

Bayshore Regional Sewerage Authority

Audit Report

December 31, 2010 and 2009

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, 2010 and 2009, 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, 2010 and 2009, 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, 2011, on our consideration of the Bayshore Regional Sewerage Authority internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 4 through 8 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, 2011

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 the financial statements of Bayshore Regional Sewerage Authority as of December 31, 2010 and for the year ended December 31, 2009, and have issued our report thereon dated, April 4, 2011. 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 effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

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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 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 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 that are required to be reported under Government Auditing Standards.

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, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

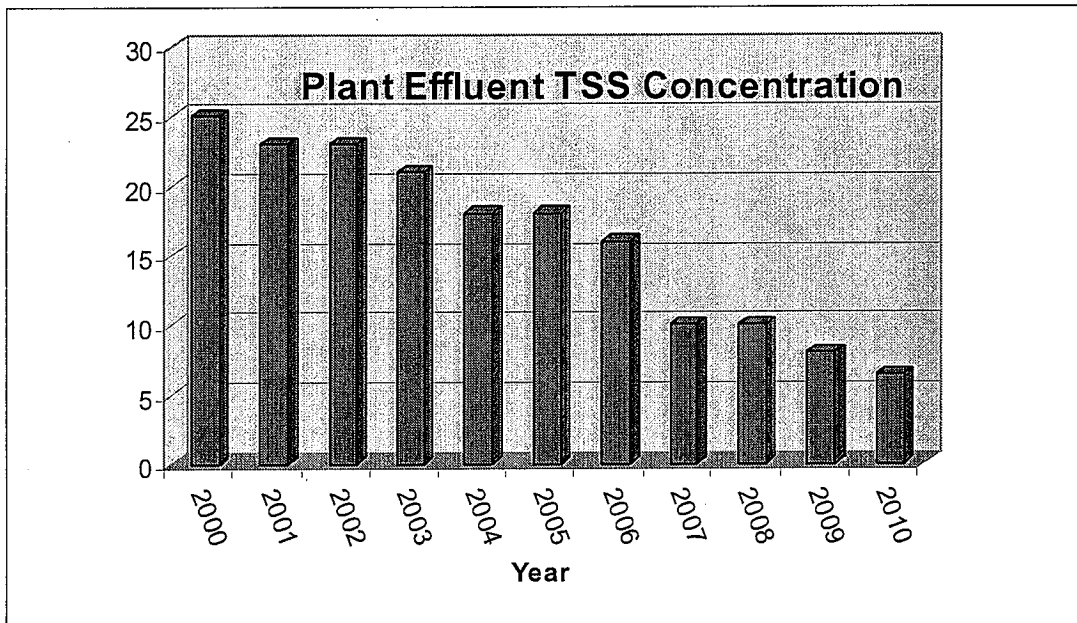
## Management Discussion and Analysis (MD&A)

### 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 as compared to the year prior. This has occurred for ten consecutive years now. Figure 1 below illustrates this achievement.



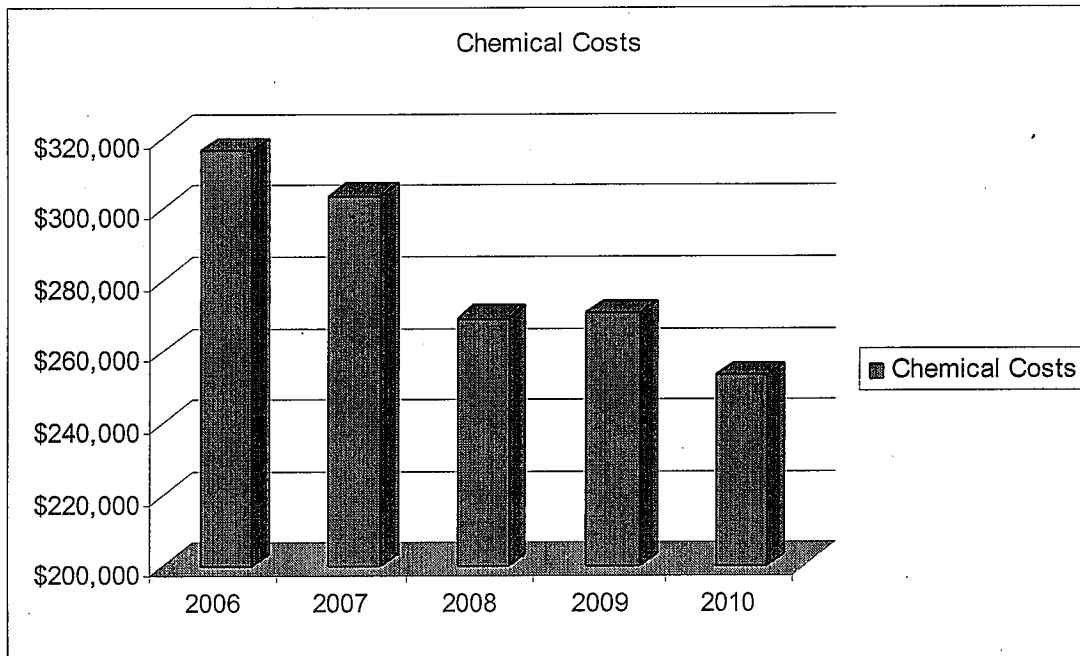
**Fig. 1** Effluent total suspended solids (TSS) per liter of water discharged. State requires value to be 30 mg/l or better

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 6.4 mg/l as a yearly average for 2010.

## Our Trends – decreasing major expenditures

### Chemicals

Chemical costs required to disinfect the clarified water have decreased as a direct result of these improvements in water quality. In each of the past four years the Authority has used less chlorine (a disinfectant) than the preceding year and as such, costs for chemicals has decreased once again.



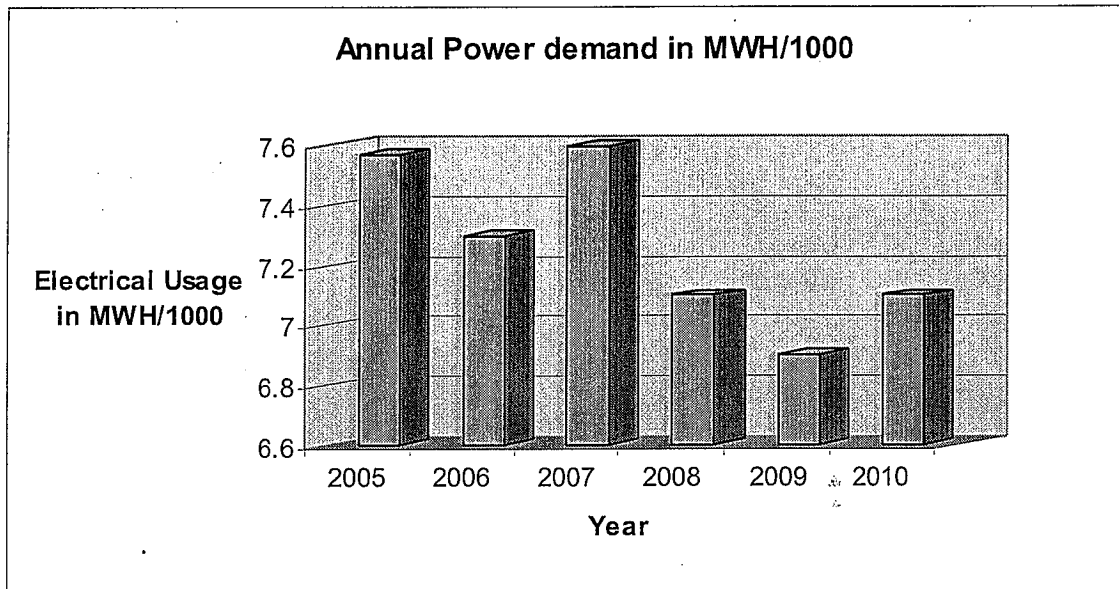
**Fig. 2** Reduction in Chemical Costs 2006 to present

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

### 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 number of organisms needed 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 keep the organisms healthy. This 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. Because of higher than average flows in 2010 electrical usage was up from 2009 levels yet still on a decreasing trend from 2005 – 2007 usage.

By far the greatest reduction in costs will be realized in 2011 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 – Safety**

For the last six 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 expects to reduce rates in 2012 and 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 \$4,272,400 in wind turbine technology and water pollution plant improvements, which are expected to come on line in 2011. These funds were provided to the Authority via its participation in the New Jersey Environmental Infrastructure Trust Financing program (NJEIFT), as well as capital contributions 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 principal forgiveness loan.
- Current assets, exclusive of PP&E, increased by \$5,149,800 primarily due to increased cash and investments, as well as \$3,657,640 due from the State of New Jersey Environmental Infrastructure Trust.
- Total liabilities decreased by \$3,013,140 primarily due to regularly scheduled debt service payments of \$6,439,500 as well as \$3,875,000 in new borrowings from NJEIFT.
- Revenues from customer treatment charges increased by \$2,047,474 primarily due to increased flows from member towns.
- Total non-operating revenues decreased \$401,880 primarily due to decreased interest earnings and reduced developer applications.
- Cost of administration decreased by \$76,671 primarily due to a decrease in professional services expenditures.
- Cost of plant materials and supplies increased by \$278,361 with 63% of that increase coming from an increase in electrical costs associated with operating the plant.
- Net assets equity increased by \$8,163,482 or 16.0%.

### **Financial Analysis**

Net assets, over time, serve as a useful indicator of an Authority's financial position. The Authority's net assets (assets less liabilities) were \$57,428,143 as of December 31, 2010.

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.

The Authority made its scheduled 2010 and 2009 bond principal payments. As of December 31, 2010 and 2009, the Authority had \$17,590,338 and \$20,159,278 in outstanding bonds, respectively.

**Expenses:**

The cost of administration, plant, materials, and supplies and payroll increased 3.7% percent. Some reasons for this increase, as well as the overall change in expenses are as follows:

- The Authority spent \$124,500 on ash removal in 2010 vs. \$54,405 in 2009, an increase of \$70,095.
- Natural gas and gasoline costs increased a combined \$42,211 due to settlement of an outstanding claim for natural gas and an increase in the cost of gasoline.
- Incinerator fuel costs decreased \$54,588 due to increased operational efficiency.
- Power costs increased 20.0 percent due to higher than expected flows. Chemical costs were reduced once again due to increased efficiency and lower unit costs for chlorine.
- Salaries decreased \$54,092, despite mandatory increases called for in collective bargaining agreements. This was achieved primarily as a result of attrition and employees leave of absence.
- Employee benefits increased \$91,534 or 11.0 percent primarily due to an increase in required Authority contributions to the State Pension System and increased Health Care Costs.

**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 Sheet

December 31, 2010 and 2009

<u>ASSETS</u>	<u>2010</u>	<u>2009</u>
Unrestricted Assets:		
Cash and Cash Equivalents	\$ 281,306	\$ 236,931
Accounts Receivable - Customers, Net (Note 1.D.)	1,068,567	162,331
Inventory (Note 1.G.)	336,818	337,370
Prepaid Expenses	37,730	38,559
Other Receivables	614	935
Total Unrestricted Assets	<u>1,725,035</u>	<u>776,126</u>
Restricted Assets (Note 1.C.):		
Revenue Fund:		
Investments	1,971,070	2,340,398
Interest Receivable	-	-
 Bond Service Fund:		
Investments	5,768	1,189
Interest Receivable	-	-
 Bond Reserve Fund:		
Investments	7,360,714	7,360,714
Interest Receivable	12,533	82,076
 Construction Fund	408,664	-
General Fund:		
Investments	3,522,416	5,043,391
Interest Receivable	-	-
 Customer Escrow Deposits:		
Rent Reserve	6,332,958	5,726,602
Due from NJEIT	3,657,638	-
Total Restricted Assets	<u>23,271,761</u>	<u>20,554,370</u>
 Plant, Property and Equipment (Note 1.I.)	117,645,126	112,604,917
Less: Accumulated Depreciation	<u>60,962,338</u>	<u>57,697,622</u>
 Net Plant, Property and Equipment	56,682,788	54,907,295
 Other Assets:		
Unamortized Debt Issue Costs (Note 1.J.)	503,205	794,599
TOTAL ASSETS	<u>\$82,182,789</u>	<u>\$77,032,390</u>

See accompanying notes.

EXHIBIT A  
(Continued)

Bayshore Regional Sewerage Authority

Balance Sheet

December 31, 2010 and 2009

<u>LIABILITIES AND FUND EQUITY</u>	<u>2010</u>	<u>2009</u>
Current Liabilities -		
Payable from Unrestricted Assets:		
Accounts Payable - Operating	\$ 369,549	\$ 342,537
Accounts Payable - Retainage	70,049	-
Payroll Deductions Payable	17,749	14,292
Obligation to Customers	64,955	979,760
Accrual for Unused Leave and Vacation Time	<u>47,111</u>	<u>32,443</u>
Total Current Liabilities Payable from Unrestricted Assets	<u>569,413</u>	<u>1,369,032</u>
Current Liabilities -		
Payable from Restricted Assets:		
Long-Term Bonds Payable - Current Portion (Note 2)	6,673,953	6,439,525
Escrow Deposits Payable	6,332,958	5,726,602
Accrued Bond Interest Payable	<u>102,445</u>	<u>145,501</u>
Total Current Liabilities Payable from Restricted Assets	<u>13,109,356</u>	<u>12,311,628</u>
Long-Term Liabilities -		
Payable from Restricted Assets:		
2002 Bond Issue Premium	91,727	275,177
Unamortized 1991B and 1993B Bond Refunding	67,705	92,139
Long-Term Bonds Payable (Note 2)	<u>10,916,385</u>	<u>13,719,753</u>
Total Long-Term Liabilities Payable from Restricted Assets	<u>11,075,817</u>	<u>14,087,069</u>
TOTAL LIABILITIES	<u>24,754,586</u>	<u>27,767,729</u>
Net Assets:		
Contributed capital, net	7,646,228	4,178,568
Retained earnings		
Construction	4,066,302	-
Restricted for operations	5,401,820	7,383,789
Restricted for future debt service	7,379,015	7,443,979
Unrestricted retained earnings	<u>32,934,838</u>	<u>30,258,325</u>
Total retained earnings	<u>49,781,975</u>	<u>45,086,093</u>
Total Net Assets	<u>57,428,203</u>	<u>49,264,661</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$82,182,789</u>	<u>\$77,032,390</u>

See accompanying notes.

EXHIBIT BBayshore Regional Sewerage AuthorityComparative Statement of Revenues, Expenses and Changes in Fund EquityYears Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Revenues:		
Treatment Charges	\$ 13,800,112	\$ 11,752,638
Operating Expenses:		
Payroll and Employee Benefits	2,905,195	2,899,106
Plant Materials and Supplies	2,384,524	2,106,163
Administrative and General	446,768	523,439
Depreciation	3,264,715	3,254,709
Total Operating Expenses	<u>9,001,202</u>	<u>8,783,417</u>
Operating Income	<u>4,798,910</u>	<u>2,969,221</u>
Nonoperating Revenue (Expenses):		
Interest Income on Investments - Operating	81,408	199,354
Miscellaneous Income - Applications and Sundry	221,803	505,737
Interest Expense on Bonds	(608,503)	(737,273)
Amortization of Debt Issue Costs	(180,136)	(308,775)
	<u>(485,428)</u>	<u>(340,957)</u>
Net Income (Before Transfer of Depreciation of Assets Purchased with Contributed Capital)	4,313,482	2,628,264
Transfer of Depreciation to Contributed Capital	<u>382,340</u>	<u>382,340</u>
Net Income	4,695,822	3,010,604
Retained Earnings, January 1 <sup>st</sup>	<u>45,086,093</u>	<u>42,075,489</u>
Retained Earnings, December 31 <sup>st</sup>	<u>49,781,915</u>	<u>45,086,093</u>
Contributed Capital - Net, January 1 <sup>st</sup>	4,178,568	4,560,908
Transfer of Depreciation from Operations	(382,340)	(382,340)
American Resource and Recovery Act	<u>3,850,000</u>	<u>-</u>
Contributed Capital - Net, December 31 <sup>st</sup>	<u>7,646,228</u>	<u>4,178,568</u>
Net Assets, End of Year	<u>\$ 57,428,143</u>	<u>\$ 49,264,661</u>

EXHIBIT C

Bayshore Regional Sewerage Authority

Comparative Statement of Cash Flows

Years Ended December 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash Provided by (Used for) Operations:		
Net Income	\$ 4,313,482	\$ 2,628,264
Adjustments to Reconcile Net Income to Net Cash:		
Depreciation	3,264,715	3,254,709
Amortization	180,136	308,775
Customer Accounts Receivable	906,236	17,324
Prepaid Expenses	829	75,529
Inventory	1,052	(27,977)
Other Receivables	321	647
Current Liabilities Payable from Unrestricted Assets	(799,619)	(495,986)
Current Liabilities Payable from Restricted Assets	<u>797,728</u>	<u>835,774</u>
Net Cash Provided by Operations	<u>8,664,880</u>	<u>6,597,059</u>
Cash Flows Provided by (Used for) Investing Activities:		
Restricted Assets	(2,717,391)	486,487
Plant, Property and Equipment	<u>(5,040,209)</u>	<u>(561,317)</u>
Net Cash Used for Investing Activities	<u>(7,757,600)</u>	<u>(74,830)</u>
Cash Flows Provided by (Used for) Financing Activities:		
Bonds Payable	3,875,000	-
Long-Term Debt - Net	(8,607,271)	(6,523,276)
Unamortized Debt Issue Cost	19,366	19,366
Contributed Capital	<u>3,850,000</u>	<u>-</u>
Net Cash Used for Financing Activities	<u>(862,905)</u>	<u>(6,503,910)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	44,375	18,319
Cash and Cash Equivalents:		
Beginning of Period	<u>236,931</u>	<u>218,612</u>
End of Period	<u>\$ 281,306</u>	<u>\$ 236,931</u>

See accompanying notes.

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2010 and 2009

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, 2010 and 2009

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, 2010 and 2009

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 2010 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>January 31, 2010</u> <u>Balance</u>
Federal	\$ 1,925,000
State	<u>1,732,058</u>
	<u>\$ 3,657,058</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, 2010 and 2009

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	2,513,210	20 Years
Administration Building	213,283	40 Years
Land and Right of Ways	1,009,479	-
Construction in process	<u>5,660,753</u>	-
Total	<u>\$117,645,126</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, 2010 and 2009

2. Bonds Payable

The bonds payable consist of the following:

	December 31,	
	2010	2009
Sewer Revenue Refunding Bonds, Series 2002	\$ 9,160,000	\$12,160,000
New Jersey Wastewater Treatment Fund Loan - 1991	923,250	1,848,611
New Jersey Wastewater Treatment Fund Loan - 1993C	761,945	1,145,545
Subordinated Sewer Revenue Bonds - Series 1991A	504,414	894,414
Subordinated Sewer Revenue Bonds - Series 1991B	1,218,425	2,569,000
Subordinated Sewer Revenue Bonds - Series 1993B	1,047,253	1,541,707
NJ Environmental Infrastructure Trust-Series 2010	3,875,000	-
Current Portion	(6,673,953)	(6,439,525)
Net	\$10,816,334	\$13,719,752

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> February 1:	<u>Mandatory</u> <u>Sinking</u> <u>Fund</u>	<u>Rate of</u> <u>Interest</u>	<u>Annual</u> <u>Interest</u> <u>Charge</u>
2009	2,885,000	3.30%	95,205
2010	3,000,000	3.50%	105,000
2011	3,115,000	3.60%	112,140
2012	6,045,000	5.00%	302,250
	\$15,045,000		



Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2010 and 2009

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>
2009	926,469
2010	925,360
2011	<u>923,251</u>
	<u>\$ 2,775,080</u>

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2010 and 2009

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>
2009	500,000	4.75%	23,750
2010	520,000	4.80%	24,960
2011	545,000	4.80%	26,160
2012	<u>575,000</u>	4.80%	27,600
	2,140,000		
New Jersey Wastewater Treatment Trust 2003 Refunding Bond Savings	<u>103,556</u>		
	<u>\$ 2,036,449</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, 2010 and 2009

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>
2009	386,451
2010	383,602
2011	383,234
2012	<u>385,277</u>
	<u>\$ 1,538,564</u>

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2010 and 2009

2. Bonds Payable (continued)

Subordinated Sewer Revenue Bonds, Series 2010A

On March 10, 2010, the Authority issued bonds to the New Jersey Wastewater Treatment Trust and the State of New Jersey, as part of the 2010 New Jersey Wastewater Treatment 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 Wastewater Treatment 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, 2010.

The purpose and remaining balances at December 31, 2010 are as follows:

2010 Wind to Energy Project:	\$2,426,543.00
2010 Treatment Plant Upgrade:	<u>443,328.00</u>
	<u>\$2,869,871.00</u>

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2010 and 2009

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, 2010 and 2009

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, 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>
2008	\$137,914
2009	110,964
2010	161,766

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2010 and 2009

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.

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.

Bayshore Regional Sewerage Authority  
Notes to Financial Statements  
December 31, 2010 and 2009

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.

SCHEDULE 1

Bayshore Regional Sewerage Authority

Schedule of Revenue, Expenses and Changes in Retained Earnings

Reserved and Unreserved

	Unreserved		Reserved			Construction	Totals	
	Revenue Fund	Bond Service Fund	Bond Reserve Fund	General Fund	2010		2009	
Operating Revenues:								
Treatment Charges	\$13,800,112	\$ -	\$ -	\$ -	\$ -	\$13,800,112	\$11,752,638	
Operating Expenses:								
Payroll & Employee Benefits	2,905,195	-	-	-	-	2,905,195	2,899,106	
Plant Materials and Supplies	2,384,524	-	-	-	-	2,384,524	2,106,163	
Administrative and General	446,768	-	-	-	-	446,768	523,439	
Depreciation	3,264,715	-	-	-	-	3,264,715	3,254,709	
Total Operating Expenses	9,001,202	-	-	-	-	9,001,202	8,783,417	
Operating Income	4,798,910	-	-	-	-	4,798,910	2,969,221	
Nonoperating Revenues (Expenses):								
Interest Income on Investments	-	1,285	-	-	675	81,340	199,354	
- Operating	-	-	-	-	-	68	-	
- Construction	-	-	-	-	-	68	-	
Miscellaneous Income	221,803	-	-	-	-	221,803	505,737	
Interest Expense on Bonds	(608,503)	-	-	-	-	(608,503)	(737,273)	
Amortization of Debt Issue Cost	(180,136)	-	-	-	-	(180,136)	(308,775)	
Net Income (Loss) Before Transfers	4,232,074	1,285	19	79,361	675	(485,428)	(340,957)	
Transfers:								
Depreciation on Assets Purchased with Contributed Capital	382,340	-	-	-	-	382,340	382,340	
Interfund Net Receipts and Disbursements	1,628,011	(370,613)	4,560	(148,904)	(1,521,650)	408,596	-	
Increase (Decrease) in Retained Earnings	6,242,425	(369,328)	4,579	(69,543)	(1,520,975)	408,664	4,695,822	3,010,604
Retained Earnings, January 1st	30,258,325	2,340,398	1,189	7,442,790	5,043,391	-0-	45,086,093	42,075,489
Retained Earnings, December 31st	\$36,500,750	\$ 1,971,070	\$ 5,768	\$ 7,373,247	\$ 3,522,416	408,664	\$48,781,915	\$45,086,093

Bayshore Regional Sewerage Authority

Schedule of Cash Receipts, Cash Disbursements and Changes in Cash

Unrestricted Accounts

Year Ended December 31, 2010

	Incoming Revenue Account	Regular Account	Payroll Account	Petty Cash Account	Total
Cash - December 31, 2009	\$ -	\$ 99,254	\$ 137,377	\$ 300	\$ 236,901
Cash Receipts:					
Service Charges	12,307,594	-	-	-	12,307,594
Outfall Charges	966,579	-	-	-	966,579
Transfers from Other Funds	-	4,975,838	2,324,766	-	7,300,604
Rent Reserve	-	-	-	-	-
Permits and Applications	220,308	-	-	-	220,308
Interest	-	279	255	-	534
Miscell. Income and Refunds	34,203	-	-	-	34,203
Total Cash Available	13,528,684	5,075,371	2,462,398	300	21,066,723
Cash Disbursements:					
Transfer to Other Funds	13,452,891	-	2,316,710	-	13,452,891
Net Payroll and Payroll Taxes	-	5,015,846	-	-	2,316,710
Operations	-	-	-	-	5,015,846
Total Cash Disbursements	13,452,891	5,015,846	2,316,710	-	20,785,447
Cash - December 31, 2010	\$ 75,793	\$ 59,525	\$ 145,688	\$ 300	\$ 281,276

Bayshore Regional Sewerage Authority

SCHEDULE 3

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

Restricted Accounts

Year Ended December 31, 2010

	Revenue	Bond Service Fund	Bond Reserve Fund	General Fund	Escrow Deposits	Construction Fund	Total
Cash and Investments - December 31, 2009	\$ 2,340,398	\$ 1,188	\$ 7,360,714	\$ 5,043,391	\$ 5,726,602	\$ -	\$20,472,293
Cash Receipts:							
Transfer from Incoming Revenue Account	13,602,822	-	-	-	-	-	13,602,822
Interest Received	375	138	118,897	675	23,572	68	143,725
Rent Reserve Deposits	-	-	-	834,232	582,783	815,820	9,375,823
Transfer from Other Funds Received from NJEIT	-	7,142,988	-	-	-	3,102,805	3,102,805
Total Cash and Investments Available	<u>15,943,595</u>	<u>7,144,314</u>	<u>7,479,611</u>	<u>5,878,298</u>	<u>6,332,957</u>	<u>3,918,693</u>	<u>46,697,468</u>
Cash Disbursements:							
Debt Service	-	7,138,544	-	-	-	3,510,029	7,138,544
Construction	-	-	-	-	-	-	3,510,029
Transfers to Other Funds and Accounts	-	-	-	2,355,883	-	-	16,447,304
Total Cash Disbursements	<u>13,972,524</u>	<u>7,138,544</u>	<u>118,897</u>	<u>2,355,883</u>	<u>-</u>	<u>3,510,029</u>	<u>27,095,877</u>
Cash and Investments - December 31, 2010	<u>\$ 1,971,071</u>	<u>\$ 5,770</u>	<u>\$ 7,360,714</u>	<u>\$ 3,522,415</u>	<u>\$ 6,332,957</u>	<u>\$ 408,664</u>	<u>\$19,601,591</u>
Balance Comprised of:							
Investments - Cash	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
- U.S. Treasury Obligations	1,971,071	5,770	7,360,714	3,522,415	-	408,664	13,268,634
- Bank Accounts	-	-	-	-	6,332,957	-	6,332,957
	<u>\$ 1,971,071</u>	<u>\$ 5,770</u>	<u>\$ 7,360,714</u>	<u>\$ 3,522,415</u>	<u>\$ 6,332,957</u>	<u>\$ 408,664</u>	<u>\$19,601,591</u>

Bayshore Regional Sewerage Authority  
Schedule of Operating Revenues and Costs Funded  
By Operating Revenues Compared to Budget  
For the Year Ended December 31, 2010

With Comparative Actual Amounts for the Year Ended December 31, 2009

	<u>2010</u> <u>Budget</u>	<u>2010</u> <u>Actual</u>	<u>2009</u> <u>Actual</u>
<b>Revenues:</b>			
Treatment Charges	\$ 12,789,302	\$ 13,800,112	\$ 11,752,638
Interest on Investments	200,000	81,408	199,440
Permits and Applications	290,000	220,308	476,651
Sundry	-	1,495	29,085
<b>Total Operating Revenues</b>	<u>\$ 13,279,302</u>	<u>\$ 14,103,323</u>	<u>\$ 12,457,814</u>
<b>Expenses:</b>			
Salaries - Superintendents	445,000	430,488	438,803
- Plant Operations	1,520,000	1,336,138	1,378,308
- Commissioners and Project Managers	139,720	139,305	138,588
- Office Staff	119,025	110,375	114,699
Pension	155,000	161,766	137,915
Social Security Tax	170,000	152,976	158,336
Unemployment Compensation Insurance	6,400	5,088	4,190
Health Insurance	563,150	564,148	490,908
Life Insurance	7,500	4,907	6,002
Uniform and Safety Shoes	5,500	5,526	2,493
Memberships	11,000	4,315	4,450
Training and Seminars	30,386	16,717	21,270
Meal Allowance	-	-	-
Sick-Vacation-Holiday Pay	-	14,668	3,139
Electric Plant	1,000,580	1,033,921	858,157
Incineration Fuel	325,000	170,798	225,386
Natural Gas	100,000	114,159	75,170
Plant Telephone	3,200	2,346	2,877
Water	31,000	39,569	37,405
Gasoline	12,000	10,504	7,282
Machinery Repairs	129,000	153,775	106,461
Computer Maintenance	15,000	4,713	15,906
Service Contracts	67,050	51,453	58,832
Major Projects/Repairs	17,600	11,557	8,890
Electrical/Instrument Repairs	45,000	40,704	39,044
Chemicals	381,000	253,316	270,720
Operating Supplies	13,600	11,557	16,471
Grounds Maintenance	12,000	12,673	8,883
Fire and Safety Equipment	11,000	12,872	10,049
Incinerator Sand	9,000	3,832	3,910
Major Projects	11,500	3,185	3,223
Scavengers	38,000	35,424	39,558
Ash Removal	110,000	124,500	54,005

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, 2010

With Comparative Actual Amounts for the Year Ended December 31, 2009

	2010 Budget	2010 Actual	2009 Actual
Expenses (continued):			
Lab Chemicals and Supplies	\$ 28,000	\$ 25,006	\$ 30,251
Lab Calibrations	10,000	1,265	8,847
Electric Pump Stations	86,000	88,138	99,113
Telephone - Alarm System	4,000	4,197	3,911
Line Maintenance, Parts, and Supplies	21,650	18,727	20,210
Truck Expense	4,500	2,939	4,949
Water - Pump Stations	5,000	12,834	13,732
Line Rehabilitation	11,000	38,297	11,152
Major Projects	86,000	-	10,804
Sludge Testing	65,000	25,181	35,078
Fees and Permits	43,000	19,872	25,876
Municipal Host Benefit	12,000	15,924	12,937
Professional Fees - Legal	40,000	20,832	37,704
- Accounting	27,000	27,445	19,756
- Engineering	95,000	64,109	80,052
- Trustee Fees	90,000	67,128	87,105
- Consultants; Other	18,000	4,917	21,931
Office Expense - Office Maintenance	4,000	2,900	2,405
- Insurance	280,000	238,354	238,510
- Advertisements	5,000	3,773	3,729
- Members' Travel	-	-	209
- Telephone	2,400	1,273	1,858
- Office Supplies	7,000	6,717	6,272
- Printing and Postage	2,500	2,405	1,636
- Office Equip. Rental	1,500	1,272	1,428
- Promotions	1,500	1,185	1,300
- Sundry	2,000	4,455	6,609
Interest Expense	1,406,772	608,534	737,272
Other Costs Funded By Operating Revenues:			
Principal Maturities	6,401,269	6,439,125	6,202,654
Capital Outlays	-	22,825	561,317
Amortization of Debt Issue Cost	-	180,136	308,775
Depreciation	-	3,264,715	3,254,708
Total Costs Funded by Operating Revenues	14,264,302	16,251,805	16,593,520
Excess (Deficit)	(985,000)	(2,148,482)	(4,135,706)
	<u>\$13,279,302</u>	<u>\$14,103,323</u>	<u>\$12,457,814</u>

ROSTER OF OFFICIALS

<u>Authority Members</u>	<u>Position</u>	<u>Amount of Surety Bond</u>
John Colligas	Chairperson	\$ -
Louis Pisano	Vice Chairperson	-
Kathleen Parsells	Treasurer	50,000
James Dinardo	Asst. Treasurer	-
Frank Wells	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

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH FEDERAL OMB CIRCULAR A-133  
AND STATE OF NEW JERSEY OMB CIRCULAR 04-04

In our opinion, the Bayshore Regional Sewerage Authority of New Jersey complied in all material respects, with the requirements referred to above that are applicable to each of its major federal and major state programs for the year ended December 31, 2010.

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 major 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 a major federal or major state programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and 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 the Authority's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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. The Authority's responses to the findings identified in our audit, if any are described in the accompanying schedule of findings and questioned costs.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal or state program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal or state program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented or detected by the entity's internal control.

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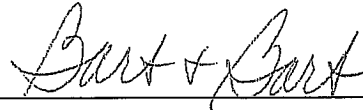
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(732) 634-5680

26 MAIN STREET  
KEYPORT, NJ 07735  
(732) 264-5936

FAX (732) 602-1059

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE  
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH FEDERAL OMB CIRCULAR A-133  
AND STATE OF NEW JERSEY OMB CIRCULAR 04-04 (CONTINUED)

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 Governmental 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.

A handwritten signature in cursive script that reads "Bart & Bart". The signature is written in dark ink and is positioned above a solid horizontal line.

BART & BART

April 4, 2011

Bayshore Regional Sewerage Authority  
County of Monmouth, New Jersey

Schedule of Expenditures of Federal Awards and State Assistance  
For the Year Ended December 31, 2010

<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	S 340697.04	1,925,000	192,942	192,942
Principle Forgiveness	66.458	S 340697.04	1,925,000	-	-
		66.458	S 340697.04	3,850,000	3,850,000
			<u>\$ 4,042,942</u>	<u>\$ 3,850,000</u>	<u>\$ 4,042,942</u>

BAYSHORE REGIONAL SEWERAGE AUTHORITY  
NOTES TO THE SCHEDULES OF EXPENDITURES OF  
FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE  
YEAR ENDED DECEMBER 31, 2010

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, 2010.

<u>NJEIT 2010</u>	<u>Account</u>	<u>Amount</u>
State Portion	\$ 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, 2010

MAJOR FEDERAL AWARD PROGRAMS

Section 1 - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified dated  
April 4, 2011

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, 2011

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

Identification of major programs:

<u>Federal Grant Number:</u>	<u>Name of Program or Cluster</u>
66.458	Clean Water

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

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, 2010

FOR THE YEAR ENDED JANUARY 31, 2010:

There were no findings for the year ended December 31, 2009.

Bayshore Regional Sewerage Authority  
General Comments and Recommendations  
For the Year Ended December 31, 2010

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 March 19, 2009.

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 FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDINGS.

NONE