

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, 2012 and 2011

(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 Schedules
December 31, 2012 and 2011

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
South Toms River Sewerage Authority

Report on the Financial Statements

We have audited the accompanying financial statements of 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 and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-7 and 21-22 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.

Other Reporting Required by Government Auditing Standards

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

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

Toms River, New Jersey
January 25, 2013

**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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the business-type activities of South Toms River Sewerage Authority as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise South Toms River Sewerage Authority's basic financial statements and have issued our report thereon dated January 25, 2013.

Internal Control Over Financial Reporting

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

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

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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* or audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Purpose of this Report

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

HOLMAN & FRENIA, P.C.

HOLMAN & FRENIA, P.C.
Certified Public Accountants

Toms River, New Jersey
January 25, 2013

SOUTH TOMS RIVER SEWERAGE

AUTHORITY

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2012 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 Positions, Statements of Revenues, Expenses, and Changes in Net Positions, and Statements of Cash Flows as of and for the years ended December 31, 2012 and 2011.

The Statements of Net Positions 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 deferred inflow of resources and net position are the result.

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

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

Financial Analysis

At December 31, 2012, the Authority had total assets of \$4,031,861 compared to \$4,047,092 at December 31, 2011. The decrease of \$15,231 can be attributed to decreases in accounts receivable and accumulated depreciation at December 31, 2012.

The Authority's total liabilities and deferred inflow of resources of \$17,512 at December 31, 2012 increased \$1,807 over the year.

In summary, net position decreased \$17,038 for the year ended December 31, 2012. This decrease is primarily related to a decrease revenues for the year ended December 31, 2012. The main decrease in revenues was attributed to a decrease in connection fees of \$11,288 due to the lack of new construction occurring in the Borough of South Toms River.

The Authority's Statements of Revenues, Expenses, and Changes in Net Positions accounts for this decrease in net position. The Authority's net loss for the year was \$17,038.

Condensed Financial Information

Key Authority financial information for the years ended December 31, 2012 and 2011 include the following balances:

Financial Position:

	<u>2012</u>	<u>2011</u>
<i>ASSETS</i>		
Current assets	\$ 675,150	\$ 606,335
Property, plant and equipment	<u>3,356,711</u>	<u>3,440,757</u>
Total assets	<u>4,031,861</u>	<u>4,047,092</u>
 <i>LIABILITIES</i>		
Current liabilities	<u>16,756</u>	<u>15,369</u>
 <i>DEFERRED INFLOW OF RESOURCES</i>		
Deferred sewerage charges	<u>756</u>	<u>336</u>
 <i>NET POSITIONS</i>		
Net positions	<u>\$ 4,014,349</u>	<u>\$ 4,031,387</u>

Other Financial Information:

	<u>2012</u>	<u>2011</u>
Revenues	\$ 521,698	\$ 534,765
Expenses	(538,736)	(545,818)
Prior period adjustment	<u>-</u>	<u>62,508</u>
Change in net position	<u>\$ (17,038)</u>	<u>\$ (11,053)</u>

Authority revenues showed a favorable variance of \$10,912 for 2012 when compared to budget. Authority expenses also showed a favorable variance of \$57,999 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 cursive script, appearing to read "William Britton", is written over a horizontal line.

William Britton
Chairman

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Statements of Net Positions
December 31, 2012 and 2011

	2012	2011
ASSETS		
Current assets:		
Cash	\$ 541,467	\$ 490,105
Accounts receivable	94,924	96,297
Prepaid expenses	38,759	19,933
Total current assets	675,150	606,335
Property, plant and equipment	5,764,288	5,763,739
Less: accumulated depreciation	(2,407,577)	(2,322,982)
Net property, plant and equipment	3,356,711	3,440,757
Total assets	4,031,861	4,047,092
LIABILITIES		
Current liabilities:		
Accounts payable	8,988	7,824
Accrued expenses	5,810	5,273
Payroll taxes payable	1,958	2,272
Total current liabilities	16,756	15,369
DEFERRED INFLOW OF RESOURCES		
Deferred sewerage charges	756	336
NET POSITION		
Net position:		
Investments in capital assets, net of related debt	3,356,711	3,440,757
Unrestricted net position	657,638	590,630
Total net position	\$ 4,014,349	\$ 4,031,387

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

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Statements of Revenues, Expenses, and Changes in Net Positions
For the years ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating revenues:		
User charges	\$ 514,427	\$ 516,254
Delinquent charges	6,845	6,681
Connection fees	300	11,588
	<u>521,572</u>	<u>534,523</u>
Total operating revenues		
Operating expenses:		
Maintenance and treatment	299,170	313,646
Administration	153,617	146,642
Depreciation	85,949	85,530
	<u>538,736</u>	<u>545,818</u>
Total operating expenses		
Operating loss	(17,164)	(11,295)
Non-operating revenues:		
Interest revenue	126	242
	<u>126</u>	<u>242</u>
Total non-operating revenues		
Change in net position	(17,038)	(11,053)
Net position - beginning of the year (unadjusted)	4,031,387	3,979,932
Prior period restatement (see note 10)	-	62,508
	<u>4,031,387</u>	<u>4,042,440</u>
Net position - beginning of the year (adjusted)		
Net position - end of the year	<u>\$ 4,014,349</u>	<u>\$ 4,031,387</u>

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

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Statements of Cash Flows
For the years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Cash received from service users	\$ 523,365	\$ 557,871
Cash paid to suppliers and employees	(470,226)	(459,037)
Interest received	126	242
	53,265	99,076
Cash flows from investing activities:		
Purchase of fixed assets	(1,903)	(7,947)
	(1,903)	(7,947)
Net increase in cash	51,362	91,129
Cash at beginning of year	490,105	398,976
Cash at end of year	\$ 541,467	\$ 490,105
Reconciliation of change in net positions to cash flows from operating activities:		
Change in net position	\$ (17,038)	\$ (11,053)
Items which did not use cash:		
Depreciation	85,949	85,530
Prior period restatement (see note 10)	-	62,508
Working capital changes which provided/(used) cash:		
Accounts receivable	1,373	(39,187)
Prepaid expenses	(18,826)	1,220
Accounts payable	1,164	2,787
Accrued expenses	537	(3,322)
Payroll taxes payable	(314)	566
Deferred sewerage charges	420	27
	53,265	99,076
Net cash flows from operating activities	\$ 53,265	\$ 99,076

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

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements
For the years ended December 31, 2012 and 2011

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, 2012 and 2011

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. 34, No. 63, and No. 65 issued by the Governmental Accounting Standards Board (GASB). 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 property, plant and equipment. Depreciation was provided over the following estimated useful lives:

	<u>Years</u>
Sewer mains	75
Office building	40
Building renovations	15
Equipment	5-15

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

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 Positions date through January 25, 2013, which is the date the financial statements were available to be issued.

NOTE 3: CASH AND CASH EQUIVALENTS

This Authority is governed by the deposit and investment limitations of New Jersey state law. The deposits and investments held at December 31, 2012 and 2011, and reported at fair value, are as follows:

	<u>2012</u>	<u>2011</u>
Deposits:		
Demand deposits	\$ <u>541,467</u>	\$ <u>490,105</u>
Total deposits	\$ <u>541,467</u>	\$ <u>490,105</u>
Reconciliation to Statements of Net Positions:		
Current assets:		
Cash	\$ <u>541,467</u>	\$ <u>490,105</u>

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned. The Authority does not have a deposit policy for custodial credit risk. As of December 31, 2012 and 2011, the Authority's bank balances of \$541,535 and \$490,400, respectively, were insured or collateralized as follows:

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

NOTE 3: CASH AND CASH EQUIVALENTS (continued)

	2012	2011
Insured	\$ 250,000	\$ 250,000
Collateralized in the Authority's name under GUDPA (See Note 4)	67,658	16,649
Collateralized not in the Authority's name (New Jersey Cash Management Fund)	<u>223,877</u>	<u>223,751</u>
Total	<u>\$ 541,535</u>	<u>\$ 490,400</u>

NOTE 4: GOVERNMENTAL UNIT DEPOSIT PROTECTION ACT (GUDPA)

The Board has deposited cash in 2012 and 2011 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

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

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

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. 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, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Collection system	\$5,464,617	\$5,464,617
Administration buildings	147,971	147,971
Equipment	<u>151,700</u>	<u>151,151</u>
Total property plant and equipment	5,764,288	5,763,739
Less: accumulated depreciation	<u>(2,407,577)</u>	<u>(2,322,982)</u>
Net property, plant and equipment	<u>\$3,356,711</u>	<u>\$3,440,757</u>

NOTE 6: ACCRUED EXPENSES

As of December 31, 2012 and 2011, accrued expenses of \$5,810 and \$5,273, respectively, consisted of accounting fees and compensated absences.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

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, 2012 and 2011, these balances totaled \$756 and \$336, respectively.

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.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

NOTE 8: RATE STRUCTURE (continued)

B. Commercial User Charges (continued)

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.
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.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

NOTE 9: PENSIONS AND RETIREMENT PLANS (continued)

A. Plan Description (continued)

The Public Employees' Retirement System (P.E.R.S.) was established in January 1955 under the provisions of *N.J.S.A.43:15A*. The plan was set up to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district, or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: State of New Jersey, Department of Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625, or calling (609) 984-1684.

B. Vesting and Benefit Provisions

The vesting and benefit provisions of PERS are set by *N.J.S.A.43:15A* and *43.3B*. All benefits vest after eight to ten years of service, except for medical benefits that vest after 25 years of service. Retirement benefits for age and service are available at age 55 and are generally determined to be 1/55 of the final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age. The PERS provides for specified medical benefits for members who retire after achieving 25 years of qualified service, as defined, or under the disability provisions of the System.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Chapter 78, P.L. 2011 changed this for employees enrolled after June 28, 2011. See Note 9C below.

C. Significant Legislation

During the year ended June 30, 1997, legislation was enacted (Chapter 114, P.L. 1997) authorizing the New Jersey Economic Development Authority to issue bonds, notes or other obligations for the purpose of financing, in full or in part, the State of New Jersey's portion of the unfunded accrued liability under the State of New Jersey retirement systems. Additional legislation enacted during the year ended June 30, 1997

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

NOTE 9: PENSIONS AND RETIREMENT PLANS (continued)

C. Significant Legislation (continued)

(Chapter 115, P.L. 1997) changed the asset valuation method from market related value to full-market value. This legislation also contained a provision to reduce the employee contribution rate by ½ of 1% to 4.5% for calendar years 1998 and 1999, and to allow for a reduction in the employee's rate after calendar year 1999, providing excess valuation assets are available. The legislation also provided that the District's normal contributions to the Fund may be reduced based on the revaluation of assets. Due to recognition of the bond proceeds and the change in asset valuation method as a result of enactment of Chapters 114 and 115, all unfunded accrued liabilities were eliminated, except for the unfunded liability for local early retirement incentive benefits; accordingly, the pension costs for PERS were reduced.

Legislation signed by the Acting Governor (Chapter 133, Public Laws 2001) changed the formula for calculating retirement benefits for all current and future non-veteran retirees from N/60 to N/55 (a 9.09% increase). This legislation, signed June 29, 2001, provides that all members of the PERS will have their pensions calculated on the basis of years of credit divided by 55. It also provides that all current retirees will have their original pension recalculated under the N/55 formula. Starting February 1, 2002, pension cost of living adjustments will be based on the new original pension.

Effective June 28, 2011, Chapter 78, P.L. 2011 reformed various pension and health benefits provisions. Employees hired after June 28, 2011 and enrolled in PERS will be enrolled in a new tier, Tier 5. Full retirement for Tier 5 PERS members will be age 65 and 30 years of service.

All cost of living adjustments are frozen until the pension fund reaches a "target funded ratio".

Chapter 78 also requires all covered employees to contribute a prescribed percentage towards their health costs.

D. Contribution Requirements

The contribution policy is set by *N.J.S.A.43:15A*, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and *N.J.S.A.18:66*, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provide for employee contributions of 6.5%, effective October 1, 2011, of employees' annual compensation as defined. The rate will increase over the next seven years to 7.5%. From January 1, 2011 through September 30, 2011, plan members were required to contribute 5.5% of their annual salaries. From October 1, 2011 through December 31, 2012, plan members were required to contribute 6.5% of their annual salaries. Employers are required to contribute at an actuarially determined rate in PERS. The actuarially determined contribution includes funding for

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2012 and 2011

NOTE 9: PENSIONS AND RETIREMENT PLANS (continued)

D. Contribution Requirements (continued)

both cost-of-living adjustments, noncontributory death benefits and post-retirement medical premiums. For the years ending December 31, 2012 and 2011 the Authority contributed \$3,537 and \$2,331 to the PERS pension plan.

NOTE 10: RESTATEMENT OF PRIOR YEAR BALANCES

In 2012, the Authority discovered that its accounts receivable balance at December 31, 2011 was understated by \$62,508, due to an error in the report generated by the Authority's billing system. This caused the Authority's unrestricted net position to be understated by \$62,508 at December 31, 2011. The Authority has corrected this by restating the balances for the year ended December 31, 2011 as follows:

	<u>Original Balance</u>	<u>Net Adjustment</u>	<u>Restated Balance</u>
Accounts Receivable	\$ 33,789	\$ 62,508	\$ 96,297

The offset to this adjustment has been shown as a prior period adjustment for the year ended December 31, 2011.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Schedule of Operating Revenues and Costs Funded by Operations - Budget to Actual
For the year ended December 31, 2012

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating revenues:				
User charges	\$ 506,536	\$ 506,536	\$ 514,427	\$ 7,891
Connection fees	-	-	300	300
Delinquent charges	4,000	4,000	6,845	2,845
Interest	250	250	126	(124)
	<u>510,786</u>	<u>510,786</u>	<u>521,698</u>	<u>10,912</u>
Total operating revenues				
Maintenance and treatment expenses:				
OCUA fees	300,000	300,000	273,293	26,707
Engineering	1,000	1,000	758	242
Maintenance salaries and payroll taxes	20,000	20,000	16,854	3,146
Sewer maintenance supplies	5,000	5,000	4,665	335
Garage rental	3,600	3,600	3,600	-
Renewal and replacement	5,000	5,000	-	5,000
	<u>334,600</u>	<u>334,600</u>	<u>299,170</u>	<u>35,430</u>
Total maintenance and treatment expenses				
Administrative expenses:				
Salaries, wages and payroll taxes	70,000	70,000	60,333	9,667
Fringe benefits	9,000	9,000	3,784	5,216
Health insurance	17,000	17,000	19,342	(2,342)
Legal	8,000	8,000	9,076	(1,076)
Audit and consulting	19,000	19,000	21,031	(2,031)
Data processing	1,000	1,000	205	795
Office expenses and supplies	12,000	12,000	9,525	2,475
Office cleaning and maintenance	2,500	2,500	2,972	(472)
Insurance	21,000	21,000	14,715	6,285
Postage	2,750	2,750	2,000	750
Telephone	4,000	4,000	2,148	1,852
Utilities	7,000	7,000	5,291	1,709
Fuel	1,500	1,500	-	1,500
Advertising	500	500	-	500
Licenses and permits	-	-	3,195	(3,195)
Miscellaneous	936	936	-	936
	<u>176,186</u>	<u>176,186</u>	<u>153,617</u>	<u>22,569</u>
Total administrative expenses				
Total costs funded by operations	<u>510,786</u>	<u>510,786</u>	<u>452,787</u>	<u>57,999</u>
Excess of revenues over expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 68,911</u>	<u>\$ 68,911</u>

See independent auditors' report.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Schedule of Operating Revenues and Costs Funded by Operations - Budget to Actual
For the year ended December 31, 2011

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating revenues:				
User charges	\$ 517,680	\$ 517,680	\$ 516,254	\$ (1,426)
Connection fees	-	-	11,588	11,588
Delinquent charges	4,000	4,000	6,681	2,681
Interest	500	500	242	(258)
Total operating revenues	<u>522,180</u>	<u>522,180</u>	<u>534,765</u>	<u>12,585</u>
Maintenance and treatment expenses:				
OCUA fees	300,000	300,000	287,257	12,743
Engineering	1,000	1,000	-	1,000
Maintenance salaries and payroll taxes	20,000	20,000	17,005	2,995
Maintenance of system	5,000	5,000	5,784	(784)
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
Total maintenance and treatment expenses	<u>348,600</u>	<u>348,600</u>	<u>313,646</u>	<u>34,954</u>
Administrative expenses:				
Salaries, wages and payroll taxes	65,000	65,000	58,474	6,526
Fringe benefits	7,000	7,000	1,489	5,511
Health insurance	14,000	14,000	18,871	(4,871)
Legal	10,000	10,000	7,306	2,694
Audit and consulting	20,000	20,000	15,800	4,200
Financial agent	2,500	2,500	-	2,500
Data processing	1,500	1,500	3,299	(1,799)
Office expenses and supplies	12,000	12,000	9,197	2,803
Office cleaning and maintenance	3,000	3,000	2,470	530
Insurance	22,000	22,000	14,773	7,227
Postage	3,000	3,000	2,400	600
Telephone	4,000	4,000	2,682	1,318
Utilities	7,000	7,000	6,479	521
Fuel	1,000	1,000	-	1,000
Advertising	1,000	1,000	-	1,000
Licenses and permits	-	-	3,118	(3,118)
Miscellaneous	580	580	284	296
Total administrative expenses	<u>173,580</u>	<u>173,580</u>	<u>146,642</u>	<u>26,938</u>
Total costs funded by operations	<u>522,180</u>	<u>522,180</u>	<u>460,288</u>	<u>61,892</u>
Excess of revenues over expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 74,477</u>	<u>\$ 74,477</u>

See independent auditors' report.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Board of Commissioners
December 31, 2012

William O. Britton

Chairman

Andrew Howard

Vice Chairman

David Engelhardt

Secretary

Marvin Sykes

Treasurer

William Gleason

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, 2012. 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 \$17,500 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.

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

The examination of expenditures did not reveal any contracts or agreements in excess of \$2,625 "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 quotes were obtained for any services.

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 December 6, 2011.

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 25, 2013
Toms River, New Jersey