



**Comprehensive Annual
Financial Report for the
Year Ended December 31, 2011**

MANASQUAN RIVER REGIONAL SEWERAGE AUTHORITY

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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MANASQUAN RIVER REGIONAL SEWERAGE AUTHORITY

COMPREHENSIVE ANNUAL FINANCIAL REPORT

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Introductory Section



Manasquan River Regional Sewerage Authority

P.O. Box 646 • Farmingdale, New Jersey 07727

(732) 431-8185 • FAX (732) 308-3833

Jerome A. Cevetello, Jr.

Executive Director

April 26, 2012

To the Board of Commissioners
Manasquan River Regional Sewerage Authority

The comprehensive annual financial report (CAFR) of the Manasquan River Regional Sewerage Authority (Authority) for the year ended December 31, 2011, is submitted herewith. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation including all disclosures, rests with Authority management. We believe that the data presented is accurate in all material respects; that the report is presented in a manner designed to fairly set forth the results of operations of the Authority as measured by the financial activity of its funds; that the report fairly presents the financial position of the Authority for the year then ended; and that all disclosures necessary to enable the reader to gain a maximum understanding of the Authority's financial activities have been included.

This CAFR is presented in three main sections:

1. **Introductory Section** provides information on the contents of the report, this transmittal letter and the Authority's organizational structure.
2. **Financial Section** includes the auditor's opinion, management discussion and analysis, basic financial statements and other supplemental information.
3. **Statistical Section** contains additional financial and general information generally presented on a multiyear basis.

Profile of the Government

The Manasquan River Regional Sewerage Authority was originally created in May of 1972 by parallel ordinances of five member municipalities, Farmingdale Borough, Freehold Borough, Freehold Township, Howell Township and Wall Township. The original purpose of the Authority was to provide for the treatment of wastewater in the Manasquan River Basin and a portion of the Metedeconk Basin. The total area of coverage for this Authority is approximately 103 square miles and presently consists of over 100,000 residences, plus numerous commercial and industrial establishments.

Subsequent to the original creation of this Authority, it was determined by federal and state officials that this Authority would become a collection and conveyance system only and transport its wastewater for treatment to the Ocean County Utilities Authority.

Organization of Structure

The Authority consists of ten commissioners, who act as its Board of Directors. Each member municipality appoints two of these commissioners to staggered five-year terms. The commissioners annually select four of its members to serve as chairperson, vice chairperson, secretary, and treasurer. The chairperson, or in his or her absence, the vice-chairperson presides over the meetings. The secretary is responsible for the execution, witnessing and certification of various Authority documents. (See Appendix A for current list of commissioners.)

The Authority commissioners are responsible for setting the policy of this Authority. The commissioners also appoint an executive director who acts as chief administrator to carry out the rules and policies enacted by the commissioners. The executive director is responsible for the day to day affairs of the Authority and is responsible to the commissioners for administering the policies established by them.

The commissioners are also responsible for annually appointing an Authority attorney, engineer and auditor, along with any other special counsels or consultants as deemed appropriate and necessary. These professionals report both to the commissioners and to the executive director. (See Appendix B for current list of professionals.)

Within the Authority, there are two divisions, the administrative and the operational division. The administrative division is responsible for the preparation of all necessary Authority paperwork and documents, along with the day to day finances of the Authority and its purchasing. Within the administrative division an executive secretary is also responsible for attending the Authority's meetings and recording the minutes. Also, there is a bookkeeper responsible for the preparation of Authority documents as they pertain to the processing and payment of bills, payroll and the receipt of monies due to the Authority and proper disposition. These individuals report directly to the executive director.

The operations division is responsible for the day to day operation and maintenance of the physical plant. The operations division is headed by the superintendent, who reports directly to the executive director. (Please refer to Addendum C Manasquan River Regional Sewerage Authority table of organization.)

Local Economy

The Authority's service area, which includes its five member municipalities, Farmingdale Borough, Freehold Borough, Freehold Township, Howell Township, and Wall Township, is the fastest growing area in Monmouth County, although the economic downturn over the last few years has hampered this growth.

Monmouth County is located in east central New Jersey. With a land area of 472 square miles, the county ranks as the sixth largest. Its population in 2000 was 615,301, placing it fourth among New Jersey counties. With its relatively level topography, and with its only significant physical constraint the large areas covered by wetlands, the County was poised for rapid growth once the New York-Northern New Jersey "growth belt" expanded beyond Middlesex County.

Local Economy (Continued)

The Authority service area primarily consists of residential housing with a major transportation spine, Route 9. Route 9 acts as corridor to a large commuter base that is predominately employed in the New York Metropolitan area. In addition to Route 9 being a transportation corridor it is also a Mecca for shopping. This includes a large number of national chain box stores, strip malls and a large regional mall.

Freehold Borough is the county seat. It is located in the heart of western Monmouth County and hosts many professional offices. Freehold Township hosts an expanding medical facility, Centra State Healthcare System and of its associated services. The service area also has major manufacturing such as Nestle USA and light industry in different pockets throughout. There is a regional airport (Monmouth Executive) in Wall Township.

Over the course of the next few years Wall Township is projected to host the greatest number of jobs at about 17,104, followed by Freehold Township at 16,000, Howell Township at 10,746, Freehold Borough at 10,026 and Farmingdale Borough at 250.

Table 1: At Place Employment, 1995-2020

	1985	2005	2020
Farmingdale Borough	225	250	250
Freehold Borough	9,030	10,026	11,401
Freehold Township	13,941	16,000	17,500
Howell Township	8,696	10,746	11,470
Wall Township	13,985	17,104	20,183
Service Area Total	45,877	54,126	60,804

The median household income in the Authority’s service area can be seen in the following table:

Table 2: Median Household Income, 1989 and 2000

	1989	2000
New Jersey	\$40,927	N/A
Monmouth County	\$45,912	\$73,263
Farmingdale Borough	\$40,469	\$62,086
Freehold Borough	\$40,327	\$61,568
Freehold Township	\$58,756	\$98,631
Howell Township	\$47,912	\$77,619
Wall Township	\$46,301	\$73,989

Source: 1989-US Census
2000 Income estimates – Monmouth County Planning Board

Retail prices in the greater New York area (which includes Monmouth County) as measured for the year ended December 2006 rose 3.1%*, while core inflation as measured by the “*All Items Less Food and Energy Index*” was up 3.3%*.

* Source United States Department of Labor, Bureau of Labor Statistics

MAJOR INITIATIVES

Mingamahone Pump Station Upgrades

The Authority in 2010 completed an engineering re-design of the Mingamahone Pump Station. This design will include a complete update of this approximately 25-year old pump station that serves parts of northeast Howell Township and Farmingdale Borough. In addition, the design study will include an analysis of projected flows in this area to determine if a re-rating of the station will be necessary. It is anticipated that this project will go out to bid in 2013. In addition, during 2010 the Authority completed the installation of a new standby emergency generator at this location.

Upper Manasquan Pump Station / Authority Headquarters

During 2009, the Authority completed the installation of natural gas service to its facility on Havens Bridge Road. As a result the 30-year old oil fired heating system was replaced with natural gas. In addition, during 2011 the 8,000 gallon diesel fuel underground storage tank used for heating and emergency generation was removed and replaced with a smaller above ground diesel fuel storage tank to be used solely for emergency generation.

Upper Manasquan Force Main / Route 9 Corridor

During 2011, the Authority experienced damage to its Upper Manasquan Force Main from Hurricane Irene. As a result, the Authority made repairs to the line; these costs were reimbursed from insurance proceeds of the NJUA JIF and FEMA.

The Authority, in 2012 will undertake an extensive investigation of this force main along the Route 9 Corridor to determine if there are any other areas of concern.

FINANCIAL INFORMATION

Internal Controls

In developing and evaluating the Authority's accounting system, an important consideration is the overall adequacy of internal controls. Internal controls are designed to provide Authority management with reasonable (but not absolute) assurance regarding (a) the safeguarding of assets against loss from unauthorized use or disposition; and (b) the overall reliability of the financial records for preparing financial statements and for maintaining accountability and control over the Authority's assets.

The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of cost and benefits requires estimates and judgement by management.

Budgetary Control

Annually, appropriations are established by the Board of Commissioners to record the current year's fiscal requirements of the Authority. Portions of these appropriations are encumbered as purchase orders and/or contracts are awarded. No commitment is authorized, nor any expenditure incurred, until it is determined that adequate appropriation balances exist for that purpose. To facilitate this determination, the Authority accounting records are delineated by function and specific activity.

Financial Operating Results

The management discussion and analysis that follows, summarizes and reviews the changes of the Authority's financial operations.

Cash and Investment Administration

The Authority's investment policy is to minimize credit and market risks while maintaining a competitive yield on its portfolio. During 2011, the Authority continued to invest in the same type of investments as in prior years, although it switched from investing primarily in the New Jersey Cash Management Fund and Treasury and Agency Securities to a higher yield money market account at Ocean First Bank. All investments are made in accordance with permitted investment vehicles as determined by the State of New Jersey.

RISK MANAGEMENT

The Authority continues to look to the New Jersey Utilities Authority Joint Insurance Fund (NJUAJIF) for its property and casualty insurance coverage. This fund has provided comprehensive and reliable coverage for many years. The relationship has also resulted in thousands of dollars in cost savings on premiums, plus many annual dividends being paid to the Authority.

The NJUAJIF coverage includes Employment Practices Liability Coverage (EPL) and Public Officials Liability Coverage (POL). There has also been the inclusion of extended Environmental Coverage as a result of the NJUAJIF becoming a member of the New Jersey Environmental Joint Insurance Fund (NJEJIF).

A comprehensive listing of the Insurance Coverage can be found on file in the Authority's offices.

OTHER INFORMATION

Independent Audit

The Authority is required to have an annual audit of the books of account, financial records, and transactions conducted by independent certified public accountants selected by the Board of Commissioners. This requirement has been complied with. The independent auditors' report on the 2011 financial statements of the Authority has been included in the financial section of this report.

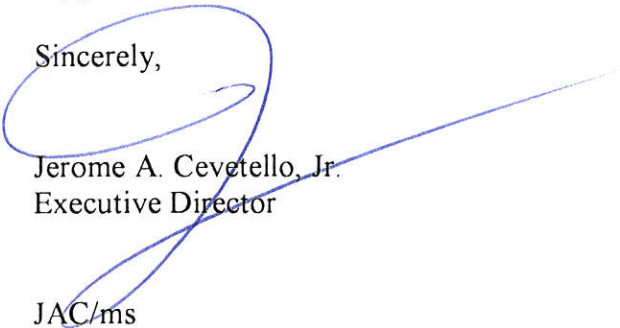
Acknowledgement

The preparation of this report on a timely basis was made possible with the assistance of the following people:

Sue Riis
Margaret Semblewski
James Roe
Sean Throckmorton
William E. Antonides, Jr., CPA, RMA
Peter E. Kocsik, PE

In closing, preparation of the report would not have been possible without the leadership and support of the Board of Commissioners.

Sincerely,



Jerome A. Cevetello, Jr.
Executive Director

JAC/ms

Appendix A

2011

MRRSA COMMISSIONERS, TERMS OF OFFICE

	<u>FROM</u>	<u>EXPIRES</u>	<u>TERM</u>
<u>FARMINGDALE:</u>			
Seymour Burke, Treasurer	2-01-11	2-01-16	5
Edward A. Schauer MD, Secretary	2-01-07	2-01-12	5
<u>FREEHOLD BOROUGH:</u>			
Michael Wilson	2-01-11	2-01-16	5
Richard J. Gartz	2-01-07	2-01-12	5
<u>FREEHOLD TOWNSHIP:</u>			
Eugene B. Golub	2-01-11	2-01-16	5
A. Richard Gatto	1-01-10*	2-01-12	*
*Completion of Ray Kershaw's term			
<u>HOWELL TOWNSHIP:</u>			
Thomas Savino	2-01-11	2-01-16	5
Jesse Tantillo, Chairman	2-01-07	2-01-12	5
<u>WALL TOWNSHIP:</u>			
Olga McKenna	2-01-11	2-01-16	5
Mary DeSarno, Vice Chairwoman	2-01-07	2-01-12	5

Appendix B

2011

MANAGEMENT

Jerome A. Cevetello, Jr., Executive Director

James Roe, Superintendent

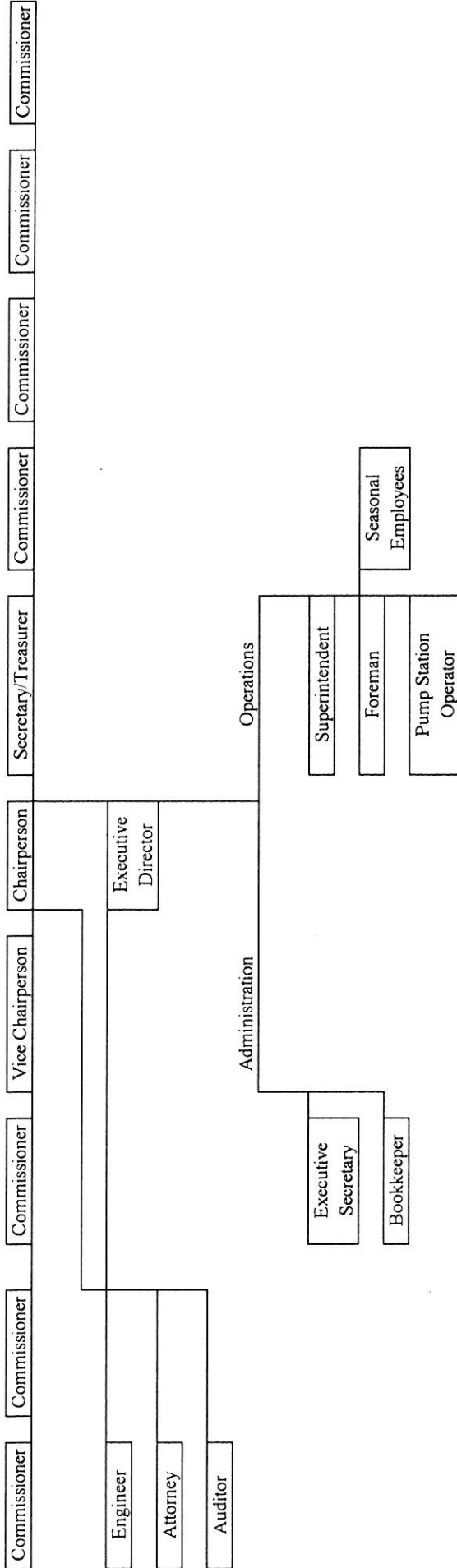
CONSULTANTS

Mehr, LaFrance & Williams	Attorney
William E. Antonides & Company	Auditor
Cleary, Giacobbe, Alfieri, Jacobs, LLC	Special Counsel
Hatch Mott MacDonald	Engineer
John S. Truhan Consulting Engineers, Inc.	Conflict Engineer
Conner Strong Companies, Inc.	Risk Management Consultant

MANASQUAN RIVER REGIONAL SEWERAGE AUTHORITY

ORGANIZATIONAL CHART

Appendix C



Financial Section

William E. Antonides and Company
CERTIFIED PUBLIC ACCOUNTANTS

WILLIAM E. ANTONIDES, C.P.A., R.M.A., P.S.A.
WILLIAM E. ANTONIDES, JR., C.P.A., R.M.A., P.S.A.

EDWARD J. SIMONE, C.P.A., R.M.A., P.S.A.
BRIAN K. LOGAN, C.P.A., R.M.A., P.S.A.
DOROTHY S. GALLAGHER, C.P.A., R.M.A., P.S.A.
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INDEPENDENT AUDITOR'S REPORT

Chairperson and Board of Commissioners
Manasquan River Regional Sewerage Authority
County of Monmouth
Farmingdale, New Jersey

We have audited the accompanying financial statements of the Manasquan River Regional Sewerage Authority (the "Authority"), in the County of Monmouth, State of New Jersey, as of and for the years ended December 31, 2011 and 2010, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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. 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2011 and 2010, and the respective changes in financial position and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 of the Authority taken as a whole. The introductory section and supplemental information, listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements. The supplemental 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 supplemental information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

William E. Antonides and Company

Independent Auditors



**William E. Antonides, Jr.
Certified Public Accountant**

April 26, 2012

Management's Discussion and Analysis

The discussion and analysis is designed to provide an analysis of the Authority's financial condition and operating results and to also inform the reader on Authority financial issues and activities.

The Management's Discussion and Analysis (MD&A) should be read in conjunction with the Transmittal Letter (beginning on page 1) and the Authority's basic financial statements (beginning on page 15).

USING THIS ANNUAL REPORT

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. As enterprise funds, the Authority's basic financial statements include:

- **Statement of net assets** - reports the Authority's current financial resources (short-term spendable resources) with capital assets and long-term obligations. (Exhibit A)
- **Statement of revenues, expenses and changes in fund net assets** - reports the Authority's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions. (Exhibit B)
- **Statement of cash flows** - reports the Authority's cash flows from operating activities, investing, capital and non-capital activities. (Exhibit C)

STATEMENT OF NET ASSETS

Years Ended December 31,	<u>2011</u>	<u>2010</u>
Assets:		
Current Assets:		
Unrestricted	\$ 1,136,644	\$ 1,028,841
Restricted	438,334	420,059
Capital Assets, Net	<u>10,916,951</u>	<u>11,277,239</u>
Total Assets	<u>\$ 12,491,929</u>	<u>\$ 12,726,139</u>
Liabilities:		
Current Liabilities:		
Unrestricted	\$ 1,863,791	\$ 1,602,707
Restricted	436,677	419,317
Non-Current Liabilities	<u>1,298,592</u>	<u>2,675,479</u>
Total Liabilities	<u>\$ 3,599,060</u>	<u>\$ 4,697,503</u>
Net Assets		
Invested in Capital Fixed Assets, Net of Related Debt	\$ 9,250,570	\$ 8,381,346
Unrestricted	<u>(357,701)</u>	<u>(352,710)</u>
Total Net Assets	<u>\$ 8,892,869</u>	<u>\$ 8,028,636</u>

The net assets of the Authority increased to \$8,892,869 during 2011, a \$864,233 increase over 2010.

REVIEW OF REVENUES

Years Ended December 31,	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Service Charges	\$ 12,940,754	\$ 11,789,619
Connection Fees	385,908	580,607
Other	192,824	189,956
Total Operating Revenues	<u>13,519,486</u>	<u>12,560,182</u>
Non-Operating Revenues:		
Gain on Sale Leaseback	48,471	48,471
Interest Revenue	2,583	7,288
Casualty Loss Reimbursement	386,621	
Other	106,322	64,189
Total Non-Operating Revenues	<u>543,997</u>	<u>119,948</u>
Total Revenues	<u>\$ 14,063,483</u>	<u>\$ 12,680,130</u>

In 2011, operating revenues increased by \$1,383,353 when compared to 2010. The increase was attributable to an increase in service charges over the previous year and casualty loss reimbursement from storm response and damages from Hurricane Irene and a storm on August 21, 2011.

REVIEW OF EXPENSES

Years Ended December 31,	<u>2011</u>	<u>2010</u>
Operating Expenses		
Personnel Services	\$ 1,876,312	\$ 1,828,038
Purchase of Services	9,959,932	9,917,713
Other Operating Expenses	771,014	377,097
Depreciation	215,292	204,910
Amortization of Leased Property Under Capital Lease	<u>238,431</u>	<u>238,431</u>
Total Operating Expenses	<u>\$ 13,060,981</u>	<u>\$ 12,566,189</u>

The Authority's operating expenses increased \$494,792 in 2011 when compared to 2010. The increase was mainly attributable to storm response and damages from Hurricane Irene and a storm on August 21, 2011.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets, net of depreciation

In 2011, capital assets had a net decrease (addition, deductions and depreciation) of \$360,289.

Years Ended December 31,	<u>2011</u>	<u>2010</u>
Leased Property Under Capital Lease	\$ 6,776,959	\$ 7,015,390
Buildings	653,971	669,764
Equipment and Apparatus	242,700	158,347
Office Equipment	9,076	9,076
Vehicles	140,856	159,510
Conveyance System	3,093,388	3,253,406
Construction in Progress	<u> </u>	<u>11,746</u>
Total Capital Assets, Net	<u>\$ 10,916,950</u>	<u>\$ 11,277,239</u>

DEBT OUTSTANDING

The Authority's capital lease balance was \$1,666,380 and \$2,895,893 in 2011 and 2010 respectively.

FINANCIAL CONTACT

The Authority's statements are designed to present users (sewer users, ratepayers and creditors) with a general overview of the Authority's finances and to demonstrate the Authority's accountability. If you have any questions about the report or need additional financial information, please contact the Finance Department, Manasquan River Regional Sewerage Authority, P.O. Box 646, Farmingdale, NJ 07727.

MANASQUAN RIVER REGIONAL SEWERAGE AUTHORITY

STATEMENTS OF NET ASSETS

Exhibit A

DECEMBER 31, 2011 AND 2010

Sheet 1 of 2

	<u>2011</u>	<u>2010</u>
<u>Assets</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 178,483.09	\$ 396,914.12
Intergovernmental Accounts Receivable	241,868.00	329,495.38
Casualty Loss Reimbursement Receivable	386,620.71	
Prepaid Lease Payment	322,257.81	294,836.24
Inventory	7,414.53	7,595.24
Total Current Assets	<u>1,136,644.14</u>	<u>1,028,840.98</u>
Restricted Assets:		
Cash and Cash Equivalents	438,333.68	420,059.16
Total Restricted Assets	<u>438,333.68</u>	<u>420,059.16</u>
Capital Assets:		
Leased Property Under Capital Leases	14,230,712.00	14,230,712.00
Less Accumulated Amortization	7,453,752.90	7,215,322.11
	<u>6,776,959.10</u>	<u>7,015,389.89</u>
Buildings	932,891.43	925,906.43
Equipment and Apparatus	566,071.35	467,875.37
Office Equipment	118,808.00	118,808.00
Vehicles	459,848.37	459,848.37
Conveyance System	4,953,258.21	4,953,258.21
Construction in Progress		11,746.00
	<u>7,030,877.36</u>	<u>6,937,442.38</u>
Less Accumulated Depreciation	2,890,885.96	2,675,593.88
	<u>4,139,991.40</u>	<u>4,261,848.50</u>
Capital Assets, Net	<u>10,916,950.50</u>	<u>11,277,238.39</u>
Total Assets	<u>\$ 12,491,928.32</u>	<u>\$ 12,726,138.53</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

MANASQUAN RIVER REGIONAL SEWERAGE AUTHORITY

STATEMENTS OF NET ASSETS

Exhibit A

DECEMBER 31, 2011 AND 2010

Sheet 2 of 2

	<u>2011</u>	<u>2010</u>
<u>Liabilities</u>		
Current Liabilities Payable from Unrestricted Assets:		
Accounts Payable	\$ 216,902.54	\$ 57,904.56
Contracts Payable		54,839.44
Overpayment of Service Charges	312,577.48	260,450.02
Obligations Under Capital Lease	1,334,311.22	1,229,512.45
Total Current Liabilities Payable from Unrestricted Assets	<u>1,863,791.24</u>	<u>1,602,706.47</u>
Current Liabilities Payable from Restricted Assets::		
Escrow Accounts - Review Fees	436,676.42	419,317.34
Total Current Liabilities Payable from Restricted Assets	<u>436,676.42</u>	<u>419,317.34</u>
Non-Current Liabilities:		
Obligations Under Capital Leases	332,069.24	1,666,380.46
Unearned Profit on Sales - Leaseback	905,738.49	954,209.15
Compensated Absences Payable	60,784.02	54,889.69
Total Non-Current Liabilities	<u>1,298,591.75</u>	<u>2,675,479.30</u>
Total Liabilities	<u>\$ 3,599,059.41</u>	<u>\$ 4,697,503.11</u>
<u>Net Assets</u>		
Invested in Capital Fixed Assets, Net of Related Debt	\$ 9,250,570.04	\$ 8,381,345.48
Unrestricted	<u>(357,701.13)</u>	<u>(352,710.06)</u>
Total Net Assets	<u>\$ 8,892,868.91</u>	<u>\$ 8,028,635.42</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

MANASQUAN RIVER REGIONAL SEWERAGE AUTHORITY

STATEMENTS OF REVENUE, EXPENSES AND

Exhibit B

CHANGES IN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating Revenue:		
Service Charges	\$ 12,940,753.92	\$ 11,789,618.73
Connection Fees	385,908.03	580,606.70
Other	192,823.56	189,955.92
Total Operating Revenue	<u>13,519,485.51</u>	<u>12,560,181.35</u>
Operating Expenses:		
Personnel Services	1,876,312.21	1,828,038.34
Purchase of Services	9,959,932.25	9,917,712.49
Other Operating Expenses	771,013.55	377,096.64
Depreciation	215,292.08	204,910.29
Amortization of Leased Property Under Capital Lease	238,430.79	238,430.79
Total Operating Expenses	<u>13,060,980.88</u>	<u>12,566,188.55</u>
Operating Income/(Loss)	<u>458,504.63</u>	<u>(6,007.20)</u>
Non-Operating Revenue/(Expenses):		
Gain on Sale Leaseback	48,470.66	48,470.66
Interest Revenue	2,583.04	7,288.39
Lease Obligation Interest Expense	(138,267.06)	(223,485.22)
Casualty Loss Reimbursement	386,620.71	
Other Non-Operating Revenues	106,321.51	64,188.59
Total Non-Operating Revenue/(Expenses)	<u>405,728.86</u>	<u>(103,537.58)</u>
Net Income/(Loss)	864,233.49	(109,544.78)
Net Assets January 1	<u>8,028,635.42</u>	<u>8,138,180.20</u>
Net Assets December 31	<u>\$ 8,892,868.91</u>	<u>\$ 8,028,635.42</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

MANASQUAN RIVER REGIONAL SEWERAGE AUTHORITY

STATEMENTS OF CASH FLOWS

Exhibit C

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Cash Received from Service Charges	\$ 13,070,035.58	\$ 11,125,116.09
Cash Received from Service Surcharges	111,157.05	52,372.20
Cash Received from Connection Fees	385,908.03	580,606.70
Cash Received from Miscellaneous	106,321.51	64,188.59
Cash Received from OCUA Supplemental Agreement	192,106.65	189,826.35
Cash Received from OCUA Prior Year Overpayment	87,328.80	342,970.80
Cash Received from BTMUA Prior Year Overpayment	9,450.82	18,568.52
Cash Received/Payments from/to Escrows	18,274.52	(48.35)
Cash Payments for Goods and Services	(10,868,284.13)	(10,486,942.25)
Cash Payments to Employees	(1,825,486.88)	(1,826,388.16)
Net Cash Flows from Operating Activities	<u>1,286,811.95</u>	<u>60,270.49</u>
Cash Flows from Capital and Related Financing Activities:		
Payments for Capital Acquisitions	(93,434.98)	(69,007.27)
Lease Payments	(1,256,934.02)	(1,424,545.07)
Interest Paid	(138,267.06)	(223,485.22)
Net Cash Flows from Capital and Related Financing Activities	<u>(1,488,636.06)</u>	<u>(1,717,037.56)</u>
Cash Flows from Investing Activities:		
Receipts of Interest	1,667.60	7,288.39
Net Cash Flows from Investing Activities	<u>1,667.60</u>	<u>7,288.39</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(200,156.51)	(1,649,478.68)
Cash and Cash Equivalents January 1	<u>816,973.28</u>	<u>2,466,451.96</u>
Cash and Cash Equivalents December 31	<u>\$ 616,816.77</u>	<u>\$ 816,973.28</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income/(Loss)	\$ 458,504.63	\$ (6,007.20)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense	215,292.08	204,910.29
Amortization of Capital Lease	238,430.79	238,430.79
Escrow Accounts - Review Fees	18,274.52	(48.35)
Non-Operating Revenue/(Expenses)	106,321.51	64,188.59
(Increase)/Decrease in Service Charges Receivable	77,154.20	(82,810.12)
(Increase)/Decrease in Service Surcharges Receivable	36,124.01	(40,932.05)
(Increase)/Decrease in OCUA Excess Service Charges	(20,918.70)	255,642.00
(Increase)/Decrease in BTMUA Excess Service Charges	(4,015.22)	9,117.70
(Increase)/Decrease in OCUA Supplemental Agreement Receivable	(716.91)	(129.57)
(Increase)/Decrease in Inventory	180.71	9,878.78
Increase/(Decrease) in Accounts Payable	104,158.54	(11,105.09)
Increase/(Decrease) in Overpayment of User Fees	52,127.46	(581,692.52)
Increase/(Decrease) in Compensated Absences Payable	5,894.33	827.24
Total Adjustments	<u>828,307.32</u>	<u>66,277.69</u>
Net Cash Provided by Operating Activities	<u>\$ 1,286,811.95</u>	<u>\$ 60,270.49</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

MANASQUAN RIVER REGIONAL SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Manasquan River Regional Sewerage Authority (the “Authority”) was created in 1972 by virtue of parallel ordinances adopted by the Boroughs of Farmingdale and Freehold and the Townships of Freehold, Howell and Wall, and is a public body politic and corporate of the State of New Jersey organized and existing pursuant to the Sewerage Authorities Law, constituting Chapter 138 of the Laws of 1946, of the State of New Jersey, as amended and supplemented. The municipalities would be required to provide for deficits resulting from failure of the Authority to derive adequate revenues from the operation of the system.

The Authority operates and maintains a network of interceptors, collectors, pump stations and trunk lines to accept wastewater flow from the sewerage systems serving the territorial limits of the Boroughs of Farmingdale and Freehold, the Township of Howell, and portions of the Townships of Freehold and Wall. Treatment and disposal is handled by facilities of the Ocean County Utilities Authority.

B. Basis of Accounting

The basic financial statements of the Authority have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Financial Accounting Standards Board (FASB) Statements for private-sector accounting and financial reporting issued prior to December 1, 1989, generally are followed in the basic financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. The Authority also has the option of following subsequent FASB statements subject to this same limitation. The Authority has elected not to follow subsequent FASB statements.

The Authority is a special purpose government engaged only in business-type activities. For these governments, only enterprise fund financial statements are presented.

In June 1999, the GASB adopted its Statement No. 34 “Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments.” The adoption of Statement No. 34 required the Authority to make several changes to the presentation of its basic financial statements in addition to requiring the presentation of the Authority’s Management’s Discussion and Analysis (MD&A). MD&A is considered to be required supplemental data and precedes the financial statements.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Revenues and Expenses

Revenues and expenses are distinguished between operating and non-operating items. Operating revenues generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are wastewater service charges. Revenues from service charges are recognized as the related services are provided. Revenues from connection fees are recognized when paid. Overpayment of service charges are recorded at year-end (see Note 5).

Operating expenses include the costs associated with the conveyance of water and wastewater, treatment of wastewater, administrative expenses, and depreciation of capital assets.

All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

D. Inventory

Inventory consists of chemicals used for odor control and fuel oil used for heating and is stated at cost (determined on a first-in, first-out basis).

E. Property, Plant and Equipment

The Authority records its property and equipment at cost. Contributed fixed assets are valued at their estimated fair value on the date donated. Maintenance and repairs are charged to current period operating expense, whereas additions and improvement are capitalized. Upon retirement or other disposition of property and equipment, the costs and related accumulated depreciation are removed from the respective accounts and any gains or losses are included in operations. Interest costs relating to construction are capitalized. Certain applicable labor and legal costs are also capitalized. The Authority's capitalization level is \$5,000 for capital assets.

Property, plant and equipment under capital leases is recorded at the present value of the minimum lease payments as of the lease origination of March 17, 1988 adjusted for the effects of the June 1, 1991 and January 1, 1994 refunding bond issues.

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

Conveyance system	7 to 50 years
Pump stations and apparatus	40 years
Equipment - pumping stations	7 to 15 years
Buildings and improvements	40 years
Vehicles	7 years
Equipment - office	7 to 20 years

F. Unearned Profit on Sale-Leaseback

The unearned profit on the sale-leaseback will be amortized in proportion to the amortization of the leased asset. The portion relating to land is amortized over the lease period.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgets

Budgets which are required by state statute, are adopted in accordance with regulations promulgated by the Bureau of Authority Regulation (the "Bureau"). An annual appropriated budget is adopted for the operations of the Authority, subject to approval by the Bureau. A capital program adopted by the Authority is management's six-year plan for financing the estimated cost of addition or replacement of major fixed assets used in the Authority's operation.

Budgets are adopted on a basis consistent with GAAP with the following exceptions:

- Principal retired is budgeted as nonoperating expenses.
- Depreciation is not budgeted.
- Capital expenses are treated as nonoperating expenses.

H. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

I. Compensated Absences Payable

The Authority allows employees to earn vacation time based on the employee's length of service and time worked during the preceding year. Unused vacation days may be carried forward, but must be taken in the subsequent year.

Unused sick leave may be carried forward into subsequent calendar years. Upon resignation or retirement, accumulated sick leave may be converted to a cash payment at a rate of not more than 50% of the employee's current hourly salary up to a maximum of \$10,000.

It is estimated that the cost of unpaid sick time as of December 31, 2011 is \$60,784, and as of December 31, 2010 was \$54,890. These amounts are reflected as an expenditure and liability on the financial statements.

NOTE 2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include petty cash, change funds, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase and are stated at cost. U.S Treasury and agency obligations and certificates of deposit with maturities of 90 days or less when purchased are stated at cost. All of the investments are stated at fair value.

A. Deposits

New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the Federal Deposit Insurance Corporation ("FDIC"), or by any other agencies of the United States that insure deposits or the State of New Jersey Cash Management Fund.

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

A. Deposits (Continued)

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

The market value of the collateral must equal five percent of the average daily balance of public funds; or

If the public funds deposited exceed 75 percent of the funds of the depository, the depository must provide collateral having a market value equal to 100 percent of the amount exceeding 75 percent.

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

B. Investments

a. When authorized by a cash management plan approved pursuant to N.J.S. 40A:5-14, the Authority may use available funds for the purchase of the following types of securities which, if suitable for registry, may be registered in the name of the Authority:

- (1) Bonds or other obligations of the United States or obligations guaranteed by the United States.
- (2) Government money market mutual funds.
- (3) Any obligation that a federal agency or a 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 obligation bears a fixed rate of interest not dependent on any index or other external factor.
- (4) Bonds or other obligations of the Borough/Township, or bonds or other obligations of the school districts of which the Borough/Township is a part or within which the school district is located.
- (5) Bonds or other obligations, having a maturity date not more than 397 days from the date of purchase, approved by the Division of Investments, New Jersey Department of the Treasury.
- (6) Local government investment pools.
- (7) Deposits with the State of New Jersey Cash Management Fund established pursuant to section 1 of P.L. 1977, c. 281; or

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

B. Investments (Continued)

- (8) Agreements for the repurchase of fully collateralized securities, if:
- (a) the underlying securities are permitted investments pursuant to paragraphs (1) and (3) of this section;
 - (b) the custody of collateral is transferred to a third party;
 - (c) the maturity of the agreement is not more than 30 days;
 - (d) the underlying securities are purchased through a public depository as defined in section 1 of P.L. 1970, c. 236 (C.17:9-41);
 - (e) a master repurchase agreement providing for the custody and security of collateral is executed.

b. Any investment instruments in which the security is not physically held by the Authority shall be covered by a third party custodial agreement, which shall provide for the designation of such investments in the name of the Authority and prevent unauthorized use of such investments.

c. Investments are further regulated and restricted in accordance with N.J.S. 40A:5-15.1.

The State of New Jersey Cash Management Fund is authorized by statute and regulations of the State Investment Council to invest in fixed income and debt securities which mature within one year. Collateralization of Fund investments is generally not required. "Other Than State" participants contribute up to one twentieth of one percent per year of the value of the aggregate units owned by them to establish a Reserve Fund, which is supplemented by the proportional interest of "Other Than State" participants in gains on investment transactions realized. The Reserve Fund is available to cover losses of "Other Than State" participants occasioned by the bankruptcy of an issuer of an investment held by the Fund and losses on sales of securities.

C. Cash Management Plan

In accordance with N.J.S. 40A:5-14, every authority shall adopt a cash management plan and shall deposit and invest its funds pursuant to that plan. The plan shall be approved annually by majority vote of the members and may be modified from time to time in order to reflect changes in federal or state law or regulations. The chief financial officer shall be charged with administering the plan.

When an investment in bonds maturing in more than one year is authorized, the maturity of those bonds shall approximate the prospective use of the funds invested.

The plan also requires a monthly report to the commissioners summarizing all investments made or redeemed since the previous report and shall include, at a minimum, the specific detailed information as set forth in the statute.

D. Restricted Cash

The restricted cash at December 31 of \$438,334 consists of escrow deposits for review and inspection of developers' projects within the Authority's service region.

NOTE 2. CASH AND CASH EQUIVALENTS (CONTINUED)

E. Custodial Credit Risks

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure; however, investments are matched with anticipated cash flows to minimize interest rate.

Credit Risk

Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligations. The Authority's limits its credit risk by investing in direct obligations of the United States government, its agencies or instrumentalities secured by the full faith and credit of the government of the United States. U.S. government securities carry an underlying rating of AAA by Standard and Poor's and Aaa by Moody's Investors Service. The Authority has no policy on credit risk however, investments are limited to securities guaranteed by the U.S. Government.

Concentration of Credit Risk

The Authority places no limit on the amount that may be invested in any one issuer. 100% of the Authority's investments are in obligations of the United States or its agencies or instrumentalities.

At year-end the carrying amount of the Authority's deposits was \$616,817 and the bank balance amount was \$3,328,790. Of this amount \$294,006 was covered by federal depository insurance and a collateral pool under New Jersey's Governmental Unit Deposit Protection Act covered \$2,596,433. An amount of \$438,334 was on deposit in the name of various developers for escrow and is either insured by federal depository insurance or uninsured depending on the deposits of the individual developer in the escrow depository. \$17 was on deposit with the New Jersey Cash Management Fund.

NOTE 3. ACCOUNTS RECEIVABLE

Receivables at December 31, 2011 and 2010 are summarized by major classification as follows:

	<u>2011</u>	<u>2010</u>
OCUA Excess Service Charges	\$ 108,248	\$ 87,329
BTMUA Excess Service Charges	13,466	9,451
OCUA Supplemental Agreement	48,206	47,489
Service Surcharges	18,715	54,839
Service Charges	<u>53,233</u>	<u>130,387</u>
	<u>\$ 241,868</u>	<u>\$ 329,495</u>

NOTE 4. DESCRIPTION OF LEASING ARRANGEMENTS

The Authority entered into a sale-leaseback agreement, signed February 1, 1988, with the Monmouth County Improvement Authority (“MCIA”) for the sale and subsequent capital lease of the Authority’s land, buildings and wastewater conveyance system as a means to permanently finance construction costs.

Lease payments by the Authority are quarterly in an amount sufficient to pay debt service and administrative costs, in accordance with terms of the lease agreement. When the lease term expires, February 1, 2013, and the trustee certifies to MCIA that all bonds have been paid in full, title will revert to the Authority.

The sale-leaseback agreement with MCIA was officially approved June 21, 1991 by the United States Environmental Protection Agency (“EPA”) in the form of a deviation from EPA regulations. The deviation approval requires the Authority to obtain prior approval from EPA for any modification to the sale-leaseback agreement and as a second condition, evidence that Federal interest in the MRRSA is recorded in State and local records must be provided.

The following is a schedule by years of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of December 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Year Ending December 31:		
2011	\$	\$ 1,390,062
2012	1,404,063	1,404,063
2013	<u>351,750</u>	<u>351,750</u>
Total minimum lease payments	1,755,813	3,145,875
Less: Imputed interest	<u>89,433</u>	<u>249,982</u>
Present value of net minimum lease payments	1,666,380	<u>2,895,893</u>
Less: Current maturities of capital lease obligations	<u>1,334,311</u>	<u>1,229,512</u>
Long-term capital lease obligations	\$ <u>332,069</u>	\$ <u>1,666,381</u>
Asset Value	\$ <u>14,230,712</u>	\$ <u>14,230,712</u>
Accumulated Amortization	\$ <u>7,453,258</u>	\$ <u>7,453,258</u>

NOTE 5. SERVICE CHARGES RECEIVABLE

The Authority issues to participants, its certificate stating the estimated amount of the annual charge. The annual charge is based upon estimated flows and an approved bulk rate. The Authority sends this certificate to participants in December of the year preceding the fiscal year for which the charges are levied. The Authority sends participants quarterly reminders. A deficiency charge or credit is issued at the beginning of the following year when actual annual flows have been verified. Bills are payable within 30 days.

**NOTE 6. SERVICE AGREEMENT WITH OCEAN COUNTY UTILITIES AUTHORITY
“OCUA”**

A service agreement was executed with Ocean County Utilities Authority (“OCUA”) during 1981 providing for sewage and other wastes originating within the regional district to be treated and disposed of by the County Authority.

A supplemental service agreement was executed which provides for reimbursement to the Authority of an amount equal to the OCUA share of amortized principal and interest on any and all project bonds issued by Monmouth County Improvement Authority (“MCIA”) under its 1988 financing agreement with the Authority and interest on temporary financing from 1985 to the date of the 1988 agreement. The OCUA's payment of its reimbursement to the Authority will be in the form of a credit to the Authority on the quarterly treatment charge payments due under the 1981 Service Contract. Credits are currently applied quarterly in accordance with terms of the agreement.

**NOTE 7. THREE PARTY SERVICE AGREEMENT RE: SOUTHWESTERN WALL
TOWNSHIP**

Wall Township, in anticipation of developing facilities in the Metedeconk basin of the Authority service area, where Ocean County Utilities Authority (“OCUA”) has no facilities to provide direct service, entered into an agreement with Brick Township Municipal Utilities Authority (“BTMUA”), the Authority and OCUA for service to be provided to this portion of Wall Township through facilities of BTMUA.

The agreement setting forth the responsibilities of each authority was dated April 10, 1991. Billing for usage is submitted to the Authority and in turn passed through to Wall Township.

NOTE 8. RATE SCHEDULE

2011 Rate - A 2011 rate of \$4,963 per million gallons was adopted by the Authority on December 8, 2010, based on the 2011 budget requirements.

Subsequent Event

2012 Rate - A 2012 rate of \$5,261 per million gallons was adopted by the Authority on December 14, 2011, based on the 2012 budget requirements.

NOTE 9. CONNECTION FEES

An October 1989 revision to the previously adopted sewer extension application fee, connection fee and review deposit resolution provided for the connection fee portion of the charge to be deferred at the option of the developer until actual connection date at the then current rate. The Authority has requested the cooperation of member municipal construction officials to require proof of payment of the Authority charges before a certificate of occupancy is issued for individual units. The connection fees for 2011 were \$1,615 per unit, through July 20, 2011, and \$1,626 per unit, effective July 21, 2011 until further amended.

NOTE 10. PENSION PLANS

The Authority contributes to a cost-sharing multiple-employer defined benefit pension plan, the Public Employees' Retirement System ("PERS"), which is administered by the New Jersey Division of Pensions and Benefits. This plan provides retirement, disability, annual cost-of-living adjustments and death benefits to plan members and their beneficiaries. The plan has a Board of Trustees that implements benefit provisions which are established and amended by State statute. The Division 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
Division of Pensions and Benefits
P.O. Box 295
Trenton, New Jersey 08625-0295

The contribution requirements of plan members are determined by State statute. Plan members enrolled in the PERS are required to contribute 5.5% of their annual covered salary. The Authority's contributions to the plan, equal to the required contributions for each year, were as follows:

<u>Year</u>	<u>PERS</u>
2011	\$ 116,916
2010	91,324
2009	79,127

NOTE 11. CAPITAL ASSETS

Activity in the capital assets for the Authority for the year ended December 31, 2011 and 2010 was as follows:

	<u>2010</u>			<u>2011</u>			
	<u>Balance Dec. 31, 2009</u>	<u>Increased by Current Year Additions</u>	<u>Transfers</u>	<u>Balance Dec. 31, 2010</u>	<u>Increased by Current Year Additions</u>	<u>Transfers</u>	<u>Balance Dec. 31, 2011</u>
Leased Property							
Non-depreciable Assets:							
Land	\$ 1,431,160	\$	\$	\$ 1,431,160	\$	\$	\$ 1,431,160
Depreciable Assets:							
Buildings	1,059,902			1,059,902			1,059,902
Equipment and Apparatus	1,183,198			1,183,198			1,183,198
Pump Station and Chambers	2,240,255			2,240,255			2,240,255
Conveyance System	8,316,197			8,316,197			8,316,197
Total Historical Cost	<u>14,230,712</u>			<u>14,230,712</u>			<u>14,230,712</u>
Less Accumulated Amortization:							
Buildings	426,558	17,557		444,115	17,557		461,672
Equipment and Apparatus	1,183,198	55,341		1,238,539	55,341		1,293,880
Pump Station and Chambers	1,354,806			1,354,806			1,354,806
Conveyance System	4,012,329	165,533		4,177,862	165,533		4,343,395
Total Accumulated Amortization	<u>6,976,891</u>	<u>238,431</u>		<u>7,215,322</u>	<u>238,431</u>		<u>7,453,753</u>
Total Capital Assets, Net	<u>\$ 7,253,821</u>	<u>\$ (238,431)</u>	<u>\$</u>	<u>\$ 7,015,390</u>	<u>\$ (238,431)</u>	<u>\$</u>	<u>\$ 6,776,959</u>
Owned Property							
Depreciable Assets:							
Buildings	\$ 895,424	\$ 30,482	\$	\$ 925,906	\$ 6,985	\$	\$ 932,891
Equipment and Apparatus	330,802		137,074	467,876		98,195	566,071
Office Equipment	118,808			118,808			118,808
Vehicles	459,849			459,849			459,849
Conveyance System	4,682,472		270,786	4,953,258			4,953,258
Construction in Progress	72,926	346,680	(407,860)	11,746	86,449	(98,195)	7,030,877
Total Historical Cost	<u>6,560,281</u>	<u>377,162</u>	<u></u>	<u>6,937,443</u>	<u>93,434</u>	<u></u>	<u>7,030,877</u>
Less Accumulated Depreciation:							
Buildings	234,969	21,173		256,142	22,778		278,920
Equipment and Apparatus	299,586	9,943		309,529	13,842		323,371
Office Equipment	108,722	1,010		109,732			109,732
Vehicles	281,685	18,654		300,339	18,654		318,993
Conveyance System	1,545,722	154,130		1,699,852	160,018		1,859,870
Total Accumulated Depreciation	<u>2,470,684</u>	<u>204,910</u>	<u></u>	<u>2,675,594</u>	<u>215,292</u>	<u></u>	<u>2,890,886</u>
Total Capital Assets, Net	<u>\$ 4,089,597</u>	<u>\$ 172,252</u>	<u>\$</u>	<u>\$ 4,261,849</u>	<u>\$ (121,858)</u>	<u>\$</u>	<u>\$ 4,139,991</u>
Total Leased and Owned	<u>\$ 11,343,418</u>	<u>\$ (66,179)</u>	<u>\$</u>	<u>\$ 11,277,239</u>	<u>\$ (360,289)</u>	<u>\$</u>	<u>\$ 10,916,950</u>

NOTE 12. NET ASSETS

The basic financial statements utilize a net asset presentation. New assets are categorized as Invested in Capital Assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets (net of related debt) is intended to reflect the portion of net assets that are associated with non-liquid, capital assets, less outstanding capital asset related debt. Restricted assets are liquid assets generated from revenues that have third-party (statutory or bond covenant) limitation on their use. The Authority typically uses restricted assets first, as appropriate opportunities arise, but reserves the right to selectively defer the use thereof to a future project or major repair. Unrestricted assets represent unrestricted liquid assets.

NOTE 13. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions, injuries to employees; and natural disasters. The Authority is a member of the New Jersey Utilities Joint Insurance Fund. The joint insurance pool is both an insured and self-administered group of authorities established for the purpose of insuring against property damage, general liability, motor vehicles and equipment liability and workmen's compensation. The Joint Insurance Fund will be self-sustaining through member premiums.

NOTE 14. CONTINGENT LIABILITIES

Pending Litigation

There are actions which have been instituted against the Authority which are either in the discovery stage or whose final outcome cannot be determined at the present time. In the opinion of the administration, the amount of ultimate liability with respect to these actions will not materially affect the financial position of the Authority.

It is the opinion of the Authority officials that there is no litigation threatened or pending that would materially affect the financial position of the Authority or adversely affect the Authority's ability to levy, collect and enforce the collection of revenue for the payment of its obligations.

The Authority officials believe that negligence and other types of liability suits, of which the Authority is aware, appear to be within the stated policy limits and would be deferred by the respective carriers.

NOTE 15. DEFERRED COMPENSATION

The Authority has instituted a Deferred Compensation Plan ("Plan") pursuant to Section 457 of the Internal Revenue Code and P.L. 1977, C. 381; P.L. 1978, C. 39; P.L. 1980, C. 78; and P.L. 1997, C. 116 of the Statutes of New Jersey.

The Plan is an arrangement whereby a public employer may establish a Plan and permit its employees to voluntarily authorize a portion of their current salary to be withheld and invested in one or more of the types of investments permitted under the governing regulations.

The Authority has engaged a private contractor to administer the Plan.

NOTE 16. DEFICIT IN UNRESTRICTED NET ASSETS

The unrestricted net assets reflect a deficit of \$357,701 and \$352,710 at December 31, 2011 and 2010, respectively.

NOTE 17. STORM DAMAGE CLAIMS

The Authority has submitted claims to its insurance carrier and the Federal Emergency Management Agency for storm response and damages due to Hurricane Irene and a storm on August 21, 2011. Proceeds in 2011 amounted to \$32,919 and \$386,621 have been received thus far in 2012.

William E. Antonides and Company
CERTIFIED PUBLIC ACCOUNTANTS

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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

Chairperson and Board of Commissioners
Manasquan River Regional Sewerage Authority
County of Monmouth
Farmingdale, New Jersey

We have audited the financial statements of the Manasquan River Regional Sewerage Authority (the "Authority"), as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated April 26, 2012. 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

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Internal Control Over Financial Reporting (Continued)

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Authority's management and the Board of Commissioners, others within the organization, and the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and is not intended to be and should not be used by anyone other than these specified parties.

William E. Antonides and Company
Independent Auditors

April 26, 2012

MANASQUAN RIVER REGIONAL SEWERAGE AUTHORITY

SCHEDULE OF UNRESTRICTED CASH AND CASH EQUIVALENTS **Schedule 1**

YEAR ENDED DECEMBER 31, 2011

Cash and Cash Equivalents December 31, 2010		\$ 396,914.12
Increased by Receipts:		
Service Fees Receivable	\$ 13,070,035.58	
Service Surcharge Receivable	111,157.05	
Interest on Investments	1,667.60	
Connection Fees	385,908.03	
Excess Service Charges Receivable:		
OCUA	87,328.80	
BTMUA	9,450.82	
OCUA Supplemental Agreement	192,106.65	
Other Non-Operating Revenues	<u>106,321.51</u>	
Total Receipts		<u>13,963,976.04</u>
Total Receipts and Balances		<u>14,360,890.16</u>
Decreased by Disbursements:		
Prepaid Debt Service	322,257.81	
Budget Appropriations - Regulatory Basis	13,455,262.99	
Prior Year Reserve for Encumbrances	88,491.58	
Inventory	39,910.01	
Excess Service Charges Paid:		
OCUA	108,247.50	
BTMUA	13,466.04	
Service Surcharges	96,866.58	
Accounts Payable	<u>57,904.56</u>	
Total Disbursements		<u>14,182,407.07</u>
Cash and Cash Equivalents December 31, 2011		<u>\$ 178,483.09</u>

MANASQUAN RIVER REGIONAL SEWERAGE AUTHORITY

SCHEDULE OF REVENUES AND APPROPRIATIONS

Schedule 2

COMPARED TO BUDGET - YEAR ENDED DECEMBER 31, 2011

Sheet 1 of 4

WITH COMPARATIVE AMOUNTS FOR YEAR ENDED DECEMBER 31, 2010

(NON-GAAP BUDGETARY BASIS)

	<u>2011 Budget</u>	<u>2011 Actual</u>	<u>2010 Actual</u>
<u>Anticipated Revenues</u>			
Operating Revenues:			
Service Fees	\$ 13,113,355.00	\$ 12,940,753.92	\$ 11,789,618.73
Connection Fees	400,000.00	385,908.03	580,606.70
Other Operating Revenues	210,000.00	192,823.56	189,955.92
Total Operating Revenues	<u>13,723,355.00</u>	<u>13,519,485.51</u>	<u>12,560,181.35</u>
Non-Operating Revenues:			
Interest on Investments	6,000.00	2,583.04	7,288.39
Other Non-Operating Revenues		106,321.51	64,688.59
Total Non-Operating Revenues	<u>6,000.00</u>	<u>108,904.55</u>	<u>71,976.98</u>
Total Anticipated Revenues	<u>\$ 13,729,355.00</u>	<u>\$ 13,628,390.06</u>	<u>\$ 12,632,158.33</u>
<u>Budget Appropriations</u>			
Operating Appropriations:			
Administration:			
Salaries and Wages	\$ 410,000.00	\$ 407,801.66	\$ 394,795.72
Fringe Benefits	307,247.00	293,941.17	254,999.25
Other Expenses	207,800.00	218,576.46	195,066.19
Total Administration	<u>925,047.00</u>	<u>920,319.29</u>	<u>844,861.16</u>
Cost of Providing Service:			
Salaries and Wages	647,200.00	661,866.30	660,517.61
Fringe Benefits	536,003.00	512,703.08	517,725.76
Other Expenses	10,721,200.00	10,517,312.74	10,099,742.94
Total Cost of Providing Service	<u>11,904,403.00</u>	<u>11,691,882.12</u>	<u>11,277,986.31</u>
Capital Outlay			<u>160,082.85</u>
Total Principal Payments on Debt Service in Lieu of Depreciation	<u>1,245,000.00</u>	<u>1,229,512.45</u>	<u>1,129,708.83</u>
Total Operating Appropriations	<u>14,074,450.00</u>	<u>13,841,713.86</u>	<u>13,412,639.15</u>
Non-Operating Appropriations:			
Total Interest Payments	<u>149,000.00</u>	<u>138,267.06</u>	<u>223,485.22</u>
Total Non-Operating Appropriations	<u>149,000.00</u>	<u>138,267.06</u>	<u>223,485.22</u>
Total Operating and Non-Operating Appropriations	<u>14,223,450.00</u>	<u>13,979,980.92</u>	<u>13,636,124.37</u>
Unreserved Retained Earnings to Balance Budget	<u>494,095.00</u>	<u>494,095.00</u>	<u>1,937,050.00</u>
Total Appropriations - Unreserved Retained Earnings	<u>\$ 13,729,355.00</u>	<u>13,485,885.92</u>	<u>11,699,074.37</u>
Excess/(Deficit) of Revenues over Appropriations		<u>\$ 142,504.14</u>	<u>\$ 933,083.96</u>

MANASQUAN RIVER REGIONAL SEWERAGE AUTHORITY

SCHEDULE OF REVENUES AND APPROPRIATIONS

Schedule 2

COMPARED TO BUDGET - YEAR ENDED DECEMBER 31, 2011

Sheet 2 of 4

WITH COMPARATIVE AMOUNTS FOR YEAR ENDED DECEMBER 31, 2010

(NON-GAAP BUDGETARY BASIS)

	<u>2011 Budget</u>	<u>2011 Actual</u>	<u>2010 Actual</u>
<u>Administration</u>			
Salaries and Wages:			
Commissioner's Salaries	\$ 39,200.00	\$ 35,348.41	\$ 39,061.20
Administrators Salaries	346,000.00	355,145.85	355,734.52
Temporary and Overtime Salaries			
Longevity Bonus	24,800.00	17,307.40	
Total Salaries and Wages	<u>410,000.00</u>	<u>407,801.66</u>	<u>394,795.72</u>
Fringe Benefits:			
Social Security	34,618.00	28,822.98	26,596.13
Public Employees' Retirement System	42,635.00	42,604.19	30,136.92
Health Benefits	209,530.00	198,547.71	173,717.94
Unemployment	947.00	1,057.06	137.21
Disability	182.00	151.00	888.05
Vision	1,093.00	817.66	823.29
457 Plan	23,686.00	21,940.57	22,699.71
Accumulated Sick Leave	9,110.00		
Total Fringe Benefits	<u>321,801.00</u>	<u>293,941.17</u>	<u>254,999.25</u>
Other Expenses:			
Office Supplies	4,500.00	2,304.28	4,131.65
Postage	1,800.00	1,086.36	1,477.20
Legal Advertising	2,100.00	654.30	2,070.53
Telephone	13,000.00	13,797.91	13,190.29
Conference, Travel and Dues	9,000.00	8,250.54	10,799.20
Operation and Maintenance of Vehicles	900.00	6.00	
Insurance	55,000.00	55,980.25	53,118.18
Office Equipment Maintenance	9,000.00	6,534.40	8,294.14
Bank Fees		159.89	134.38
Miscellaneous	1,000.00	837.52	717.93
Employee Assistance Service	350.00	210.00	210.00
Permits and Fees	2,500.00	4,571.91	1,673.10
General Counsel	13,000.00	2,955.00	20,174.08
Special Counsel	3,000.00		3,040.51
Auditor	28,000.00	27,030.00	26,670.00
Engineer	60,000.00	91,198.10	46,365.00
Trustee Fees	3,000.00	3,000.00	3,000.00
Total Other Expenses	<u>206,150.00</u>	<u>218,576.46</u>	<u>195,066.19</u>
Total Administration	<u>\$ 937,951.00</u>	<u>\$ 920,319.29</u>	<u>\$ 844,861.16</u>

MANASQUAN RIVER REGIONAL SEWERAGE AUTHORITY

SCHEDULE OF REVENUES AND APPROPRIATIONS

Schedule 2

COMPARED TO BUDGET - YEAR ENDED DECEMBER 31, 2011

Sheet 3 of 4

WITH COMPARATIVE AMOUNTS FOR YEAR ENDED DECEMBER 31, 2010

(NON-GAAP BUDGETARY BASIS)

	<u>2011 Budget</u>	<u>2011 Actual</u>	<u>2010 Actual</u>
<u>Cost of Providing Service</u>			
Salaries and Wages:			
Operator' Salaries	\$ 625,000.00	\$ 607,741.90	\$ 597,972.99
Longevity Bonus		7,435.80	17,896.60
Overtime	42,000.00	46,688.60	44,648.02
Temporary Help			
Total Salaries and Wages	<u>667,000.00</u>	<u>661,866.30</u>	<u>660,517.61</u>
Fringe Benefits:			
Social Security	60,382.00	50,274.10	53,998.20
Public Employees' Retirement System	74,365.00	74,311.81	61,187.08
Health Benefits	365,470.00	346,314.29	352,700.06
Vision	1,653.00	1,843.76	1,671.52
Unemployment	318.00	263.39	278.59
Disability	1,907.00	1,426.18	1,803.02
457 Plan	41,314.00	38,269.55	46,087.29
Accumulated Sick Leave	15,890.00		
Total Fringe Benefits	<u>561,299.00</u>	<u>512,703.08</u>	<u>517,725.76</u>
Other Expenses:			
NJ One Call	5,000.00	3,640.98	3,250.63
Electricity	250,000.00	214,124.12	227,739.29
Fuel Oil	20,000.00	10,348.31	11,394.14
Chemicals	55,000.00	37,199.16	45,267.93
Gasoline	25,000.00	22,720.80	16,804.21
Maintenance Materials	5,000.00	1,481.77	1,231.58
Operation of Vehicles	6,500.00	2,867.65	4,036.95
Site Maintenance	6,000.00	1,170.65	2,492.58
Training and Seminars	4,000.00	765.00	1,527.00
Contracts - Repair and Maintenance	12,500.00	9,348.40	12,238.92
Liquid Oxygen Tank Rentals	4,500.00	4,740.00	4,740.00
Repair of Equipment	25,000.00	14,499.33	22,297.38
Safety Equipment	5,000.00	2,772.31	3,327.46
Tools and Equipment	3,500.00	392.07	507.85
Uniform Service	6,000.00	2,533.82	4,065.31
Miscellaneous	1,000.00	608.92	514.04
Water	3,500.00	1,882.14	864.04
Instrumentation Replacement	10,000.00	3,445.46	5,239.81
Manhole Maintenance	20,000.00		6,082.50
Emergency Repairs	100,000.00	222,839.60	3,475.02

MANASQUAN RIVER REGIONAL SEWERAGE AUTHORITY

SCHEDULE OF REVENUES AND APPROPRIATIONS

Schedule 2

COMPARED TO BUDGET - YEAR ENDED DECEMBER 31, 2011

Sheet 4 of 4

WITH COMPARATIVE AMOUNTS FOR YEAR ENDED DECEMBER 31, 2010

(NON-GAAP BUDGETARY BASIS)

	<u>2011 Budget</u>	<u>2011 Actual</u>	<u>2010 Actual</u>
<u>Cost of Providing Service (Continued)</u>			
Other Expenses (Continued):			
Service Charges:			
OCUA	\$ 10,040,700.00	\$ 9,932,377.50	\$ 9,679,315.20
BTMUA	58,000.00	27,554.75	43,331.10
Total Other Expenses	<u>10,666,200.00</u>	<u>10,517,312.74</u>	<u>10,099,742.94</u>
Total Cost of Providing Service	<u>\$ 11,894,499.00</u>	<u>\$ 11,691,882.12</u>	<u>\$ 11,277,986.31</u>
Capital Outlay:			
System Equipment	<u>\$</u>	<u>\$</u>	<u>\$ 160,082.85</u>
<u>Reconciliation of Net Income</u>			
Reconciliation to Net Income:			
Excess/(Deficit) from Above - Budgetary Basis		\$ 142,504.14	\$ 933,083.96
Adjustments to Budgetary Basis:			
Depreciation Expense		(215,292.08)	(204,910.29)
Amortization of Leased Property		(238,430.79)	(238,430.79)
Unearned Profit on Sales - Leaseback		48,470.66	48,470.66
Purchases to Capital Assets		93,434.98	71,591.27
Casualty Loss Reimbursement Receivable		386,620.71	
Retained Earnings Appropriated		(494,095.00)	(1,937,050.00)
Reserve for Encumbrances		(88,491.58)	87,991.58
Debt Service Principal		1,229,512.45	1,129,708.83
		<u>\$ 864,233.49</u>	<u>\$ (109,544.78)</u>

MANASQUAN RIVER REGIONAL SEWERAGE AUTHORITY

ANALYSIS OF ACCOUNTS RECEIVABLE - SERVICE FEES

Schedule 3

YEAR ENDED DECEMBER 31, 2011

	Balance Dec. 31, 2010	Increased by 2011 Service Fees	Decreased by Collected in 2011	Balance Dec. 31, 2011
Farmingdale Borough	\$ 32,092.63	\$ 291,928.62	\$ 329,872.63	\$ (5,851.38)
Freehold Borough	98,294.71	2,782,883.14	2,827,944.71	53,233.14
Freehold Township	(95,604.12)	5,044,790.24	5,078,894.13	(129,708.01)
Howell Township	(122,975.80)	4,609,907.37	4,591,874.21	(104,942.64)
Wall Township	(41,870.10)	211,244.55	241,449.90	(72,075.45)
	<u>\$ (130,062.68)</u>	<u>\$ 12,940,753.92</u>	<u>\$ 13,070,035.58</u>	<u>\$ (259,344.34)</u>

ANALYSIS OF ACCOUNTS RECEIVABLE - INDUSTRIAL SURCHARGES

YEAR ENDED DECEMBER 31, 2011

Schedule 4

	Balance Dec. 31, 2010	Increased by 2011 Service Fees	Decreased by Collected in 2011	Balance Dec. 31, 2011
Freehold Borough	\$ 24,456.89	\$ 19,349.14	\$ 38,793.48	\$ 5,012.55
Freehold Township	30,382.55	55,683.90	72,363.57	13,702.88
	<u>\$ 54,839.44</u>	<u>\$ 75,033.04</u>	<u>\$ 111,157.05</u>	<u>\$ 18,715.43</u>