure area, to prevent access by unauthorized personnel? | <input checked="" type="radio"/> | NO |
| 11. | Are there backup operators to process transactions in the absence of the authorized operator? | <input checked="" type="radio"/> | NO |
| 12. | Are there copies of all critical materials such as programs, master files, transaction files,etc.? | <input checked="" type="radio"/> | NO |
| 13. | Are these copies stored in a safe location (off site or in a fire proof vault on site)? | <input checked="" type="radio"/> | NO |
| 14. | Are mechanisms in place to guard against loss due to power failures, fire , flood, etc.? | <input checked="" type="radio"/> | NO |

The foregoing Questionnaire must be separately filed with the Division of Local Government Services for each report of audit. It is not to be bound in the report.

General

5. No deficiencies have been noted in the Authority's accounting system or records that needed to be reported to the Bureau of Authority Regulation.

Cash & Investments

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

Synopsis of audit report of the South Toms River Sewerage Authority for the fiscal year ended December 31, 2010 , as required by N.J.S. 40A:5A-16.

Comparative Statements of Net Assets

| | 2010 | 2009 |
|---|--------------|--------------|
| ASSETS | | |
| Current assets: | | |
| Cash | \$ 398,976 | \$ 316,939 |
| Accounts receivable | 57,110 | 62,144 |
| Prepaid expenses | 21,153 | 28,532 |
| Total current assets | 477,239 | 407,615 |
| Property, plant and equipment, net | 3,518,340 | 3,603,399 |
| Total assets | \$ 3,995,579 | \$ 4,011,014 |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable | \$ 5,037 | \$ 10,498 |
| Accrued expenses | 8,595 | 9,985 |
| Payroll taxes payable | 1,706 | 547 |
| Deferred sewerage charges | 309 | 312 |
| Total current liabilities | 15,647 | 21,342 |
| NET ASSETS | | |
| Net assets: | | |
| Investment in capital assets, net of related debt | 3,518,340 | 3,603,399 |
| Unrestricted net assets | 461,592 | 386,273 |
| Total net assets | \$ 3,979,932 | \$ 3,989,672 |

Statement of Revenues, Expenditures and Changes in Fund Balance
For the years then ended December 31, 2010 and 2009

| | <u>2010</u> | <u>2009</u> |
|------------------------------------|----------------------------|----------------------------|
| Operating revenues: | | |
| User fees | \$ 494,343 | \$ 496,809 |
| Delinquent charges | 5,821 | 4,194 |
| Connection fees | <u>23,668</u> | <u>-</u> |
| Total operating revenues | <u>523,832</u> | <u>501,003</u> |
| Operating expenses: | | |
| Maintenance and treatment | 305,800 | 295,789 |
| Administration | 143,508 | 148,542 |
| Depreciation and amortization | <u>85,059</u> | <u>85,525</u> |
| Total operating expenses | <u>534,367</u> | <u>529,856</u> |
| Non-operating revenues: | | |
| Interest revenue | <u>795</u> | <u>1,677</u> |
| Total non-operating revenues | <u>795</u> | <u>1,677</u> |
| Change in net assets | (9,740) | (27,176) |
| Net assets - beginning of the year | <u>3,989,672</u> | <u>4,016,848</u> |
| Net assets - end of the year | <u><u>\$ 3,979,932</u></u> | <u><u>\$ 3,989,672</u></u> |

General Comments and Recommendations

The following recommendations were made for the year ended December 31, 2010:

Finding 2010-01: Maintenance of General Ledger

Recommendation: The Authority needs to maintain an accurate general ledger in order for the auditors to have the adequate time needed to audit the account balances and financial statements. Also, once account balances have been audited, any necessary journal entries should be made, balances should be agreed to the audited trial balance, and accounts should be locked in the accounting software so that no changes can be made to prior year activity.

Finding 2010-02: Timely Deposits of Cash Receipts

Recommendation: All deposits must be made within forty-eight (48) hours of receipt regardless of size.

The above synopsis was prepared from the report of the audit of the South Toms River Sewerage Authority as of December 31, 2010.

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.