

Bayshore Regional Sewerage Authority

Audit Report

December 31, 2013 and 2012

Bart & Bart
Certified Public Accountants

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BART & BART CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To Chairperson and Members
Bayshore Regional Sewerage Authority
Union Beach, New Jersey

Report on the Financial Statements

We have audited the accompanying basic financial statements of the Bayshore Regional Sewerage Authority (the Authority), as of and for the years ended December 31, 2013 and 2012, and the related notes to the basic financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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To Chairperson and Members
Bayshore Regional Sewerage Authority

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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, 2013 and 2012, and the respective statements of revenue, expenses, and changes in net assets, and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the Authority's basic financial statements. The supplemental information included on Schedules 1 through 4 are presented for purposes of additional analysis and are not a required part of the basic 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. Schedules 1 through 4 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

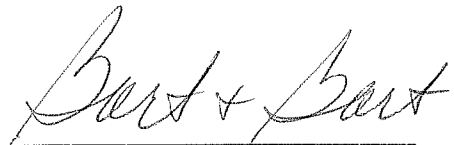
To Chairperson and Members
Bayshore Regional Sewerage Authority

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Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 15, 2014 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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, CPAs

April 15, 2014

BART & BART CERTIFIED PUBLIC ACCOUNTANTS

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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Governmental Auditing Standards issued by the Comptroller General of the United States, the financial statements and fund information of Bayshore Regional Services of New Jersey as of and for the year ended December 31, 2013, and the related notes to the financial statements, which comprise of the Authority's financial statements, and have issued our report thereon dated April 15, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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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 the 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.

Purpose of this Report

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

April 15, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management Discussion and Analysis (MD&A)

Our Mission

The Bayshore Regional Sewerage Authority employees developed the mission of the Authority and consolidated the mission in the following statement in 2006; “*Dedicated to a Clean Environment for Today, Tomorrow, and Generations to Come*” the statement 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 each year, and it is within this culture that we have achieved substantial results.

The Authority accomplishes this by maintaining a well operated, clean, safe facility at 100 Oak Street in Union Beach, NJ. The facility operates well within the limits set by State and Federal permits. Improvements are aimed at lowering the cost of business while prolonging function.

Key indicators of performance include the trends in effluent quality of the wastewater being processed as well as the operating, capital and debt service costs.

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. Figure 1 below illustrates this achievement.

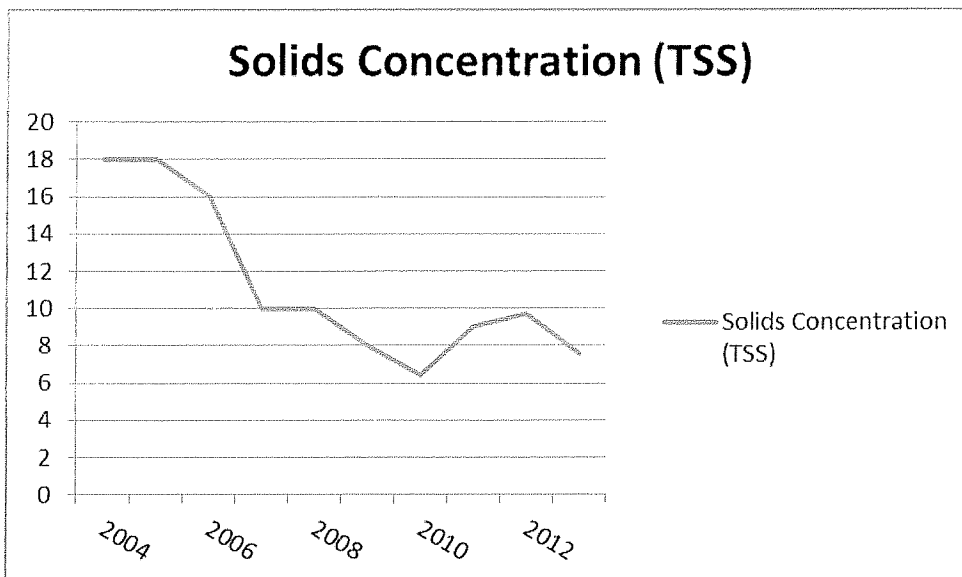


Fig. 1 Effluent total suspended solids (TSS) per liter of water discharged. State requires value to be 30 mg/l or better

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 7.6 mg/l as a yearly average for 2013.

Decreasing major expenditures

The Authority budget is a combination of operating, capital and debt service expenses. In 2012 the Authority eliminated its debt, and therefore the 2013 budget consists of operating and capital expenses only. As a result the Authority was once again able to lower treatment charges to all of its participants for the second consecutive year. The Authority refocused its 2013 Capital Budget towards the rebuilding of the plant processes damaged by Sandy flooding. As a result of the capital funding, reserve cash, and connection revenue the Authority was able to respond to the unprecedented damages inflicted by Hurricane sandy without the need for emergency funding in 2013.

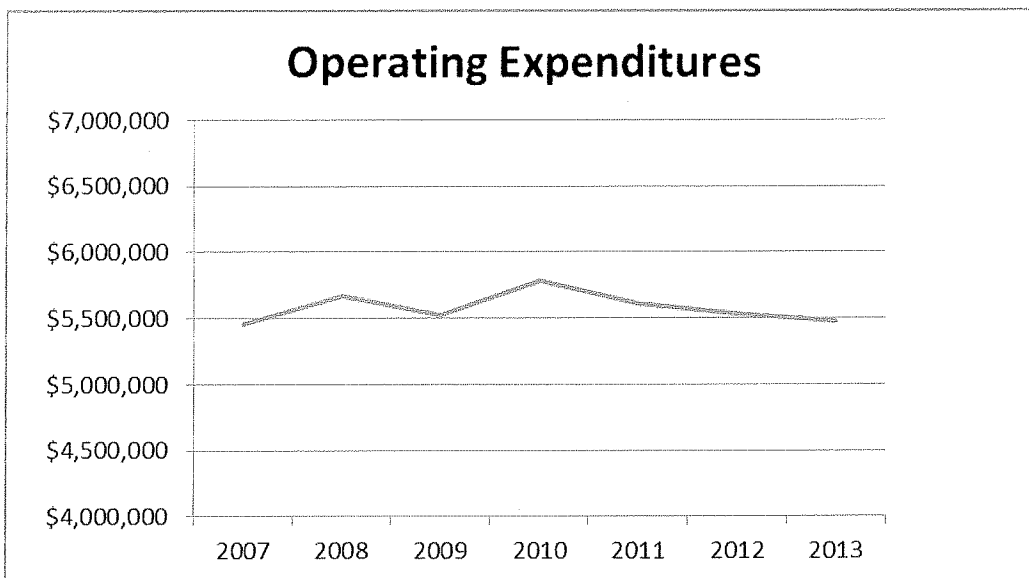


Figure 3 Graph of annual operating expenses 2007 to 2013 depicting reduced operating expenditures for the last three years.

Internal Controls

The Authority has instituted an internal control over spending that originates in a formal requisitioning system. All operational purchasing requests are authorized first by the Plant Superintendent and sent to the Executive Director for approval to purchase. All purchasing is handled by our State Qualified Purchasing Agent who follows NJ local public contract laws for procurement. Certifications are received from the claimant (vendor) as well as the requisitioning department upon receipt of goods or services. A completed voucher is submitted to the Executive Director for review and approval before being submitted to the Authority Treasurer for final authorization. Subsequent to the final authorization the claim for payment is presented to the entire Board of Commissioners at an open public meeting. A final resolution approving the claim is required before the authority releases payment to the vendor. The system reduces the risk of error, provides for full disclosure of all payments, involves the authority executive staff and provides payment to the vendor in a reasonable and acceptable time frame.

Overview of Financial Report

Comparative Statement of Net Position

“The Comparative Statement of Net Position” presents information on the Authority’s assets and liabilities. “Net Position” or fund equity is the difference between the Authority’s assets and liabilities and is an indicator of the Authority financial strength. Among other things the statement provides the value of the authority’s plant property and equipment from the creation of the authority to present.

The Authority’s Net Position has increased in 2013 from \$63,804,942 to \$68,347,037 primarily due to the elimination of its debt and reduction in obligations to customers

Comparative Statement of Revenues, Expenses and Changes in Net Position

The Comparative Statement of Revenues, Expenses and Changes in Net Position presents the results of the business activities over the past year including payroll and benefits, plant materials and supplies purchased, net income and changes in net position.

The Authority’s net income increased in 2013 from \$2,337,846 to \$4,924,095 primarily due to higher than expected connection revenues and the elimination of the interest expense on outstanding bonds.

Comparative Statement of Cash Flows

The Comparative Statement of Cash Flows presents the changes in cash and cash equivalents resulting from operational, financing and investing activities.

The Net cash used for investing activities decreased from \$10,532,078 to \$1,216,084 due to the elimination of Authority debt and the associated cash needed for those debt service payments.

Schedule of revenue, expenses and changes in retained earnings

The Schedule of revenue, expenses and changes in retained earnings presents the similar information as the Comparative Statement of Revenues, Expenses and Changes in Net Position with this schedule providing a breakdown by Authority fund.

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

The Schedule of cash receipts, cash disbursements and changes in cash and investments presents the allocation of all cash according to authority fund and account for the calendar year 2013. The Schedule indicates transfers made between all accounts and reconciles to the Comparative Statement of Cash Flows.

Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to Budget

The Schedule of operating revenues and costs funded by operating revenues compared to budget reviews the authority line item budget to actual expenditures and compares to the same line item from the prior year.

Response to Hurricane Sandy

On October 29, 2012 Hurricane Sandy flooded the Borough of Union Beach, NJ where the Bayshore Regional Sewerage Authority is located. The Authority suffered significant damage to its processes. The authority has received funding from three separate insurance policies as well as the Federal Emergency Management Agency, FEMA. FEMA has obligated approximately \$30,000,000 towards the restoration and mitigation of the Authority processes. FEMA share of the funding to restore and mitigate damage has been established at 90% of cost, leaving 10% cost share for the Authority. The Authority has applied to the New Jersey Environmental Infrastructure Trust (NJEIT) for a short-term loan to cover the payment of restoration and mitigation costs until FEMA reimbursements have been made and to cover other Authority led projects as well as the 10% Authority share. It is expected that NJEIT Funding will be available by the end of 2014.

- The Authority has invested \$5,948,146 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, increased by \$3,015,553 primarily due to increased cash and investments.
- Total liabilities decreased by \$3,265,205 primarily due to decreased amounts due customers of \$1,174,487, and decreased escrow deposits of \$1,410,024.
- Total non-operating revenues increased \$2,348,459 primarily due to increased development applications.
- Cost of administration increased by \$3,029.
- Cost of plant materials and supplies decreased by \$190,066 or 10.0%.
- Net assets equity increased by \$4,542,095 or 7.0%.

FINANCIAL ANALYSIS

Net assets, over time, serves as a useful indicator of an Authority's financial position. The Authority's net assets (assets less liabilities) was \$68,347,037 as of December 31, 2013.

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.

FINANCIAL ANALYSIS (Continued)

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
Comparative Statement of Net Position
December 31, 2013 and 2012

| <u>ASSETS</u> | <u>2013</u> | <u>2012</u> |
|---|----------------------|---------------------|
| Unrestricted Assets: | | |
| Cash and Cash Equivalents | \$ 8,369,856 | \$ 6,450,869 |
| Accounts Receivable - Customers, Net (Note 1.D.) | - | 38,849 |
| Inventory (Note 1.G.) | 399,216 | 380,431 |
| Prepaid Expenses | 93,902 | 40,197 |
| Insurance Claims Receivable | 4,005,975 | 1,533,162 |
| Other Receivables | - | - |
| Total Unrestricted Assets | <u>\$ 12,868,949</u> | <u>\$ 8,443,508</u> |
| Restricted Assets (Note 1.C.): | | |
| Construction Fund | 1,357,130 | 1,103,176 |
| Customer Escrow Deposits: | | |
| Rent Reserve | 2,763,244 | 4,173,268 |
| Due from NJEIT | 1,498,294 | 1,752,112 |
| Total Restricted Assets | <u>5,618,668</u> | <u>7,028,556</u> |
| Plant, Property and Equipment (Note 1.I.) | 121,084,488 | 120,890,684 |
| Less: Accumulated Depreciation | <u>68,037,304</u> | <u>66,104,837</u> |
| Net Plant, Property and Equipment | <u>53,047,184</u> | <u>54,785,847</u> |
| TOTAL ASSETS | <u>\$ 71,534,801</u> | <u>\$70,257,911</u> |

See accompanying notes.

Bayshore Regional Sewerage Authority

Comparative Statement of Net Position

December 31, 2013 and 2012

| <u>LIABILITIES AND NET POSITION</u> | <u>2013</u> | <u>2012</u> |
|---|-------------------------|-------------------------|
| Current Liabilities - | | |
| Payable from Unrestricted Assets: | | |
| Accounts Payable - Operating | \$ 207,067 | \$ 924,288 |
| Accounts Payable - Retainage | 98,681 | 98,681 |
| Payroll Deductions Payable | 18,787 | 17,985 |
| Obligation to Customers | 8,316 | 1,182,803 |
| Accrual for Unused Leave and Vacation Time | <u>91,669</u> | <u>55,944</u> |
| Total Current Liabilities Payable from Unrestricted Assets | <u>424,520</u> | <u>2,279,701</u> |
| Current Liabilities - | | |
| Payable from Restricted Assets: | | |
| Escrow Deposits Payable | <u>2,763,244</u> | <u>4,173,268</u> |
| Total Current Liabilities Payable from Restricted Assets | <u>2,763,244</u> | <u>4,173,268</u> |
| TOTAL LIABILITIES | <u>3,187,764</u> | <u>6,452,969</u> |
| Net Position: | | |
| Restricted for: | | |
| Contributed capital, net | 6,499,208 | 6,881,548 |
| Construction | 1,357,129 | 1,103,176 |
| Operations | - | 6,195,695 |
| Future debt service | <u>-</u> | <u>817</u> |
| | 7,856,337 | 14,128,231 |
| Unrestricted | <u>60,490,700</u> | <u>49,623,706</u> |
| Total Net Position | <u>68,347,037</u> | <u>63,804,942</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$71,534,801</u> | <u>\$70,257,911</u> |

See accompanying notes.

Bayshore Regional Sewerage Authority

Comparative Statement of Revenues, Expenses and Changes in Net Position

Years Ended December 31, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|--|----------------------|----------------------|
| Operating Revenues: | | |
| Treatment Charges | \$ 9,515,249 | \$ 9,279,082 |
| Operating Expenses: | | |
| Payroll and Employee Benefits | 3,348,824 | 3,222,097 |
| Plant Materials and Supplies | 1,692,528 | 1,882,597 |
| Administrative and General | 438,229 | 435,200 |
| Depreciation | 1,932,467 | 1,874,117 |
| Total Operating Expenses | <u>7,412,048</u> | <u>7,414,011</u> |
| Operating Income | <u>2,103,201</u> | <u>1,865,071</u> |
| Nonoperating Revenue (Expenses): | | |
| Interest Income on Investments - Operating | 1,736 | 7,455 |
| Miscellaneous Income - Applications and Sundry | 2,437,158 | 335,885 |
| Interest Expense on Bonds | - | (117,610) |
| Amortization of Debt Issue Costs | - | (135,295) |
| | <u>2,438,894</u> | <u>90,435</u> |
| Net Income (Before Transfer of Depreciation of Assets Purchased with Contributed Capital) | 4,542,095 | 1,955,506 |
| Transfer of Depreciation to Contributed Capital | <u>382,340</u> | <u>382,340</u> |
| Net Income | 4,924,435 | 2,337,846 |
| Net Position, January 1 st | <u>56,923,394</u> | <u>54,585,548</u> |
| Net Position, December 31 st | <u>61,847,829</u> | <u>56,923,394</u> |
| Contributed Capital - Net, January 1 st | 6,881,548 | 7,263,888 |
| Transfer of Depreciation from Operations | <u>(382,340)</u> | <u>(382,340)</u> |
| Contributed Capital - Net, December 31 st | <u>6,499,208</u> | <u>6,881,548</u> |
| Net Positon, End of Year | <u>\$ 68,347,037</u> | <u>\$ 63,804,942</u> |

EXHIBIT C

Bayshore Regional Sewerage AuthorityComparative Statement of Cash FlowsYears Ended December 31, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|--|---------------------|---------------------|
| Cash Provided by (Used for) Operations: | | |
| Net Income | \$ 4,542,095 | \$ 1,955,506 |
| Adjustments to Reconcile Net Income to Net Cash: | | |
| Depreciation | 1,932,467 | 1,874,117 |
| Amortization | - | 135,295 |
| Customer Accounts Receivable | 38,849 | 735,435 |
| Prepaid Expenses | (53,705) | (2,811) |
| Inventory | (18,785) | (18,313) |
| Other Receivables | (2,472,813) | (1,531,362) |
| Current Liabilities Payable from Unrestricted Assets | (1,855,181) | 1,670,349 |
| Current Liabilities Payable from Restricted Assets | <u>(1,410,024)</u> | <u>(13,431,307)</u> |
| Net Cash Provided by Operations | <u>702,903</u> | <u>(8,613,091)</u> |
| Cash Flows Provided by (Used for) Investing Activities: | | |
| Restricted Assets | 1,409,888 | 12,180,829 |
| Plant, Property and Equipment | <u>(193,804)</u> | <u>(1,648,751)</u> |
| Net Cash Provided by Investing Activities | <u>1,216,084</u> | <u>10,532,078</u> |
| Net Increase in Cash and Cash Equivalents | 1,918,987 | 1,918,987 |
| Cash and Cash Equivalents: | | |
| Beginning of Period | <u>6,450,869</u> | <u>4,531,882</u> |
| End of Period | <u>\$ 8,369,856</u> | <u>\$ 6,450,869</u> |

See accompanying notes.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2013 and 2012

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. All participants have entered into service contracts with the Authority.

As a public body under existing statute, the Authority is exempt from all federal and state income 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, 2013 and 2012

1. Summary of Significant Accounting Policies (continued)

C. Accounts Receivable - Customers

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

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

The Authority in 2012 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.

E. 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.

F. 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, 2013 inventory dollar amount due to an increase in amounts of inventory and cost thereof.

G. 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.

Bayshore Regional Sewerage Authority

Notes to Financial Statements

December 31, 2013 and 2012

1. Summary of Significant Accounting Policies (continued)

H. 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 | 14,476,792 | 50 Years |
| Pump Stations | 5,287,720 | 40 Years |
| Plant Buildings and Piping | 60,882,916 | 50 Years |
| Plant Equipment | 26,549,152 | 15 Years |
| Incinerator | 4,183,252 | 20 Years |
| Administration Building | 213,283 | 40 Years |
| Land and Right of Ways | 1,009,479 | - |
| Construction in process | <u>7,330,648</u> | - |
| Total | <u>\$121,084,488</u> | |

I. 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, 2013 and 2012

NOTE 2. 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, 2012.

The purpose and remaining balances at December 31, 2013 are as follows:

| | |
|------------------------------|-----------------------|
| 2010 Wind to Energy Project: | <u>\$1,963,599.00</u> |
|------------------------------|-----------------------|

NOTE 3. INSURANCE CLAIMS RECEIVABLE

On October 29, 2012, Super Storm Sandy made landfall along the Southern Atlantic Coast of New Jersey. The resulting storm surge and winds caused catastrophic damage to the community of Union Beach, where the Authority is located.

The Authority sustained significant damage to its plant and infrastructure, including its sludge incinerators, vehicles, and its blower building. As of December 31, 2013, the Authority has expended \$6,936,665 in repairs, equipment replacement and alternative treatment methods in order to continue to service its customer base. The full extent and cost of the damage caused by this extraordinary event has yet to be finalized and measured.

Certain of the expenses incurred by the Authority and discussed above will be eligible for a combination of insurance coverage and financial assistance from the Federal Emergency Management Agency (FEMA). Many of these expenditures will be reimbursable at a minimum 75% level. The Authority anticipates, however, that many of these expenses will be reimbursable at 90%. Certain of these expenses will mitigate future storm damage, and as such, will be capital in nature and will be financed over the useful life of the repaired asset. The amount shown as Insurance Claims receivable on the balance sheet is shown net of a \$1,702,702 reimbursement from the Authority's various insurance carriers and \$1,227,988 from FEMA.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 4. 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.

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.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 4. EMPLOYEE RETIREMENT SYSTEM (Continued)

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.

During the years ended December 31, 2012, 2011, and 2010, 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> |
|---|-------------|
| 2011 | \$ 211,376 |
| 2012 | 217,300 |
| 2013 | 211,347 |

NOTE 5. 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.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 5. POST-RETIREMENT MEDICAL BENEFITS (Continued)

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.

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.

Bayshore Regional Sewerage Authority
Notes to Financial Statements
December 31, 2013 and 2012

NOTE 5. POST-RETIREMENT MEDICAL BENEFITS (Continued)

FUNDING POLICY (Continued)

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 year's ended December 31, 2013, 2012 or 2011.

NOTE 6. SUBSEQUENT EVENTS

Subsequent to December 31, 2013, but prior to the issuance of these Financial Statements, the Authority has applied to the New Jersey Environmental Infrastructure Trust (NJEIT) for a short-term loan in the amount of \$40,752,500 to cover the payment of restoration and mitigation costs until FEMA reimbursements have been made and to cover other Authority led projects, as well as the 10% Authority share not reimbursed by FEMA. It is expected that NJEIT Funding will be available by the end of 2014.

In Management's opinion, there were no other transactions or events which would require recognition or disclosure in the Financial Statements.

Bayshore Regional Sewerage Authority

Schedule of Revenue, Expenses and Changes in Retained Earnings

Reserved and Unreserved

Year Ended December 31, 2013

| | Unreserved | Reserved | | | Totals | |
|---|--------------|--------------|-------------------|--------------|---------------|---------------|
| | | Revenue Fund | Bond Service Fund | General Fund | 2013 | 2012 |
| Operating Revenues: | | | | | | |
| Treatment Charges | \$ 9,515,249 | \$ - | \$ - | \$ - | \$ 9,515,249 | \$ 9,279,082 |
| Operating Expenses: | | | | | | |
| Payroll & Employee Benefits | 3,348,824 | - | - | - | 3,348,824 | 3,222,097 |
| Plant Materials and Supplies | 1,692,528 | - | - | - | 1,692,528 | 1,882,597 |
| Administrative and General | 438,229 | - | - | - | 438,229 | 435,200 |
| Depreciation | 1,932,467 | - | - | - | 1,932,467 | 1,874,117 |
| Total Operating Expenses | 7,412,048 | - | - | - | 7,412,048 | 7,414,011 |
| Operating Income | 2,103,201 | - | - | - | 2,103,201 | 1,865,071 |
| Nonoperating Revenues (Expenses): | | | | | | |
| Interest Income on Investments | | | | | | |
| - Operating | 1,613 | - | - | - | 1,613 | 7,372 |
| - Construction | - | - | - | 123 | 123 | 83 |
| Miscellaneous Income | 2,437,158 | - | - | - | 2,437,158 | 335,885 |
| | 2,438,771 | - | - | - | 2,438,894 | 90,435 |
| Net Income Before Transfers | 4,541,972 | - | - | 123 | 4,542,095 | 1,955,506 |
| Transfers: | | | | | | |
| Depreciation on Assets Purchased with Contributed Capital | 382,340 | - | - | - | 382,340 | 382,340 |
| Interfund Net Receipts and Disbursements | 5,942,682 | (5,323,904) | (817) | (871,791) | - | - |
| Increase (Decrease) in Retained Earnings | 10,866,994 | (5,323,904) | (817) | (871,791) | 4,924,435 | 2,337,846 |
| Retained Earnings, January 1st | 49,623,706 | 5,323,904 | 817 | 871,791 | 56,923,394 | 54,585,548 |
| Retained Earnings, December 31st | \$60,490,700 | \$ - | \$ - | \$ - | \$ 61,847,829 | \$ 56,923,394 |

Bayshore Regional Sewerage Authority

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

Unrestricted Accounts

Year Ended December 31, 2013

| | Revenue | Regular Account | Payroll Account | Petty Cash | General Fund | Bond Service | Revenue | Total |
|--|------------------|-------------------|------------------|---------------|-------------------|---------------|---------------------|---------------------|
| Cash and Investments - December 31, 2012 | \$ 500 | \$ 96,577 | \$ 157,800 | \$ 300 | \$ 871,791 | \$ 817 | \$ 5,323,904 | \$ 6,451,194 |
| Cash Receipts: | | | | | | | | |
| Service Charges | 8,358,007 | - | - | - | - | - | - | 8,358,007 |
| Outfall Charges | 949,710 | - | - | - | - | - | - | 949,710 |
| Transfers from other funds | - | 12,650,903 | 2,511,057 | - | - | - | 7,728,671 | 15,161,960 |
| | <u>2,429,502</u> | | | | | | | |
| Interest Received | 135 | 502 | 130 | - | 89 | - | - | 856 |
| Miscellaneous Income | 2,737,097 | - | - | - | - | - | - | 2,737,097 |
| Total Cash Available | 14,474,456 | 12,747,982 | 2,668,987 | 300 | 871,880 | 817 | 13,052,575 | 36,088,326 |
| Transfer to Other Funds | 14,474,456 | - | 2,579,929 | - | 89 | - | 5,752,812 | 2,579,929 |
| Net Payroll & Payroll Taxes Operations | - | 12,639,855 | - | - | - | - | - | 12,639,855 |
| Total Cash Disbursements | 14,474,456 | 12,639,855 | 2,579,929 | - | 89 | - | 5,752,812 | 35,447,141 |
| Cash and Investments - December 31, 2013 | - | <u>108,127</u> | <u>89,058</u> | <u>300</u> | <u>871,791</u> | <u>817</u> | <u>7,299,763</u> | <u>8,369,856</u> |
| Balance Comprised of: | | | | | | | | |
| Investments - Cash | - | 108,127 | 89,058 | 300 | - | - | - | 197,485 |
| - U.S. Treasury | - | - | - | - | 871,791 | 817 | 7,299,763 | 8,172,371 |
| | \$ - | \$ <u>108,127</u> | \$ <u>89,058</u> | \$ <u>300</u> | \$ <u>871,791</u> | \$ <u>817</u> | \$ <u>7,299,763</u> | \$ <u>8,369,856</u> |

Bayshore Regional Sewerage Authority

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

Restricted Accounts

Year Ended December 31, 2013

| | Escrow Deposits | Construction Fund | Total |
|---|---------------------|----------------------|---------------------|
| Cash and Investments - December 31, 2012 | \$ 4,173,269 | \$ 1,103,176 | \$ 5,276,455 |
| Cash Receipts: | | | |
| Interest Received | 6,161 | 123 | 6,284 |
| Received from NJEIT | - | 253,830 | 253,830 |
| Total Cash and Investments Available | <u>4,179,430</u> | <u>1,357,129</u> | <u>5,536,559</u> |
| Cash Disbursements: | | | |
| Rent Reserve Refunded | <u>1,416,186</u> | - | <u>1,416,186</u> |
| Total Cash Disbursements | <u>1,416,186</u> | <u>-</u> | <u>1,416,186</u> |
| Cash and Investments - December 31, 2013 | <u>\$ 2,763,244</u> | <u>\$ 1,357,129</u> | <u>\$ 4,120,373</u> |
| Balance Comprised of: | | | |
| Investments - Cash | \$ 2,763,244 | - | \$ 2,763,244 |
| - U.S. Treasury Obligations | - | <u>1,357,129</u> | <u>1,357,129</u> |
| | <u>\$ 2,763,244</u> | <u>\$ 1,357,129</u> | <u>\$ 4,120,373</u> |

Bayshore Regional Sewerage Authority

Schedule of Operating Revenues and Costs Funded

By Operating Revenues Compared to Budget

For the Year Ended December 31, 2013

With Comparative Actual Amounts for the Year Ended December 31, 2012

| | <u>2013</u> <u>Budget</u> | <u>2013</u> <u>Actual</u> | <u>2012</u> <u>Actual</u> |
|---|------------------------------|------------------------------|------------------------------|
| Revenues: | | | |
| Treatment Charges | \$ 9,469,691 | \$ 9,515,249 | \$ 9,279,082 |
| Interest on Investments | 5,000 | 1,736 | 7,455 |
| Permits and Applications | 20,000 | 2,437,158 | 335,885 |
| Sundry | 15,000 | - | - |
| | <u>\$ 9,509,691</u> | <u>\$ 11,954,143</u> | <u>\$ 9,622,422</u> |
| Expenses: | | | |
| Salaries - Superintendents | 462,973 | 453,154 | \$ 460,186 |
| - Plant Operations | 1,540,000 | 1,541,206 | 1,459,720 |
| - Commissioners and Project Managers | 148,000 | 148,058 | 141,723 |
| - Office Staff | 127,989 | 82,172 | 115,835 |
| Pension | 230,640 | 211,349 | 217,300 |
| Social Security Tax | 175,000 | 170,085 | 166,337 |
| Unemployment Compensation Insurance | 9,000 | 6,338 | 5,735 |
| Health Insurance | 748,000 | 730,270 | 650,041 |
| Life Insurance | 7,700 | 6,188 | 5,735 |
| Uniform and Safety Shoes | 6,000 | 8,288 | 6,797 |
| Memberships | 18,000 | 3,650 | 13,340 |
| Training and Seminars | 40,000 | 10,298 | 22,048 |
| Meal Allowance | - | - | 1,048 |
| Sick-Vacation-Holiday Pay | 10,000 | 35,725 | 7,128 |
| Electric Plant | 915,000 | 833,050 | 531,319 |
| Incineration Fuel | 280,000 | - | 319,499 |
| Natural Gas | 85,000 | 54,578 | 75,115 |
| Plant Telephone | 6,800 | 2,904 | 3,359 |
| Water | 46,930 | 42,544 | 37,925 |
| Gasoline | 15,000 | 13,661 | 13,160 |
| Machinery Repairs | 128,000 | 89,929 | 115,343 |
| Computer Maintenance | 10,000 | 10,742 | 8,680 |
| Service Contracts | 61,000 | 48,237 | 48,187 |
| Major Projects/Repairs | 24,000 | 27,662 | 3,512 |
| Electrical/Instrument Repairs | 45,000 | 34,083 | 20,684 |
| Chemicals | 290,638 | 216,566 | 257,479 |
| Operating Supplies | 12,000 | 17,053 | 12,206 |
| Grounds Maintenance | 15,000 | 12,713 | 8,563 |
| Fire and Safety Equipment | 27,000 | 24,886 | 10,641 |
| Incinerator Sand | 6,000 | 2,537 | 6,107 |
| Major Projects | 18,500 | 6,800 | 24 |
| Scavengers | 16,821 | 7,694 | 21,416 |
| Ash Removal | 138,000 | - | 123,645 |

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, 2013

With Comparative Actual Amounts for the Year Ended December 31, 2012

| | 2013 <u>Budget</u> | 2013 <u>Actual</u> | 2012 <u>Actual</u> |
|--|-----------------------|-----------------------|-----------------------|
| Expenses (continued): | | | |
| Lab Chemicals and Supplies | \$ 27,600 | \$ 26,429 | \$ 25,921 |
| Lab Calibrations | 10,000 | 7,692 | 9,412 |
| Electric Pump Stations | 78,000 | 45,954 | 59,543 |
| Telephone - Alarm System | 5,000 | 5,574 | 5,183 |
| Line Maintenance, Parts, and Supplies | 15,000 | 23,140 | 13,873 |
| Truck Expense | 4,500 | 5,154 | 6,547 |
| Water - Pump Stations | 16,000 | 20,066 | 17,984 |
| Line Rehabilitation | 10,000 | 10,071 | - |
| TV Inspection/Cleanings | 25,000 | 1,654 | - |
| Sludge Testing | 77,000 | 16,385 | 37,730 |
| Fees and Permits | 50,000 | 23,998 | 31,872 |
| Municipal Host Benefit | 13,000 | - | 8,944 |
| Professional Fees - Legal | 65,000 | 45,164 | 52,008 |
| - Accounting | 38,000 | 25,591 | 28,148 |
| - Engineering | 70,000 | 100,251 | 51,961 |
| - Trustee Fees | 20,000 | - | 24,021 |
| - Consultants; Other | 23,000 | 3,747 | 8,902 |
| Office Expense - Office Maintenance | 9,000 | 4,186 | 5,439 |
| - Insurance | 260,000 | 225,824 | 232,151 |
| - Advertisements | 8,000 | 2,438 | 1,917 |
| - Members' Travel | - | - | - |
| - Telephone | 2,400 | 2,092 | 1,927 |
| - Office Supplies | 8,000 | 10,841 | 9,235 |
| - Printing and Postage | 3,000 | 1,918 | 1,812 |
| - Office Equip. Rental | 2,200 | 1,800 | 990 |
| - Promotions | 2,500 | 7,428 | 3,100 |
| - Sundry | 3,500 | 9,745 | 12,536 |
| Interest Expense | - | - | 117,610 |
| Other Costs Funded By Operating Revenues: | | | |
| Principal Maturities | - | - | 10,854,035 |
| Capital Outlays | 3,000,000 | 61,167 | 429,580 |
| Amortization of Debt Issue Cost | - | - | 135,294 |
| Depreciation | - | 1,932,467 | 1,874,117 |
| Total Costs Funded by Operating Revenues | 9,509,691 | 7,473,196 | 18,950,531 |
| Excess (Deficit) | - | 4,480,947 | (9,328,109) |
| | <u>\$ 9,509,691</u> | <u>\$11,954,143</u> | <u>\$ 9,622,422</u> |

ROSTER OF OFFICIALS

| <u>Authority Members</u> | <u>Position</u> | <u>Amount of Surety Bond</u> |
|---|---------------------|----------------------------------|
| Walter Vella | Chairperson | \$ - |
| Adam Khachaturian | Vice Chairperson | - |
| Bart Sutton | Treasurer | 50,000 |
| Charles Steiner | Assistant Treasurer | - |
| Louis Pisano | Secretary | - |
| Marcy McMullen | 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, 2013. 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, 2013.

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-28-

26 MAIN STREET
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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.

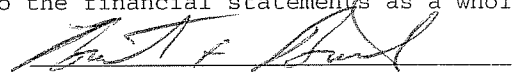
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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.

Report on Schedule of Expenditures of federal Awards Required by OMB Circular A-133

We have audited the financial statements of the Bayshore Regional Sewerage Authority as of and for the year ended December 31, 2013, and have issued our report thereon dated April 15, 2014, which contained an unmodified opinion on those financial statements. Our Audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement 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 schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.


Bart & Bart, CPAS

Bayshore Regional Sewerage Authority

County of Monmouth, New Jersey

Schedule of Expenditures of Federal Awards and State Assistance

For the Year Ended December 31, 2013

| <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") | | | | | |
| Wind Turbine and Treatment Plant Improvements | | | | | |
| Loan Grant | 66.458 | 42 4860 71I | \$ 1,925,000 | \$ - | \$ 1,925,000 |
| | 66.458 | 42 4860 71I | 1,925,000 | 253,818 | 426,964 |
| Principle Forgiveness | 66.458 | 42 4860 71I | 3,850,000 | - | 3,850,000 |
| U.S. Federal Emergency Management Agency | 97.036 | - | 1,277,989 | \$ 1,277,989 | \$ 1,277,989 |
| | | | | | <u>\$ 1,531,807</u> |
| | | | | | <u>\$ 7,479,953</u> |

BAYSHORE REGIONAL SEWERAGE AUTHORITY
NOTES TO THE SCHEDULES OF EXPENDITURES OF
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
YEAR ENDED DECEMBER 31, 2013

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 has no loans outstanding payable to federal or state entities at December 31, 2013.

THE BAYSHORE REGIONAL SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

MAJOR FEDERAL AWARD PROGRAMS

Section 1 - Summary of Auditor's Results

Financial Statements

| | |
|---|-----------------------------------|
| Type of auditor's report issued: | Unqualified dated May __, 2014 |
| Internal control over financial reporting: | |
| 1. Material weakness(es) identified? | ___ yes <u>X</u> no |
| 2. Significant deficiencies identified that are not considered to be material weaknesses? | ___ yes <u>X</u> no |
| Noncompliance material to general-purpose financials Statements noted? | ___ yes <u>X</u> no |

State Financial Assistance

| | |
|--|---------------------|
| Internal control over major programs: | |
| 1. Material weakness(es) identified? | ___ yes <u>X</u> no |
| 2. Reportable condition(s) identified that are not considered to be material weaknesses? | ___ yes <u>X</u> no |

| | |
|---|-------------------------------------|
| Type of auditor's report issued on compliance for Major programs: | Unqualified dated April 15, 2014 |
|---|-------------------------------------|

| | |
|--|---------------------|
| Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133? | ___ yes <u>X</u> no |
|--|---------------------|

Identification of major programs:

| Federal Grant Number: | Name of Program or Cluster |
|-----------------------|----------------------------|
| 66.458 | Clean Water |
| 97.036 | Emergency Management |
| | |
| | |

Dollar threshold used to distinguish between Type A and Type B Programs:
\$300,000.00.

| | |
|--|------------------------|
| Auditee qualified as low-risk auditee? | <u>X</u> yes ___ no |
|--|------------------------|

THE BAYSHORE REGIONAL SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2013

FOR THE YEAR ENDED DECEMBER 31, 2012:

There were no findings for the year ended December 31, 2012.

Bayshore Regional Sewerage Authority
General Comments and Recommendations
For the Year Ended December 31, 2013

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified Opinion issued on Financial Statements - presented standards generally accepted in the United States of America" dated April 15, 2014.

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