

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, 2014 and 2013

(With Independent Auditor's 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, 2014 and 2013

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INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners of
South Toms River Sewerage Authority

Report on the Financial Statements

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 and for the years ended December 31, 2014 and 2013 and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

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

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

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 Authority's, a component unit of the Borough of South Toms River, County of Ocean, State of New Jersey as of December 31, 2014 and 2013, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-7 and budgetary comparison information on pages 17-18 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's, a component unit of the Borough of South Toms River, County of Ocean, State of New Jersey's basic financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2015, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.


HOLMAN FRENIA ALLISON, P.C.
Certified Public Accountants

February 17, 2015
Toms River, New Jersey



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

The Board of Commissioners of
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 Local Finance Board and by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, the financial statements of the business-type activities of the Authority as of and for the year ended December 31, 2014 and 2013 and the related notes to the financial statements, which collectively comprise the Authority’s basic financial statements and have issued our report thereon dated February 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered 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 Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of Authority’s internal control.

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

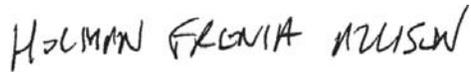
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 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 Local Finance Board and 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 ALLISON, P.C.
Certified Public Accountants

February 17, 2015
Toms River, New Jersey

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, 2014 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 Position, Statements of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows as of and for the years ended December 31, 2014 and 2013.

The Statements of Net Position show the financial position of the Authority at December 31st of each year. Assets are compared with liabilities and net position is the result.

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

Finally, the Statements of Cash Flows demonstrates why cash balances increased or decreased during the two years shown on this report.

Financial Analysis

The Authority at December 31, 2014, has total assets of \$3,975,695 compared to \$3,989,447 at December 31, 2013. The decrease can be primarily attributed to the decrease in accounts receivable due to a higher rate of collections. At December 31, 2012, the Authority had total assets of \$4,031,861. The decrease between 2013 and 2012 can be primarily attributed to the increase in accumulated depreciation.

The Authority at December 31, 2014 has total liabilities of \$20,899 compared to \$20,932 at December 31, 2013. This decrease can be primarily attributed to the time of payments made to vendors. At December 31, 2012, the Authority had total liabilities of \$17,512. The increase between 2013 and 2012 can be primarily attributed to the increase in accounts payable and accrued expenses.

The Authority at December 31, 2014 has total net position of \$3,954,796 compared to \$3,968,515 at December 31, 2013. This decrease is primarily related to the operating loss for the year ended December 31, 2014. At December 31, 2012, the Authority had a total net position of \$4,014,349. The decrease between 2013 and 2012 is primarily related to the operating loss for the year ended December 31, 2012.

Condensed Financial Information

Key Authority financial information for the years ended December 31, 2014, 2013 and 2012 include the following balances:

Financial Position:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<i>ASSETS</i>			
Current assets	\$ 747,142	\$ 716,501	\$ 675,150
Property, plant and equipment, net	<u>3,228,553</u>	<u>3,272,946</u>	<u>3,356,711</u>
Total assets	<u>3,975,695</u>	<u>3,989,447</u>	<u>4,031,861</u>
<i>LIABILITIES</i>			
Current liabilities	<u>20,899</u>	<u>20,932</u>	<u>17,512</u>
<i>NET POSITION</i>			
Net position	<u>\$ 3,954,796</u>	<u>\$ 3,968,515</u>	<u>\$ 4,014,349</u>
Other Financial Information:	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenues	\$ 572,752	\$ 531,247	\$ 521,698
Expenses	<u>(586,471)</u>	<u>(577,081)</u>	<u>(538,736)</u>
Changes in net position	<u>\$ (13,719)</u>	<u>\$ (45,834)</u>	<u>\$ (17,038)</u>

Authority revenues showed a favorable variance of \$50,562 for 2014 when compared to budget. Authority expenses also showed a favorable variance of \$50,123 when compared to budget. Savings can be attributed to higher than expected user charges collected, unbudgeted connection fees collected in current year 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,


William Gleason
Chairman

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Statements of Net Position
December 31, 2014 and 2013

	2014	2013
ASSETS		
Current assets:		
Cash	\$ 598,243	\$ 559,586
Accounts receivable	94,044	108,859
Prepaid expenses	54,855	48,056
Total current assets	747,142	716,501
Property, plant and equipment	5,810,849	5,766,677
Less: accumulated depreciation	(2,582,296)	(2,493,731)
Net property, plant and equipment	3,228,553	3,272,946
Total assets	3,975,695	3,989,447
LIABILITIES		
Current liabilities:		
Accounts payable	10,144	11,359
Accrued expenses	7,830	7,255
Payroll taxes payable	2,180	1,960
Unearned sewerage charges	745	358
Total current liabilities	20,899	20,932
NET POSITION		
Net position:		
Investments in capital assets, net of related debt	3,228,553	3,272,946
Unrestricted net position	726,243	695,569
Total net position	\$ 3,954,796	\$ 3,968,515

The accompanying notes are an integral part of these financial statements.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Statements of Revenues, Expenses, and Changes in Net Position
For the years ended December 31, 2014 and 2013

	2014	2013
Operating revenues:		
User charges	\$ 542,176	\$ 523,105
Delinquent charges	7,671	8,016
Connection fees	22,776	-
	<u>572,623</u>	<u>531,121</u>
Operating expenses:		
Maintenance and treatment	298,259	307,163
Administration	173,718	157,977
Depreciation	88,564	86,154
Appropriation to municipality	25,930	25,787
	<u>586,471</u>	<u>577,081</u>
Operating loss	(13,848)	(45,960)
Non-operating revenues:		
Interest revenue	129	126
	<u>129</u>	<u>126</u>
Change in net position	(13,719)	(45,834)
Net position - beginning of the year	<u>3,968,515</u>	<u>4,014,349</u>
Net position - end of the year	<u>\$ 3,954,796</u>	<u>\$ 3,968,515</u>

The accompanying notes are an integral part of these financial statements.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Statements of Cash Flows
For the years ended December 31, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Cash received from service users	\$ 587,825	\$ 516,788
Cash paid to suppliers and employees	(505,126)	(496,406)
Net cash flows from operating activities	82,699	20,382
Cash flows from investing activities:		
Purchase of fixed assets	(44,171)	(2,389)
Interest received	129	126
Net cash flows from investing activities	(44,042)	(2,263)
Net change in cash	38,657	18,119
Cash at beginning of year	559,586	541,467
Cash at end of year	\$ 598,243	\$ 559,586
Reconciliation of operating loss to cash flows from operating activities:		
Operating loss	\$ (13,848)	\$ (45,834)
Items which did not use cash:		
Depreciation	88,564	86,154
Working capital changes which provided/(used) cash:		
Accounts receivable	14,815	(13,935)
Prepaid expenses	(6,799)	(9,297)
Accounts payable	(1,215)	2,371
Accrued expenses	575	1,445
Payroll taxes payable	220	2
Unearned sewerage charges	387	(398)
Net cash flows from operating activities	\$ 82,699	\$ 20,508

The accompanying notes are an integral part of these financial statements.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements
For the years ended December 31, 2014 and 2013

NOTE 1: ORANGIZATION

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).

NOTE 2: 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.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2014 and 2013

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 Position date through February 17, 2015, 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 held at December 31, 2014 and 2013, and reported at fair value, are as follows:

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2014 and 2013

NOTE 3: CASH AND CASH EQUIVALENTS (continued)

	2014	2013
Deposits:		
Demand deposits	\$ 598,243	\$ 559,586
Total deposits	\$ 598,243	\$ 559,586
Reconciliation to Statements of Net Position:		
Current assets:		
Cash	\$ 598,243	\$ 559,586

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, 2014 and 2013, the Authority's bank balances of \$596,263 and \$559,490, respectively, were insured or collateralized as follows:

	2014	2013
Insured	\$ 250,000	\$ 250,000
Collateralized in the Authority's name under GUDPA	122,131	87,487
Collateralized not in the Authority's name (New Jersey Cash Management Fund)	224,132	224,003
Total	\$ 596,263	\$ 559,490

NOTE 4: PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at December 31, 2014 and 2013 consisted of the following:

	2014	2013
Collection system	\$5,464,617	\$5,464,617
Administration buildings	147,971	147,971
Equipment	198,261	154,089
Total property plant and equipment	5,810,849	5,766,677
Less: accumulated depreciation	(2,582,296)	(2,493,731)
Net property, plant and equipment	\$3,228,553	\$3,272,946

NOTE 5: ACCRUED EXPENSES

As of December 31, 2014 and 2013, accrued expenses of \$7,830 and \$7,255, respectively, consisted of accounting fees and compensated absences.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2014 and 2013

NOTE 6: UNEARNED 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 unearned income and not recognized as revenue until the following year. As of December 31, 2014 and 2013, these balances totaled \$745 and \$358, respectively.

NOTE 7: 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.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2014 and 2013

NOTE 7: RATE STRUCTURE (continued)

B. Commercial User Charges (continued)

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 8: 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 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.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Notes to Financial Statements (continued)
For the years ended December 31, 2014 and 2013

NOTE 8: PENSIONS AND RETIREMENT PLANS (continued)

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 8C below.

C. Significant Legislation

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 6.78%, effective on or after July 1, 2013, of employees' annual compensation as defined. Rates will increase over the next few years to 7.5%. Employers are required to contribute at an actuarially determined rate in PERS. The actuarially determined contribution includes funding for both cost-of-living adjustments, noncontributory death benefits and post-retirement medical premiums. For the years ending December 31, 2014 and 2013 the Authority contributed \$3,513 and \$3,560 to the PERS pension plan.

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Schedule of Operating Revenues and Costs Funded by Operations - Budget to Actual
For the year ended December 31, 2014

	Original Budget	Modified Budget	Actual	Variance Favorable (Unfavorable)
Operating revenues:				
User charges	\$ 516,500	\$ 516,500	\$ 542,176	\$ 25,676
Connection fees	-	-	22,776	22,776
Delinquent charges	5,500	5,500	7,671	2,171
Interest	100	100	129	29
Total operating revenues	522,100	522,100	572,752	50,652
Maintenance and treatment expenses:				
OCUA fees	295,000	295,000	270,832	24,168
Engineering	1,500	1,500	445	1,055
Maintenance salaries and payroll taxes	20,000	20,000	17,422	2,578
Sewer maintenance supplies	7,000	7,000	5,960	1,040
Garage rental	3,600	3,600	3,600	-
Renewal and replacement	3,500	3,500	-	3,500
Total maintenance and treatment expenses	330,600	330,600	298,259	32,341
Administrative expenses:				
Salaries, wages and payroll taxes	77,500	77,500	61,934	15,566
Fringe benefits	13,000	13,000	3,800	9,200
Health insurance	20,000	20,000	20,974	(974)
Legal	10,000	10,000	13,747	(3,747)
Audit and consulting	20,500	20,500	21,448	(948)
Data processing	750	750	-	750
Office expenses and supplies	13,500	13,500	14,713	(1,213)
Office cleaning and maintenance	3,500	3,500	6,157	(2,657)
Insurance	17,500	17,500	17,325	175
Postage	3,000	3,000	3,600	(600)
Telephone	3,000	3,000	1,682	1,318
Utilities	7,000	7,000	5,278	1,722
Fuel	1,500	1,500	-	1,500
Advertising	250	250	-	250
Licenses and permits	-	-	3,000	(3,000)
Miscellaneous	500	500	60	440
Total administrative expenses	191,500	191,500	173,718	17,782
Appropriation to municipality	-	25,930	25,930	-
Total costs funded by operations	522,100	548,030	497,907	50,123
Excess of revenues over expenses	\$ -	\$ (25,930)	\$ 74,845	\$ 100,775

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Schedule of Operating Revenues and Costs Funded by Operations - Budget to Actual
For the year ended December 31, 2013

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Operating revenues:				
User charges	\$ 516,496	\$ 516,496	\$ 523,105	\$ 6,609
Delinquent charges	4,000	4,000	8,016	4,016
Interest	250	250	126	(124)
Total operating revenues	<u>520,746</u>	<u>520,746</u>	<u>531,247</u>	<u>10,501</u>
Maintenance and treatment expenses:				
OCUA fees	303,000	303,000	276,787	26,213
Engineering	1,500	1,500	-	1,500
Maintenance salaries and payroll taxes	20,500	20,500	16,642	3,858
Sewer maintenance supplies	5,000	5,000	10,134	(5,134)
Garage rental	3,600	3,600	3,600	-
Renewal and replacement	5,000	5,000	-	5,000
Total maintenance and treatment expenses	<u>338,600</u>	<u>338,600</u>	<u>307,163</u>	<u>31,437</u>
Administrative expenses:				
Salaries, wages and payroll taxes	73,000	73,000	61,338	11,662
Fringe benefits	9,000	9,000	4,522	4,478
Health insurance	17,000	17,000	19,974	(2,974)
Legal	12,000	12,000	6,988	5,012
Audit and consulting	19,500	19,500	18,300	1,200
Data processing	750	750	-	750
Office expenses and supplies	12,000	12,000	12,216	(216)
Office cleaning and maintenance	2,500	2,500	4,480	(1,980)
Insurance	21,000	21,000	16,548	4,452
Postage	2,750	2,750	2,750	-
Telephone	3,000	3,000	1,999	1,001
Utilities	7,000	7,000	5,862	1,138
Fuel	1,500	1,500	-	1,500
Advertising	500	500	-	500
Licenses and permits	-	-	3,000	(3,000)
Miscellaneous	646	646	-	646
Total administrative expenses	<u>182,146</u>	<u>182,146</u>	<u>157,977</u>	<u>24,169</u>
Appropriation to municipality	-	25,787	25,787	-
Total costs funded by operations	<u>520,746</u>	<u>546,533</u>	<u>490,927</u>	<u>55,606</u>
Excess of revenues over expenses	<u>\$ -</u>	<u>\$ (25,787)</u>	<u>\$ 40,320</u>	<u>\$ 66,107</u>

SOUTH TOMS RIVER SEWERAGE AUTHORITY
Board of Commissioners and Management
December 31, 2014

	<u>Position</u>	<u>Term</u>
William Gleason.....	Chairman	2019
William Britton	Vice Chairman	2018
Marvin Sykes	Treasurer	2016
David Engelhardt.....	Secretary	2020
Barbara Engelhardt.....	Asst Treasurer	2017



HOLMAN | FRENIA
ALLISON, P.C.

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926 Main Street, Suite 103, Rome, PA 18837 • Tel: 570.297.5090

www.hfacpas.com

To the Board of Commissioners of
South Toms River Sewerage Authority

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, 2014. 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 the Authority operating and capital budgets be approved and adopted for each fiscal year. The Authority approved its operating budget on November 20, 2013 and adopted its operating budget on January 7, 2014.

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 or should you desire any assistance, please call us.

Handwritten signature in black ink that reads "HOLMAN FRENIA ALLISON".

HOLMAN FRENIA ALLISON, P.C.

Certified Public Accountants

February 17, 2015
Toms River, New Jersey