

Bayshore Regional Sewerage Authority

Audit Report

December 31, 2011 and 2010

Bart & Bart
Certified Public Accountants

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BART & BART CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Bayshore Regional Sewerage Authority
Union Beach, New Jersey

We have audited the accompanying financial statements of the Bayshore Regional Sewerage Authority as of December 31, 2011 and 2010, as listed in the accompanying table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

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In accordance with Government Auditing Standards, we have also issued our report dated April 4, 2012, on our consideration of the Bayshore Regional Sewerage Authority internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 4 through 6 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were performed for the purpose of forming an opinion on the financial statements of the Bayshore Regional Sewerage Authority taken as a whole. The information included in the supplementary schedules is presented for purposes of additional analysis and is not a required part of the financial statements, but is presented as additional analytical data as required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Such information has been subjected to tests and other auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

The schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations; and New Jersey OMB's Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid respectively, and are not a required part of the basic financial statements.



Bart & Bart

April 4, 2012

Report on Compliance and on Internal Control over Financial Reporting Based on an
Audit of Financial Statements
Performed in Accordance with Government Auditing Standards

To The Chairperson and Members
Bayshore Regional Sewerage Authority

We have audited the financial statements of Bayshore Regional Sewerage Authority as of December 31, 2011 and for the year ended December 31, 2011, and have issued our report thereon dated, April 4, 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, and audit requirements as prescribed by the State of New Jersey.

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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the entity'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, or corrected on a timely basis.

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

Report on Compliance and on Internal Control over Financial Reporting Based on an
Audit of Financial Statements
Performed in Accordance with Government Auditing Standards

To The Chairperson and Members
Bayshore Regional Sewerage Authority

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Bayshore Regional Sewerage Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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, and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

This report is intended solely for the information and use of the members of the Authority's Board and its management and for filing with 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.

April 4, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management Discussion and Analysis (MD&A)

Our Mission

In 2006, the Authority staff developed a Mission Statement to aid in focusing future direction. “*Dedicated to a Clean Environment for Today, Tomorrow, and Generations to come*” was chosen as the statement that best describes who we are, what we do, and why we do it. The Authority staff believes that small continual improvement each year leads to major improvement over time. It is in this spirit that we strive for a minor improvement in water quality each year, and it is within this culture that we have achieved substantial results.

Our Trends – water quality

Since the year 2000 the quality of the water discharged from the treatment plant has improved gradually to the point where it exists today. In Figure 1 below illustrates this achievement.

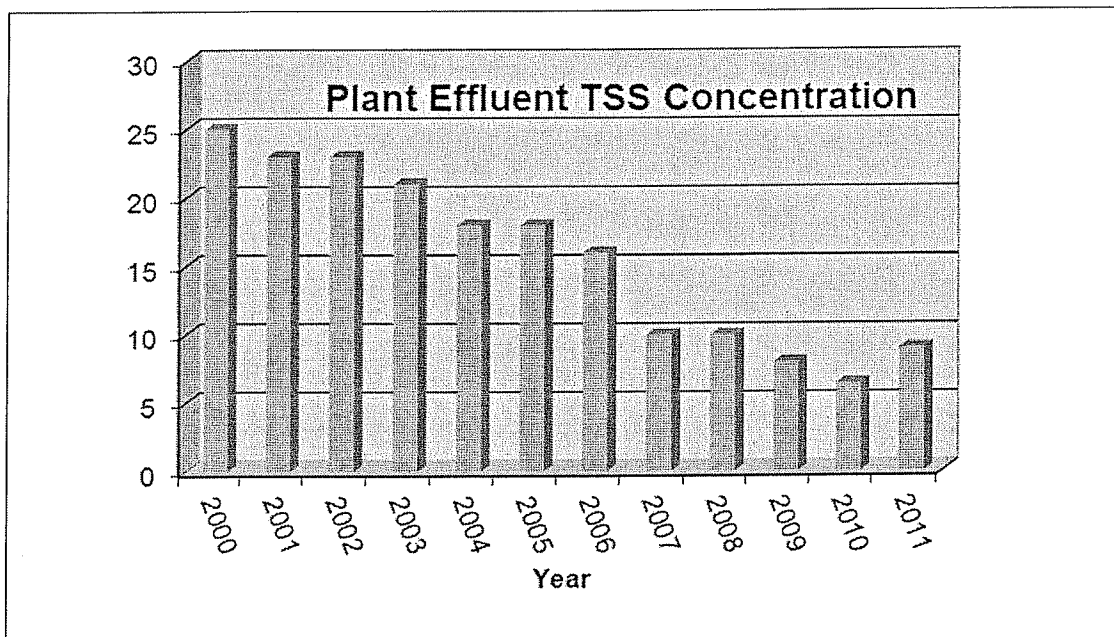


Fig. 1 Effluent total suspended solids (TSS) per liter of water discharged. State requires value to be 30 mg/l or better

TSS is a measure of the concentration of total suspended solids in parts per million, or milligrams per liter of water. It is one of the most widely used measures of wastewater treatment performance in the United States. Low TSS values are associated with clean water. The State Department of Environmental Protection (NJDEP) requires the Authority to achieve a value of 30 mg/l as a monthly average. Anything lower than 30 mg/l is an improvement on this state required limit. The Authority has achieved a level as low as 9.0 mg/l as a yearly average for 2011.

Decreasing major expenditures

The BRSA budget is a combination of Operating, Capital and debt service expenses. In 2012 the Authority will be able to reduce its debt significantly, maintain a level operating expenditure and perform necessary capital improvements. The slashing of debt, and maintaining of a level operating budget will enable the Authority to lower sewer rates to its Participants. This lowering of rates will in-turn result in a reduction in the obligation of rent reserve needed in escrow and the balance will be returned to the Participants. Most Participants will see a return of rent reserve funds between \$80,000 and \$350,000.

The maintenance of a stable operating budget is only possible by offsetting those increasing line items by decreasing the expenditures in some of the major line items.

Our Trends-Chemicals

Chemical costs required to disinfect the clarified water have decreased as a direct result of the previously mentioned improvements in water quality, as can be seen in figure 2 below the cost of chemical use at the Authority has been on a steady decline for a 5 year period.

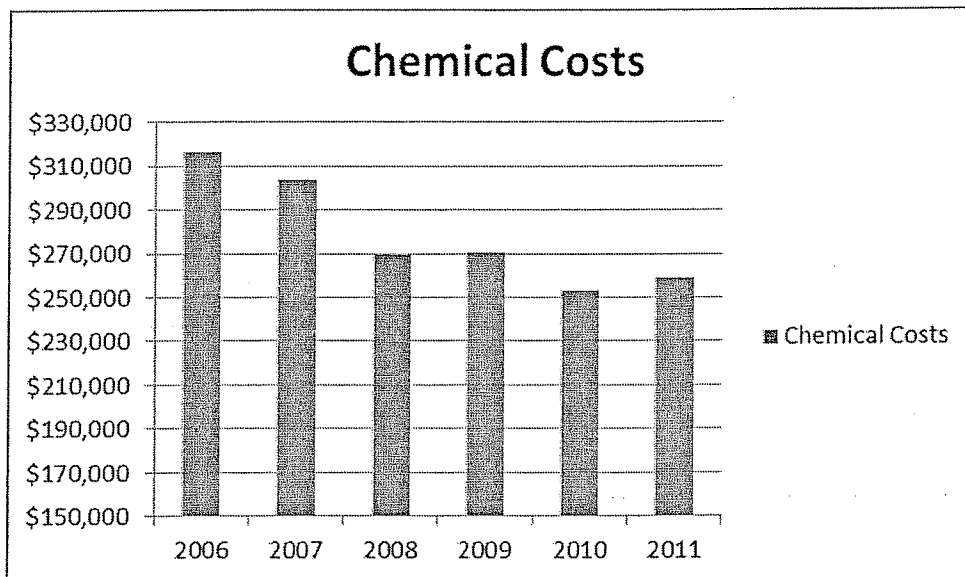


Fig. 2 Reduction in Chemical Costs 2006 to present

The improvement in water quality has also allowed BRSA to use this water throughout the plant in place of city water, further reducing costs.

Our Trends-Electricity

The Authority has decreased average power consumption in the past 4 years. One significant area has been a reduction in the amount of energy needed to satisfy the biological process, one of the largest energy consuming portions of the plant.

Authority Staff has been successful in reducing the demand in the biological process. By reducing the number of organisms needed to treat the wastewater the staff has simultaneously reduced the amount of air required to maintain the population. This in turn reduces the use of the 200 hp air blower used to feed air to the organisms

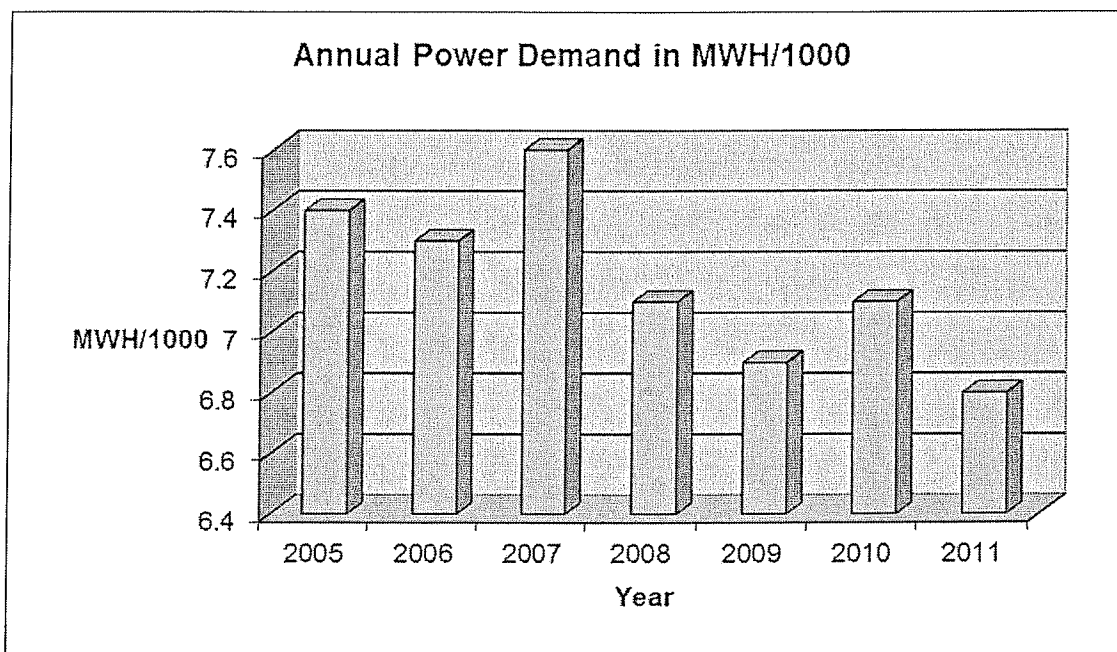


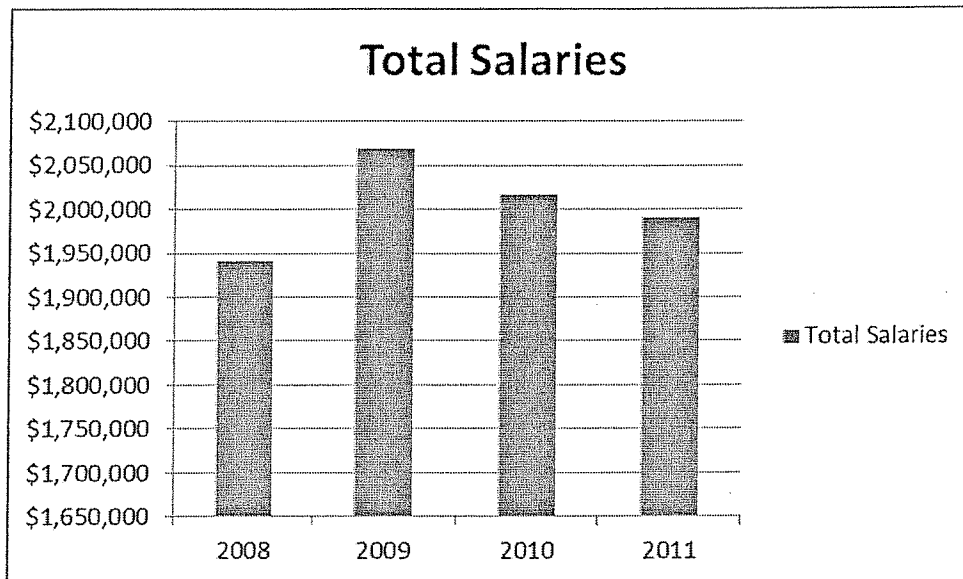
Fig 3. Decreasing trend in electricity usage over the past years

The Authority has also joined an electrical aggregation group to purchase power as a group thereby gaining the benefit of an attractive load profile. This regionalized approach to purchasing power has resulted in a lower cost per kilowatt-hour of power purchased. Hence, the Authority has been able to reduce both the cost of electricity and the consumption. In 2011 the Authority realized a decrease in electrical expenditures of approximately \$175,000 as compared to 2010.

By far the greatest reduction in costs will be realized in 2012 when the Authority expects to place the Wind-to-Energy (WTE) Project on line. The WTE consists of a 1.5mw wind turbine. The turbine will greatly reduce the electrical costs associated with running the treatment plant.

Our Trends – Salaries

The Authority has saved on the cost of salaries mainly through attrition. With the elimination of a staff level and supervisory level position several years ago the Authority has been able to achieve minimal increases in this largest single line item of the budget. A look at total salaries from 2003 to 2011 indicates an average increase of 1.6%. Within the past two years however total salaries have decreased close to 4%.



Our Trends – Safety

For the last seven years the Authority has been selected to receive the New Jersey Utility Authority Joint Insurance Fund “Annual Safety Award” for achieving a perfect score in their Safety Incentive Program. BRSA has an active safety program and has also received a National Award from the Water Environment Federation for the BRSA safety program. The Authority recognizes a “Safety Person of the Year” and a “Safety Suggestion of the year” annually for their contributions to a safe workplace.

Our Trends – lower rates

The Authority will reduce sewer rates in 2012 by an average of 18% and with the completion of the Wind-To-Energy Project and further elimination of debt expects to be able to lower rates in a similarly significant way in 2013. The retirement of debt service, plant efficiencies, and electrical savings all contribute to these future rate reductions. The BRSA has a “state of the art”, well-run and efficient treatment plant that will serve the needs of the customer towns for many years to come. The treatment plant capacity will serve well into the future and accommodate growth for the next 20 years. BRSA is moving from an era of upgrade and expansion to an era of efficiency and lower rates and the users of the system can look forward to benefiting from this change.

Financial Highlights

- The Authority has invested \$5,598,170 in Wind Turbine Technology and plant upgrades. These funds were provided to the Authority via its participation in the New Jersey Environmental Infrastructure Trust financing program (NJEIET), as well as a capital contribution from the Federal Government through the 2009 American Resource and Recovery Act (ARRA). This ARRA grant was in the form of a one-time \$3,850,000 loan principal forgiveness.
 - Assets, exclusive of PP&E, decreased by \$427,252 primarily due to decreased cash and investments.
 - Total liabilities decreased by \$6,539,619 primarily due to regularly scheduled debt service payments of \$6,673,953, as well as an increase of \$39,400 in current liabilities.
 - Revenues from customer treatment charges decreased by \$110,559 due to slightly decreased flow from member towns.
 - Total nonoperating revenues increased \$15,409 primarily due to decreased interest earnings and increased development applications.
 - Cost of administration increased by \$68,873 or 15.0%.
 - Cost of plant materials and supplies decreased by \$257,821 or 10.0%.
- Net assets equity increased by \$4,390,511 or 7.6%.

Financial Analysis

Net assets, over time, serve as a useful indicator of an Authority's financial position. The Authority's net asset (assets less liabilities) was \$61,818,654 as of December 31, 2011.

By far, the largest portion of the Authority's net assets reflects its investment in capital assets, less any related outstanding debt used to acquire those assets. The Authority uses these capital assets to provide services to its customers. Consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Expenses:

As noted above, the cost of administration, plant, materials and supplies decreased 5.0% percent. Some reasons for this decrease, as well as the overall change in expenses are as follows:

- The Authority spent \$26,089 on ash removal in 2011 vs. \$124,500 in 2010, a decrease of \$98,411.

- Incinerator fuel, natural gas and gasoline costs increased a combined \$94,633 primarily due to the need to run the plants older inefficient Dorr Oliver Incinerator while upgrades were performed on the Niro incinerator.
- Power costs decreased 17.0 percent due to a decrease in consumption.
- Salaries decreased \$25,690.
- Employee benefits increased \$91,880 or 10.0 percent primarily due to an increase in required Authority contributions to the State Pension System.

AUTHORITY CONTACT INFORMATION

Questions concerning any of the information provided in this report or requests for additional information should be addressed to Robert C. Fischer, Executive Director, at the Bayshore Regional Sewerage Authority, 100 Oak Street, Union Beach, NJ 07735.

Bayshore Regional Sewerage Authority

Balance SheetDecember 31, 2011 and 2010

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Unrestricted Assets:		
Cash and Cash Equivalents	\$ 211,126	\$ 281,306
Accounts Receivable - Customers, Net (Note 1.D.)	774,284	1,068,567
Inventory (Note 1.G.)	362,118	336,818
Prepaid Expenses	38,244	37,730
Other Receivables	1,800	614
Total Unrestricted Assets	<u>1,387,572</u>	<u>1,725,035</u>
Restricted Assets (Note 1.C.):		
Revenue Fund:		
Investments	2,401,650	1,971,070
 Bond Service Fund:		
Investments	817	5,768
 Bond Reserve Fund:		
Investments	7,197,191	7,360,714
Interest Receivable	-	12,533
Construction Fund	1,166,249	408,664
 General Fund:		
Investments	4,125,255	3,522,416
Customer Escrow Deposits:		
Rent Reserve	6,536,891	6,332,958
Due from NJEIT	2,102,088	3,657,638
Total Restricted Assets	<u>23,530,141</u>	<u>23,271,761</u>
Plant, Property and Equipment (Note 1.I.)	119,222,374	117,645,126
Less: Accumulated Depreciation	<u>64,230,720</u>	<u>60,962,338</u>
Net Plant, Property and Equipment	54,991,654	56,682,788
Other Assets:		
Unamortized Debt Issue Costs (Note 1.J.)	155,036	503,205
TOTAL ASSETS	<u>\$ 80,064,403</u>	<u>\$82,182,789</u>

See accompanying notes.

Bayshore Regional Sewerage Authority

Balance Sheet

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<u>LIABILITIES AND FUND EQUITY</u>		
Current Liabilities -		
Payable from Unrestricted Assets:		
Accounts Payable - Operating	\$ 407,689	\$ 369,549
Accounts Payable - Retainage	107,310	70,049
Payroll Deductions Payable	14,431	17,749
Obligation to Customers	31,106	64,955
Accrual for Unused Leave and Vacation Time	<u>48,816</u>	<u>47,111</u>
Total Current Liabilities Payable from Unrestricted Assets	<u>609,352</u>	<u>569,413</u>
Current Liabilities -		
Payable from Restricted Assets:		
Long-Term Bonds Payable -		
Current Portion (Note 2)	10,854,035	6,673,953
Escrow Deposits Payable	6,536,891	6,332,958
Accrued Bond Interest Payable	<u>59,257</u>	<u>102,445</u>
Total Current Liabilities Payable from Restricted Assets	<u>17,450,183</u>	<u>13,109,356</u>
Long-Term Liabilities -		
Payable from Restricted Assets:		
2002 Bond Issue Premium	91,727	91,727
Unamortized 1991B and 1993B Bond Refunding	63,705	67,705
Long-Term Bonds Payable (Note 2)	<u>-</u>	<u>10,916,385</u>
Total Long-Term Liabilities Payable from Restricted Assets	<u>155,432</u>	<u>11,075,817</u>
TOTAL LIABILITIES	<u>18,214,967</u>	<u>24,754,586</u>
Net Assets:		
Contributed capital, net	7,263,888	7,646,228
Retained earnings		
Construction	1,166,249	4,066,302
Restricted for operations	6,526,905	5,401,820
Restricted for future debt service	7,198,008	7,379,015
Unrestricted retained earnings	<u>39,694,386</u>	<u>32,934,838</u>
Total retained earnings	<u>54,585,548</u>	<u>49,781,975</u>
Total Net Assets	<u>61,849,436</u>	<u>57,428,203</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$80,064,403</u>	<u>\$82,182,789</u>

See accompanying notes.

Bayshore Regional Sewerage Authority

Comparative Statement of Revenues, Expenses and Changes in Fund Equity

Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Treatment Charges	\$ 13,689,553	\$ 13,800,112
Operating Expenses:		
Payroll and Employee Benefits	2,974,155	2,905,195
Plant Materials and Supplies	2,126,703	2,384,524
Administrative and General	515,641	446,768
Depreciation	3,268,383	3,264,715
Total Operating Expenses	<u>8,884,882</u>	<u>9,001,202</u>
Operating Income	<u>4,804,671</u>	<u>4,798,910</u>
Nonoperating Revenue (Expenses):		
Interest Income on Investments - Operating	24,466	81,408
Miscellaneous Income - Applications and Sundry	294,174	221,803
Interest Expense on Bonds	(377,574)	(608,503)
Amortization of Debt Issue Costs	(324,444)	(180,136)
	<u>(383,378)</u>	<u>(485,428)</u>
Net Income (Before Transfer of Depreciation of Assets Purchased with Contributed Capital)	4,421,293	4,313,482
Transfer of Depreciation to Contributed Capital	<u>382,340</u>	<u>382,340</u>
Net Income	4,803,633	4,695,822
Retained Earnings, January 1 st	<u>49,781,915</u>	<u>45,086,093</u>
Retained Earnings, December 31 st	<u>54,585,548</u>	<u>49,781,915</u>
Contributed Capital - Net, January 1 st	7,646,228	4,178,568
Transfer of Depreciation from Operations	(382,340)	(382,340)
American Resource and Recovery Act	<u>-</u>	<u>3,850,000</u>
Contributed Capital - Net, December 31 st	<u>7,263,888</u>	<u>7,646,228</u>
Net Assets, End of Year	<u>\$ 61,849,436</u>	<u>\$ 57,428,143</u>

EXHIBIT C

Bayshore Regional Sewerage Authority

Comparative Statement of Cash Flows

Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Provided by (Used for) Operations:		
Net Income	\$ 4,421,293	\$ 4,313,482
Adjustments to Reconcile Net Income to Net Cash:		
Depreciation	3,268,383	3,264,715
Amortization	324,444	180,136
Customer Accounts Receivable	294,283	906,236
Prepaid Expenses	(514)	829
Inventory	(25,300)	1,052
Other Receivables	(1,186)	321
Current Liabilities Payable from Unrestricted Assets	39,939	(799,619)
Current Liabilities Payable from Restricted Assets	<u>761,255</u>	<u>797,728</u>
Net Cash Provided by Operations	<u>9,082,597</u>	<u>8,664,880</u>
Cash Flows Provided by (Used for) Investing Activities:		
Restricted Assets	(258,380)	(2,717,391)
Plant, Property and Equipment	<u>(1,577,248)</u>	<u>(5,040,209)</u>
Net Cash Used for Investing Activities	<u>(1,835,628)</u>	<u>(7,757,600)</u>
Cash Flows Provided by (Used for) Financing Activities:		
Bonds Payable	-	3,875,000
Long-Term Debt - Net	(7,317,149)	(8,607,271)
Unamortized Debt Issue Cost	-	19,366
Contributed Capital	<u>-</u>	<u>3,850,000</u>
Net Cash Used for Financing Activities	<u>(7,317,149)</u>	<u>(862,905)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(70,180)	44,375
Cash and Cash Equivalents:		
Beginning of Period	<u>281,306</u>	<u>236,931</u>
End of Period	<u>\$ 211,126</u>	<u>\$ 281,306</u>

See accompanying notes.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2011 and 2010

1. Summary of Significant Accounting Policies

A. General

The Bayshore Regional Sewerage Authority (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 Authority Law of New Jersey of 1946, as amended, pursuant to the action of the governing bodies of Hazlet Township, Holmdel Township and the Borough of Union Beach in 1968.

The Authority is authorized and empowered to acquire, construct, maintain, operate or improve works for the collection, treatment, and disposal of sewage or other wastes in return for the participants agreeing to pay all charges necessary to cover debt service requirements and all obligations of the Authority through sewer charges for usage. The present participants are Hazlet Township, Holmdel Township, Borough of Union Beach, Borough of Keyport, Keansburg Municipal Utilities Authority, Borough of Matawan, Western Monmouth Utilities Authority, and the Township of Aberdeen.

As a public body under existing statute, the Authority is exempt from all federal and state taxes.

B. Basis of Financial Statements

The financial statements of the Authority have been prepared on an accrual basis in accordance with generally accepted accounting principles applicable to enterprise funds of state and local governments.

Cash, Cash Equivalents and Investments

New Jersey Authorities are required by N. J.S.A. 40A:5-14 to deposit public funds in a bank or trust company having its place of business in the State of New Jersey and organized under the laws of the United States or of the State of New Jersey or the New Jersey Cash Management Fund. N.J.S.A. 40A:5-15.1 provides a list of securities which may be purchased by New Jersey Authorities. The Authority is required to deposit funds in public depositories protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA was enacted in 1970 to protect governmental units from a loss of funds on deposit with a failed banking institution in New Jersey.

N.J.S.A. 17:9-42 requires governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are secured in accordance with the Act.

Public funds are defined as the funds of any government unit. Public depositories include banks (both state and national banks), savings and loan institutions and savings banks, the deposits of which are federally insured. All public depositories pledge collateral, having a market value of five percent of the average daily balance of collected public funds, to secure the deposits of governmental units. If a public depository fails, the collateral it has pledged, plus the collateral of all other public depositories in the collateral pool, is available to pay the full amount of their deposits to the governmental units.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2011 and 2010

1. Summary of Significant Accounting Policies (continued)

C. Accounts Required by the 1985 General Bond Resolution

In accordance with the 1985 general bond resolution, the Authority has established the following cash and investments accounts for the deposit, in the priority of the order listed, of all revenue received by the Authority. Each of the following accounts are held by the trustee except the operating account.

<u>ACCOUNT</u>	<u>AMOUNT</u>	<u>USE FOR WHICH RESTRICTED</u>
Revenue	All revenue of the Authority.	Transfers to the various accounts in the order that follows.
Operating	Amount of the operating requirement as defined by the resolution.	Reasonable and necessary operating expenses as provided for in the annual budget.
Bond Service Funds	Amount needed to equal the bond service requirement.	Principal and interest on the bonds.
Sinking Fund	As required.	Principal on bond issues with a sinking fund requirement.
Bond Reserve Fund	An amount equal to the bond reserve requirement.	Transfers to meet minimum levels required in the bond service or sinking funds. Any excess may be transferred into the revenue fund.
General Fund	Any amount after meeting requirements of the funds listed above.	Provided all reserve requirements have been met, funds may be spent for any lawful purpose of the Authority.
Construction Fund	Proceeds from sale of bonds related to construction projects, proceeds of insurance related to construction projects, and government grants and payments directed to fund by an Authority officer.	All project related construction costs.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2011 and 2010

1. Summary of Significant Accounting Policies (continued)

D. Accounts Receivable - Customers

Accounts receivable due from customers are shown net of increases or decreases in charges to participants calculated on actual flows.

E. Due from State of New Jersey Environmental Infrastructure Trust ("NJEIT")

The Authority in 2011 participated in a financing program for improvements to the treatment plant and the construction of a Wind Turbine located in Union Beach, New Jersey. The funds borrowed are held in trust by the NJEIT for the Authority and are remitted on a reimbursement basis. The amount consists of the following:

	<u>December 31, 2011</u> <u>Balance</u>
Federal	\$ 1,925,000
State	<u>176,088</u>
	<u>\$ 2,102,088</u>

F. Investments

Investments are recorded at cost, which approximates market. The Authority's investment modes are limited by the 1985 general bond resolution.

G. Unemployment Insurance

The Authority is insured under the rules and regulations of the State of New Jersey Unemployment Compensation Law, whereby it pays into the state fund a percentage of payroll costs to cover benefits to be paid to former employees of the Authority.

H. Inventory

Inventory consists principally of machinery replacement parts and supplies. The inventory is stated at cost determined on a first-in, first-out basis. An adjustment was made to the December 31, 2009 inventory dollar amount due to an increase in amounts of inventory and cost thereof.

I. Grants-In-Aid

Federal and state grants-in-aid of construction are recorded in the period received. Grants received by the Authority are restricted by the grantor to the design and construction of plant facilities and are recorded as contributed capital. For the year ended December 31, 2010, the Authority recorded the \$3,850,000 referred to in Note 2 as an addition to Contributed Capital.

Bayshore Regional Sewerage Authority

Notes to Financial Statements

December 31, 2011 and 2010

1. Summary of Significant Accounting Policies (continued)

J. Plant, Property and Equipment

Plant, property and equipment are stated at cost, which includes direct construction costs and other expenditures related to construction. Construction costs are charged to construction in progress until such time as given segments of the project are completed and put into service.

Depreciation is determined on a straight-line basis for all plant and equipment. Depreciation on assets acquired with Grants-in-Aid is recorded as a reduction of contributed capital. Depreciation is provided over the following estimated useful lives:

	<u>Cost</u>	<u>Useful Life</u>
Furniture, Equipment & Computers	\$ 914,169	5 - 10 Years
Vehicles	237,077	5 Years
Lines	14,462,943	50 Years
Pump Stations	5,205,536	40 Years
Plant Buildings and Piping	60,882,916	50 Years
Plant Equipment	26,545,760	15 Years
Incinerator	3,104,113	20 Years
Administration Building	213,283	40 Years
Land and Right of Ways	1,009,479	-
Construction in process	<u>6,647,098</u>	-
Total	<u>\$119,222,374</u>	

K. Unamortized Debt Issue Costs

Deferred debt issue costs incurred with the various note and bond issues are being charged to operations over the life of the respective issues on a straight-line basis.

L. Statements of Cash Flows

For purposes of the statement of cash flows, the Authority considers unrestricted investments with maturities of three months or less to be cash equivalents.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2011 and 2010

2. Bonds Payable

The bonds payable consist of the following:

	December 31,	
	2011	2010
Sewer Revenue Refunding Bonds, Series 2002	\$ 6,045,000	\$ 9,160,000
New Jersey Wastewater Treatment Fund Loan - 1991	-	923,250
New Jersey Wastewater Treatment Fund Loan - 1993C	385,725	761,945
Subordinated Sewer Revenue Bonds - Series 1991A	-	504,414
Subordinated Sewer Revenue Bonds - Series 1991B	-	1,218,425
Subordinated Sewer Revenue Bonds - Series 1993B	548,310	1,047,253
NJ Environmental Infrastructure Trust-Series 2010	3,875,000	3,875,000
Current Portion	<u>(10,854,035)</u>	<u>(6,673,953)</u>
Net	<u>\$ -</u>	<u>\$10,816,334</u>

Sewer Revenue Bonds, Series 2002

In August 2002, the Authority issued \$25,915,000 of noncallable, Sewer Revenue Refunding Bonds (Series 2002). The proceeds of the Series 2002 bonds, together with other funds of the Authority, were (I) used to advance refund certain of the outstanding principal amount of the Authority's Sewer Revenue Bonds, Series 1977, Subordinated Sewer Revenue Bonds, Series 1993A and Subordinated Sewer Revenue Bonds, Series 1996, and (II) pay the costs and expenses in connection with the issuance of the 2002 bonds. These bonds are due in amounts and at interest rates (interest to be paid semi-annually on May 1 and November 1 commencing November 1, 2002) shown on the table following:

<u>Due Date</u>	<u>Mandatory</u>	<u>Rate of</u>	<u>Annual</u>
<u>February 1:</u>	<u>Sinking</u>	<u>Interest</u>	<u>Interest</u>
	<u>Fund</u>	<u>Interest</u>	<u>Charge</u>
2010	3,000,000	3.50%	105,000
2011	3,115,000	3.60%	112,140
2012	<u>6,045,000</u>	5.00%	302,250
	<u>\$12,160,000</u>		

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2011 and 2010

2. Bonds Payable (continued)

Subordinated Sewer Revenue Bonds, Series 1991A and 1991B

On December 1, 1991, the Authority issued bonds to the New Jersey Wastewater Treatment Trust and the State of New Jersey, as part of the 1991 New Jersey Wastewater Treatment Financing Program. The proceeds of the issue are to be used for water pollution control facility expansion and plant bar screen improvements. Obligations to the Trust for principal repayment and interest are as follows:

<u>Due Date</u>	<u>Series 1991A</u>			<u>Series 1991B</u>		<u>Annual Interest Charge</u>
	<u>Principal Amount</u>	<u>Rate of Interest</u>	<u>Annual Interest Charge</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>	
June 1: 2011	<u>415,000</u>	6.00%	24,900	<u>1,330,000</u>	7.00%	93,100
	<u>\$ 415,000</u>			1,330,000		
				<u>4,000</u>		
				<u>\$ 1,741,000</u>		

In 1997 the New Jersey Wastewater Treatment Trust issued Wastewater Treatment Refunding Bonds Series 1997D (Refunding of Series 1991B), which resulted in the Trust giving an annual credit of \$2,000 through the year 2011 toward the principal amount of the original Series 1991B bonds. In addition to the foregoing, the refunding will result in annual interest savings as follows:

2010	3,875
2011	10,350

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2011 and 2010

2. Bonds Payable (continued)

New Jersey Wastewater Treatment Trust Loan - 1991

On December 1, 1991, the Authority entered into a loan agreement with the State of New Jersey, acting by and through the New Jersey Department of Environmental Protection and Energy, as part of the 1991 New Jersey Wastewater Treatment Financing Program. The proceeds of the interest-free loan of \$15,900,650 are to be used for water pollution control facility expansion. Obligation to the State for repayment is as follows:

<u>Year</u>	<u>Principal Amount</u>
2011	<u>923,251</u>
	<u>\$ 923,251</u>

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2011 and 2010

2. Bonds Payable (continued)

Subordinated Sewer Revenue Bonds, Series 1993B

On October 15, 1993, the Authority issued bonds to the New Jersey Wastewater Treatment Trust and the State of New Jersey, as part of the 1993 New Jersey Wastewater Treatment Financing Program. The proceeds of the issue are to be used for water pollution control facility expansion and plant bar screen improvements. Obligations to the Trust for principal repayment and interest are as follows:

<u>Due Date</u> <u>February 1</u>	<u>Principal</u> <u>Amount</u>	<u>Rate of</u> <u>Interest</u>	<u>Annual</u> <u>Interest</u> <u>Charge</u>
2010	520,000	4.80%	24,960
2011	545,000	4.80%	26,160
2012	<u>575,000</u>	4.80%	27,600
	1,640,000		
New Jersey Wastewater Treatment Trust 2003 Refunding Bond Savings	<u>103,556</u>		
	<u>\$ 1,536,444</u>		

In 2003 the New Jersey Wastewater Treatment Trust issued wastewater treatment Insured refunding bonds, Series 2003, that will result in a reduction of Principal and interest on the 1993B bonds of \$257,271.01 through February 1, 2012.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2011 and 2010

2. Bonds Payable (continued)

New Jersey Wastewater Treatment Fund Loan - 1993C

On October 15, 1993, the Authority entered into a loan agreement with the State of New Jersey, acting by and through the New Jersey Department of Environmental Protection and Energy, as part of the 1993 New Jersey Wastewater Treatment Financing Program. The proceeds of the interest-free loan of \$6,947,307 are to be used for water pollution control facility expansion. Obligation to the State for repayment is as follows:

<u>Year</u>	<u>Principal Amount</u>
2010	383,602
2011	383,234
2012	<u>385,277</u>
	<u>\$ 1,152,113</u>

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2011 and 2010

2. Bonds Payable (continued)

Subordinated Sewer Revenue Bonds, Series 2010A

On March 10, 2010, the Authority issued bonds to the New Jersey Environmental Infrastructure Trust and the State of New Jersey, as part of the 2010 New Jersey Environmental Infrastructure Trust Financing Program. The proceeds of the issue are to be used for Waste Water Treatment Plant Upgrading and a Wind to Energy Project. Obligations to the Trust for principal repayment and interest are as follows:

<u>Due Date</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>	<u>Annual Interest Charge</u>
June 15, 2012	\$1,950,000	5.00%	\$97,500

New Jersey Environmental Infrastructure Trust Loan - 2010

On January 31, 2010, the Authority entered into a loan agreement with the State of New Jersey, acting by and through the New Jersey Department of Environmental Protection and Energy, as part of the 2010 New Jersey Wastewater Treatment Financing Program. Of the proceeds of the interest-free loan of \$5,775,000, \$3,850,000 was forgiven as a result of the authority's participation in the American Recovery and Reinvestment Act of 2009. The amount forgiven is shown as part of the Contributed Capital-Net of Depreciation on the balance sheet. As a result, obligation to the State for repayment is as follows:

<u>Year</u>	<u>Principal Amount</u>
2011	-0-
2012	<u>1,925,000</u>
	<u>\$ 1,925,000</u>

NOTE 3. COMMITMENTS AND CONTINGENCIES

Construction contracts or those of a capital nature were awarded and encumbered on the internal records of the Authority; however, in order to comply with accounting principles, they have not been reflected on the financial statements of the Authority as of December 31, 2011.

The purpose and remaining balances at December 31, 2011 are as follows:

2010 Wind to Energy Project:	\$1,441,225.00
2010 Treatment Plant Upgrade:	<u>6,898.00</u>
	<u>\$1,448,123.00</u>

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 4. SERVICE CONTRACTS

As of December 31, 2011 & 2010, the following entities have entered into service agreements with the Authority: Hazlet Township; Holmdel Township; the Borough of Union Beach; the Borough of Keyport, the Borough of Keansburg, the Borough of Matawan; the Township of Aberdeen; and the Western Monmouth Utilities Authority (collectively, the "Local Units"). The Authority derives substantially all of its revenues from service charges paid by the Local Units of the Authority pursuant to the Service Agreements, entered into by the Authority with each of the Local Units.

The first of these service agreements are scheduled to expire on June 24, 2012. This will materially effect the Authority's ability to budget for ongoing operations, as well as capital projects after the expiration date. Representatives of all of the local units, as well as the Authority's Management are in ongoing negotiations to secure new service agreements, and in the opinion of the Authority's Management, new service agreements will be in place by the time the original agreements expire. As of the date of issuance of this report however, the Authority has not yet secured new service agreements.

NOTE 5. EMPLOYEE RETIREMENT SYSTEM

The State of New Jersey sponsors and administers the following contributory defined benefit public employee retirement system ("retirement system") covering those Authority employees who are eligible for pension coverage.

Public Employees' Retirement System (PERS) - established in January 1955, under the provisions of N.J.S.A. 43.15A to provide coverage, including post-retirement healthcare for those eligible employees whose local employers elected to do so, to substantially all full-time employees of the State or any county, municipality, school district, or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 8 to 10 years of service for pension benefits and 25 years for post-retirement healthcare coverage.

According to state law, all obligations of the PERS retirement system will be assumed by the State of New Jersey should the retirement system be terminated.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of each of the above systems, funds, and trust. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-00295.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 5. EMPLOYEE RETIREMENT SYSTEM (Continued)

BASIS OF ACCOUNTING

The financial statements of the PERS pension fund are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the fund. Benefits or refunds are recognized when due and payable in accordance with the terms of the fund.

INVESTMENT VALUATION

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

The State of New Jersey, Department of the Treasury, Division of Investment, issues publicly available financial reports that include the financial statements of the State of New Jersey Cash Management Fund, Common Pension Fund A, Common Pension Fund B, Common Pension Fund D and Common Pension Fund E. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 290, Trenton, New Jersey 08625-0290.

CONTRIBUTION REQUIREMENT

The contribution policy is set by laws of the State of New Jersey and, in most retirement systems, contributions are required by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. The PERS pension fund provides for employee contributions based on 5.5% of the employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate. The actuarially determined employer contribution includes funding for cost-of-living adjustments and noncontributory death benefits in the PERS. In the PERS, the employer contribution includes funding for post-retirement medical premiums for participating local governments.

For PERS, which is a cost sharing multi-employer defined benefit pension plan, the annual pension cost differs from the annual required contribution due to the enactment of Chapter 114, P.L. 1997.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2011 and 2010

CONTRIBUTION REQUIREMENT (Continued)

During the years ended December 31, 2010, 2009, and 2008, the Authority was required to contribute for normal cost pension contributions the following amounts which equaled the required contributions for each year:

<u>Year Ended</u> <u>December 31</u>	<u>PERS</u>
2009	\$ 110,964
2010	161,766
2011	211,376

NOTE 6. POST-RETIREMENT MEDICAL BENEFITS

The State of New Jersey sponsors and administers the post-retirement health benefit program plans for participating government agencies including the Authority. The Plans are cost-sharing multiple employer-defined benefit plans.

As a result of implementing Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Post-employment Benefit Plans Other than Pension Plans* (OPEB), effective for Fiscal Year 2007, the State Health Benefits Program (SHBP), and the Prescription Drug Program (PDP), and Post-Retirement Medical (PRM) of the PERS are combined and reported as Pension and Other employee Benefit Trust funds in the State's Comprehensive Annual Financial Report (CAFR). Specifically, SHBP-State, PDP-State, and the PRM are combined and reported as a fund (Health Benefits Program Fund - State). The SHBP-Local, PDP-Local, and the PRM are combined and reported as a separate fund (Health Benefits Program Fund -Local) in the State's CAFR. The health benefit programs had a total of 454 state and local participating employers and contributing entities for Fiscal Year 2008.

The State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information of the above trusts. The financial reports may be obtained by writing to the State of New Jersey, Department of the Treasury, Division of Pensions and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295.

BASIS OF ACCOUNTING

The financial statements of the health benefit programs are prepared on the accrual basis of accounting. Employer contributions are recognized when payable to the health benefit programs. Benefits or refunds are recognized when due and payable in accordance with the terms of the health benefit programs.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2011 and 2010

NOTE 6 POST-RETIREMENT MEDICAL BENEFITS (Continued)

INVESTMENT VALUATION

Investments are reported at fair value. Securities traded on a national or international exchange is valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair values.

The State of New Jersey, Department of Treasury, Division of Investment, issues publicly available financial reports. The financial reports maybe obtained by writing to the State of New Jersey, Department of the Treasury, Division of Investment, P.O. Box 2909, Trenton, New Jersey 08625-0290.

FUNDING POLICY

P.L. 1987, c. 384 and P.L. 1990, c.6 required the Public Employees' Retirement System to fund post-retirement medical benefits for those State and participating local government employees who retire after accumulating 25 years of credited service or on a disability retirement. As of June 30, 2008, there were 80,181 retirees receiving post-retirement medical benefits. The cost of these benefits is funded through contributions by the State and participating local governments in accordance with P.L. 1994, c.62. Funding of post-retirement medical benefits changed from a pre-funding basis to a pay-as-you-go basis beginning in Fiscal Year 1994.

P.L. 1977, c. 136 provides for the State and participating local governments to pay health benefits on a pay-as-you-go basis for all enrolled retired employees, regardless of retirement date, under two provisions. The first is for employees whose pensions are based on 25 years or more of credited service (except those who elect a deferred retirement). The second is for retired employees who are eligible for a disability retirement regardless of years of service.

PERS retirees are excluded from the provisions set forth in P.L. 1977, c. 136 since their health benefits coverage is funded through each of their respective pension fund systems via an annual appropriation.

The State annually sets the employer contribution rate based on the *annual required contribution of the employers (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over 'a period not to exceed thirty years. The Authority had no required contributions to the State Health Benefits Program Fund for post-retirement benefits for the years ended December 31, 2010, 2009 or 2008.

Bayshore Regional Sewerage Authority

Schedule of Revenue, Expenses and Changes in Retained Earnings

Reserved and Unreserved

	Unreserved		Reserved				Totals	
	Revenue Fund	Bond Service Fund	Bond Reserve Fund	General Fund	Construction	2011	2010	
Operating Revenues:								
Treatment Charges	\$ -	\$ -	\$ -	\$ -	\$ -	\$13,689,553	\$13,800,112	
Operating Expenses:								
Payroll & Employee Benefits	2,974,155	-	-	-	-	2,974,155	2,905,195	
Plant Materials and Supplies	2,126,703	-	-	-	-	2,126,703	2,386,563	
Administrative and General	515,641	-	-	-	-	515,641	446,768	
Depreciation	3,268,383	-	-	-	-	3,268,383	3,264,715	
Total Operating Expenses	8,884,882	-	-	-	-	8,884,882	9,001,201	
Operating Income	4,804,671	-	-	-	-	4,804,671	4,798,910	
Nonoperating Revenues (Expenses):								
Interest Income on Investments	-	-	-	-	-	-	-	
- Operating	1,102	32	22,321	623	-	24,088	81,340	
- Construction	-	-	-	-	378	378	60	
Miscellaneous Income	294,174	-	-	-	-	294,174	221,800	
Interest Expense on Bonds	(377,574)	-	-	-	-	(377,574)	(608,500)	
Amortization of Debt Issue Cost	(324,444)	-	-	-	-	(324,444)	(180,130)	
	(407,844)	32	22,331	623	378	(383,378)	(485,420)	
Net Income (Loss) Before Transfers	4,396,827	32	22,331	623	378	4,421,293	4,313,480	
Transfers:								
Depreciation on Assets Purchased with Contributed Capital	382,340	-	-	-	-	382,340	382,340	
Interfund Net Receipts and Disbursements	(1,585,531)	(4,983)	(198,387)	602,216	757,207	-	-	
Increase (Decrease) in Retained Earnings	3,193,636	(4,951)	(176,056)	602,839	757,585	4,803,633	4,695,820	
Retained Earnings, January 1st	36,500,750	5,768	7,373,247	3,522,416	408,664	49,781,915	45,086,090	
Retained Earnings, December 31st	\$39,694,386	\$ 817	\$ 7,197,191	\$ 4,125,255	\$1,166,249	\$ 54,585,548	\$48,781,910	

Bayshore Regional Sewerage Authority

Schedule of Cash Receipts, Cash Disbursements and Changes in Cash

Unrestricted Accounts

Year Ended December 31, 2011

	<u>Incoming Revenue Account</u>	<u>Regular Account</u>	<u>Payroll Account</u>	<u>Petty Cash Account</u>	<u>Total</u>
Cash - December 31, 2010	\$ 75,793	\$ 59,525	\$ 145,688	\$ 300	\$ 281,306
Cash Receipts:					
Service Charges	13,902,718	-	-	-	13,902,718
Outfall Charges	932,397	-	-	-	932,397
Transfers from Other Funds	-	4,874,554	2,337,229	-	7,211,783
Rent Reserve	-	-	-	-	-
Permits and Applications	291,543	-	-	-	291,543
Interest	266	164	162	-	592
Miscell. Income and Refunds	33,937	-	-	-	33,937
Total Cash Available	<u>15,236,654</u>	<u>4,934,243</u>	<u>2,483,079</u>	<u>300</u>	<u>22,654,276</u>
Cash Disbursements:					
Transfer to Other Funds	15,236,654	-	-	-	15,236,654
Net Payroll and Payroll Taxes Operations	-	4,873,173	2,332,848	-	2,332,848
Total Cash Disbursements	<u>15,236,654</u>	<u>4,873,173</u>	<u>2,332,848</u>	<u>-</u>	<u>22,442,675</u>
Cash - December 31, 2011	<u>\$ -</u>	<u>\$ 61,070</u>	<u>\$ 150,231</u>	<u>\$ 300</u>	<u>\$ 211,601</u>

Bayshore Regional Sewerage Authority

Schedule of Cash Receipts, Cash Disbursements and Changes in Cash and Investments

Restricted Accounts

Year Ended December 31, 2011

	Revenue	Bond Service Fund	Bond Reserve Fund	General Fund	Escrow Deposits	Construction Fund	Total
Cash and Investments - December 31, 2009	\$ 1,971,071	\$ 5,720	\$ 7,360,714	\$ 3,522,415	\$ 6,332,957	\$ 408,644	\$19,601,521
Cash Receipts:							
Transfer from Incoming Revenue Account	15,753,611	-	-	-	-	-	15,753,611
Interest Received	-	18	22,331	712	14,443	377	37,881
Rent Reserve Deposits	-	-	-	-	-	-	-
Transfer from Other Funds	-	7,152,152	-	2,800,000	189,491	-	10,141,643
Received from NJEIT	-	-	-	-	-	2,495,016	2,495,016
Total Cash and Investments Available	17,724,682	7,157,890	7,383,045	6,323,127	6,536,891	2,904,037	48,029,672
Cash Disbursements:							
Debt Service	-	7,157,073	-	-	-	-	7,157,073
Construction	-	-	-	-	-	1,737,788	1,737,788
Transfers to Other Funds and Accounts	15,323,032	-	185,854	2,197,874	-	-	17,706,260
Total Cash Disbursements	15,323,032	7,157,073	185,854	2,197,874	-	1,737,788	26,601,621
Cash and Investments - December 31, 2010	\$ 2,401,650	\$ 817	\$ 7,197,191	\$ 4,125,253	\$ 6,536,891	\$ 1,166,249	\$21,428,051
Balance Comprised of:							
Investments - Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
- U.S. Treasury Obligations	2,401,650	817	7,197,191	4,125,253	-	1,166,249	14,891,160
- Bank Accounts	-	-	-	-	6,536,891	-	6,536,891
	\$ 2,401,650	\$ 817	\$ 7,197,191	\$ 4,125,253	\$ 6,536,891	\$ 1,166,249	\$21,428,051

Bayshore Regional Sewerage Authority

Schedule of Operating Revenues and Costs Funded

By Operating Revenues Compared to Budget

For the Year Ended December 31, 2011

With Comparative Actual Amounts for the Year Ended December 31, 2010

	2011 Budget	2011 Actual	2010 Actual
Revenues:			
Treatment Charges	\$ 12,902,742	\$ 13,689,553	\$ 13,800,112
Interest on Investments	100,000	24,466	81,408
Permits and Applications	250,000	291,543	220,308
Sundry	15,000	2,631	1,495
Total Operating Revenues	<u>\$ 13,267,742</u>	<u>\$ 14,008,193</u>	<u>\$ 14,103,323</u>
Expenses:			
Salaries - Superintendents	445,000	374,880	430,488
- Plant Operations	1,545,000	1,357,641	1,336,138
- Commissioners and Project Managers	139,720	140,260	139,305
- Office Staff	121,500	117,835	110,375
Pension	211,000	211,376	161,766
Social Security Tax	170,116	152,147	152,976
Unemployment Compensation Insurance	6,195	5,966	5,088
Health Insurance	680,000	606,369	564,148
Life Insurance	8,400	7,677	4,907
Uniform and Safety Shoes	8,075	3,803	5,526
Memberships	10,675	22,744	4,315
Training and Seminars	23,570	11,989	16,717
Meal Allowance	-	-	-
Sick-Vacation-Holiday Pay	-	1,705	14,668
Electric Plant	975,000	856,768	1,033,921
Incineration Fuel	200,000	279,925	170,798
Natural Gas	100,000	97,591	114,159
Plant Telephone	2,400	2,551	2,346
Water	39,098	43,338	39,569
Gasoline	13,200	12,578	10,504
Machinery Repairs	130,000	90,529	153,775
Computer Maintenance	9,000	12,244	4,713
Service Contracts	87,700	75,358	51,453
Major Projects/Repairs	35,000	25,954	11,557
Electrical/Instrument Repairs	43,000	31,839	40,704
Chemicals	303,544	258,992	253,316
Operating Supplies	13,600	15,339	11,557
Grounds Maintenance	12,000	11,025	12,673
Fire and Safety Equipment	14,330	10,168	12,872
Incinerator Sand	5,000	1,541	3,832
Major Projects	13,500	-	3,185
Scavengers	38,386	29,565	35,424
Ash Removal	51,525	26,089	124,500

SCHEDULE 4
(Continued)

Bayshore Regional Sewerage Authority

Schedule of Operating Revenues and Costs Funded

By Operating Revenues Compared to Budget

For the Year Ended December 31, 2011

With Comparative Actual Amounts for the Year Ended December 31, 2010

	<u>2011</u> <u>Budget</u>	<u>2011</u> <u>Actual</u>	<u>2010</u> <u>Actual</u>
Expenses (continued):			
Lab Chemicals and Supplies	\$ 21,000	\$ 25,576	\$ 25,006
Lab Calibrations	10,000	9,091	1,265
Electric Pump Stations	82,000	68,076	88,138
Telephone - Alarm System	4,200	5,631	4,197
Line Maintenance, Parts, and Supplies	99,950	15,986	18,727
Truck Expense	4,500	4,075	2,939
Water - Pump Stations	15,000	15,686	12,834
Line Rehabilitation	11,000	-	38,297
Major Projects	20,000	-	-
Sludge Testing	47,150	35,724	25,181
Fees and Permits	33,000	25,212	19,872
Municipal Host Benefit	17,000	13,647	15,924
Professional Fees - Legal	60,000	15,307	20,832
- Accounting	30,000	34,166	27,445
- Engineering	80,000	127,173	64,109
- Trustee Fees	90,000	48,802	67,128
- Consultants; Other	25,000	9,599	4,917
Office Expense - Office Maintenance	8,000	920	2,900
- Insurance	295,000	237,772	238,354
- Advertisements	5,000	4,079	3,773
- Members' Travel	-	-	-
- Telephone	1,300	3,082	-
- Office Supplies	8,000	7,903	6,717
- Printing and Postage	3,500	2,910	2,405
- Office Equip. Rental	2,000	2,472	1,272
- Promotions	1,500	2,125	1,185
- Sundry	2,500	5,710	4,455
Interest Expense	1,192,068	377,574	608,534
Other Costs Funded By Operating Revenues:			
Principal Maturities	6,643,540	6,673,952	6,439,125
Capital Outlays	-	621,685	22,825
Amortization of Debt Issue Cost	-	324,444	180,136
Depreciation	-	3,268,382	3,264,715
Total Costs Funded by Operating Revenues	14,267,742	16,851,765	16,251,805
Excess (Deficit)	<u>(1,000,000)</u>	<u>(2,874,354)</u>	<u>(2,148,482)</u>
	<u>\$13,267,742</u>	<u>\$14,008,193</u>	<u>\$14,103,323</u>

ROSTER OF OFFICIALS

<u>Authority Members</u>	<u>Position</u>	<u>Amount of Surety Bond</u>
Louis Pisano	Chairperson	\$ -
Frank Wells	Vice Chairperson	-
John Colligas	Treasurer	50,000
Kathleen Parsells	Assistant Treasurer	-
James Dinardo	Secretary	-
David Cohen	Asst. Secretary	-
 <u>Other Officials</u>		
Robert C. Fischer	Executive Director	50,000
 <u>All Other</u>		
Office Staff	-	50,000
Plant Employees	-	50,000
 <u>Surety Company</u>		
NJ Utility Authorities Joint Insurance Fund		
Westchester Surplus Lines Ins.		

SINGLE AUDIT SECTION

BART & BART CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR AND STATE OF NEW JERSEY OMB CIRCULAR 04-04

To the Board of Commissioners
Bayshore Regional Sewerage Authority
Union Beach, New Jersey

Compliance

We have audited the compliance of The Bayshore Regional Sewerage Authority (the "Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and State of New Jersey OMB Circular 04-04 that could have a direct and material impact on each of its major federal and state programs for the year ended December 31, 2010. The Authority's major federal and state programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion of the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the audit requirements as prescribed by the Division of Finance, State of New Jersey; OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations, and New Jersey OMB's Circular 04-04, "Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid". Those standards, OMB Circular A-133 and New Jersey OMB's Circular 04-04, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Authority's compliance with those requirements.

In our opinion, the Bayshore Regional Sewerage Authority, in the County of Monmouth, State of New Jersey complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal or state programs for the year ended December 31, 2011.

BART & BART CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR AND STATE OF NEW JERSEY OMB CIRCULAR 04-04

To the Board of Commissioners
Bayshore Regional Sewerage Authority
Union Beach, New Jersey

Compliance

We have audited the compliance of The Bayshore Regional Sewerage Authority (the "Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement and State of New Jersey OMB Circular 04-04 that could have a direct and material impact on each of its major federal and state programs for the year ended December 31, 2010. The Authority's major federal and state programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion of the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; the audit requirements as prescribed by the Division of Finance, State of New Jersey; OMB Circular A-133 Audits of States, Local Governments, and Non-Profit Organizations, and New Jersey OMB's Circular 04-04, "Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid". Those standards, OMB Circular A-133 and New Jersey OMB's Circular 04-04, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and state program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Authority's compliance with those requirements.

In our opinion, the Bayshore Regional Sewerage Authority, in the County of Monmouth, State of New Jersey complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal or state programs for the year ended December 31, 2011.

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR AND STATE OF NEW JERSEY OMB CIRCULAR 04-04 (Continued)

To the Board of Commissioners
Bayshore Regional Sewerage Authority
Union Beach, New Jersey

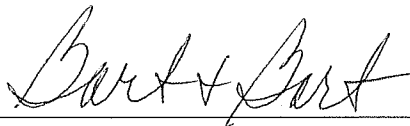
Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on major federal or state programs to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on the internal control over compliance in accordance with OMB Circular A-133 and New Jersey OMB Circular 04-04 but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information of the management and members of the Authority's Board, federal and state awarding agencies and for filing with 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.



BART & BART

Bayshore Regional Sewerage Authority
County of Monmouth, New Jersey

Schedule of Expenditures of Federal Awards and State Assistance

For the Year Ended December 31, 2011

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Agency Pass-through Number</u>	<u>Award Amount</u>	<u>Current Year Expenditures</u>	<u>Cumulative Expenditures</u>
U.S. Environmental Protection Agency Passed through State of NJ Department Of Environmental Protection:					
Clean Water: 2010 American Recovery and Reinvestment Act of 2010 ("ARRA")	66.458	42 4860 71I	1,925,000	1,696,244	1,748,170
Wind Turbine and Treatment Plant Improvements	66.458	42 4860 71I	1,925,000	-	-
Loan Grant				798,863	3,850,000
Principle Forgiveness			3,850,000	2,495,107	5,598,170
				<u>\$ 2,495,107</u>	<u>\$ 5,598,170</u>

BAYSHORE REGIONAL SEWERAGE AUTHORITY
NOTES TO THE SCHEDULES OF EXPENDITURES OF
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
YEAR ENDED DECEMBER 31, 2011

1. GENERAL

The accompanying schedules of expenditures of federal awards and state financial assistance include federal and state award activity of the Bayshore Regional Sewerage Authority ("Authority"). The Authority is defined in Note 1 (A) to the Authority's basic financial statements. All federal and state awards received directly from federal and state agencies, as well as federal awards and state financial assistance passed through other governmental agencies is included on the schedules or expenditures of federal awards and state financial assistance.

2. BASIS OF ACCOUNTING

The accompanying schedules of expenditures of federal awards and state financial assistance are presented on the accrual basis of accounting. These bases of accounting are described in Note 1 to the Authority's basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audit of States, Local Governments, and Non-Profit Organizations and NJ OMB Circular 04-04. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Amounts reported in the accompanying schedules agree with the amounts reported in the Authority's basic financial statements.

4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

Amounts reported in the accompanying schedules agree with the amounts reported in the related federal and state financial reports.

5. FEDERAL AND STATE LOANS OUTSTANDING

The Authority loans outstanding payable to federal or state entities at December 31, 2011.

<u>NJEIT 2010</u>	<u>Account</u>	<u>Amount</u>
State Portion	S 340697.04	\$1,925,000
Federal Portion	66.458	\$1,950,000

THE BAYSHORE REGIONAL SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

MAJOR FEDERAL AWARD PROGRAMS

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified dated
April 4, 2012

Internal control over financial reporting:

1. Material weakness(es) identified? _____ yes X no

2. Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X no

Noncompliance material to general-purpose financials Statements noted? _____ yes X no

State Financial Assistance

Internal control over major programs:

1. Material weakness(es) identified? _____ yes X no

2. Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X no

Type of auditor's report issued on compliance for Major programs: Unqualified dated
April 4, 2012

Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133? _____ yes X no

Identification of major programs:

Federal Grant Number:	Name of Program or Cluster
66.458	Clean Water

Dollar threshold used to distinguish between Type A and Type B Programs: \$500,000.00.

Auditee qualified as low-risk auditee? _____ yes X no

THE BAYSHORE REGIONAL SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2011

FOR THE YEAR ENDED JANUARY 31, 2010:

There were no findings for the year ended December 31, 2010.

Bayshore Regional Sewerage Authority
General Comments and Recommendations
For the Year Ended December 31, 2011

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified Opinion issued on Financial Statements - presented in accordance with "auditing standards generally accepted in the United States of America" dated April 4, 2011

Internal control over financial reporting:

- 1) Material Weakness identified? NO
- 2) Significant deficiencies identified that are not considered to be a Material Weakness? NO

Non-Compliance material to Financial Statements noted? NO

II. FINDINGS RELATING TO THE FIANCNIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS.

NONE