

**TOWNSHIP OF NEPTUNE
SEWERAGE AUTHORITY
COUNTY OF MONMOUTH, NEW JERSEY**

**ANNUAL FINANCIAL REPORT
YEARS ENDED DECEMBER 31, 2011 AND 2010**

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY

ANNUAL FINANCIAL REPORT

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INDEPENDENT AUDITORS' REPORT

The Board of Commissioners
Township of Neptune Sewerage Authority
Neptune, New Jersey

We have audited the accompanying financial statements of the Township of Neptune Sewerage Authority (the "Authority") as of and for the years ended December 31, 2011 and 2010, which collectively comprise the Authority's basic financial statements, 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 audit.

We conducted our audit 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, and in compliance with audit requirements 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 Township of Neptune Sewerage Authority as of December 31, 2011 and 2010, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 17, 2012, on our consideration of the Township of Neptune Sewerage 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 for assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Neptune Sewerage Authority's financial statements taken as a whole. The accompanying financial information listed as supplementary data in the table of contents is presented for the purpose of additional analysis as required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Fallon & Larsen LLP", with a stylized flourish at the end.

July 17, 2012

Fallon & Larsen LLP

FALLON & LARSEN LLP

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

The Board of Commissioners
Township of Neptune Sewerage Authority
Neptune, New Jersey

We have audited the financial statements of the Township of Neptune Sewerage Authority (the "Authority"), as of and for the years ended December 31, 2011 and 2010, and have issued our report thereon dated July 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Internal Control Over Financial Reporting

Management of the Township of Neptune Sewerage Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Commissioners, 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.

A handwritten signature in cursive script, appearing to read "Fallon & Larsen LLP".

July 17, 2012

Fallon & Larsen LLP

MANAGEMENT DISCUSSION AND ANALYSIS

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2011 AND 2010**

INTRODUCTION

Mission

The Authority was created to protect and preserve the vital ecology of its service area and that of adjoining areas. The Authority accomplishes this by effectively treating wastewater and recycling sage, clean water back into the Atlantic Ocean. TNSA efficiently meets or surpasses all mandated federal and state regulations and standards.

The Authority extends its mission beyond the geographical boundaries of its service area by affiliating with and participating in various organizations and activities dedicated to preserving the environment. By cooperating with many watershed groups and agencies operating within its Service Area, TNSA further demonstrates its commitment to environmental protection.

Responsibility and Controls

The Authority has prepared, and is responsible for, the financial statement and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and the books and records reflect only authorized transactions. Limitations exist in any system of internal controls. However, recognizing that the cost of a system should not exceed its benefits, management believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The Authority's system of internal accounting controls is evaluated on an ongoing basis by the Authority's financial staff. Independent external auditors also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

Management believes that its policies and procedures provide guidance and reasonable assurance that the Authority's operations are conducted in accordance with management's intentions and to a high standard of business ethics.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2011 AND 2010**

In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flow of the Authority in conformity with accounting principles generally accepted in the United States of America. The unqualified opinion of our independent external auditors, Fallon & Larsen is included in this report.

Management's Discussion and Analysis (MD&A) provides an introduction to, and should be read with, the basic audited Financial Statements and supplementary information. It presents management's analysis of the Authority's financial condition and performance. Financial Statement data, key financial and operational indicators, the operating budget, bond resolutions and other management tools were used for this analysis.

Financial Highlights

- Total assets increased \$82,643. Current Assets increased due to the positive results of operating in the amount of \$956,613.
- Total liabilities decreased by \$1,595,831 due primarily to the payment of bonded indebtedness with no additional borrowing.
- Operating expenses increased \$70,061.
- Net assets at year-end were \$31,892,393 an increase of \$1,678,474.

Overview of Annual Financial Report

The Financial Statements utilize full accrual accounting methods such as are applicable for similar business activities in the private sector. However, rate-regulated accounting principles applied to private utilities are not used by government utilities. The financial statements include a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; a Statement of Cash Flows; and Notes to the Financial Statements.

The Balance Sheet presents the Authority's year-end financial position on a full accrual, historical cost basis. It provides information on Authority assets and liabilities, with the difference reported as net assets. Over time, increases and decreases in net assets are an indicator of whether the financial position of the Authority is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets present the results of business activities for the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving rise to change occurs, regardless of the timing of related cash flows.

The Statement of Cash Flows presents changes in cash and cash equivalents resulting from operational, financing, and investing activities. Receipts and disbursements are presented on a cash, not an accrual, basis.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2011 AND 2010**

The Notes to the Financial Statements present such required disclosures and information as are essential to fully understanding material data provided in the statements, including significant policies, balances, activities, risks, obligations, commitments, contingencies and subsequent events, if any.

Summary of Organization and Business

TNSA, a public body corporate and politic, was created pursuant to Chapter 138 of the Laws of 1946 of the State of New Jersey (the "Original Act"). It serves seven (7) municipal entities: Neptune Township, Ocean Grove, Bradley Beach, Avon-by-the-Sea, Neptune City, Tinton Falls and Wall Township. Each customer municipality must comply with the Authority's Rules and Regulations, wherein uniform requirements for system users assure the Authority's compliance with applicable federal and state laws.

The Authority owns and operates an 8.5 Million Gallons Per Day (MGD) wastewater treatment system consisting of a secondary trickling filter treatment facility, with an aerated stabilization pond, and a new "state of the art" biological aerated filtration plant that is used as a polishing point before discharging effluent a mile into the Atlantic Ocean via an Authority-owned outfall pipe. The system includes an elaborate series of trunk lines and force mains, plus one pump station (Laird Ave.) that handles the majority of the wastewater flow from customer municipalities.

TNSA has completed many upgrades to its treatment facility over the past ten years. Most notable are: 1) Replacement of trickling filter media, from stone to cross flow plastic, 2) Upgrading the aeration system and cleaning the aerated stabilization pond; and 3) installation of a "state of the Art" biological-filtration-oxygenated-reactor (BIOFOR) system.

TNSA's treatment facility is divided into three complete sections called "trains". Each train consists of a muffin monster (grinder), flow meter, grit chamber, primary clarifier, trickling filter (with media and distributor), secondary clarifier and a chlorine contact tank. After wastewater has flowed through a treatment train it is pumped from the chlorine contact tank up to the aerated stabilization pond before entering the BIOFOR system.

The BIOFOR system is the last treatment process the wastewater goes through before being discharged into the Atlantic Ocean. The BIOFOR treatment system employs a biological fixed-film technology, using proprietary media that acts as both a biological contactor and a filter, thereby eliminating the need for separate clarification. The primary advantages of the BIOFOR system, when compared to conventional activated sludge systems, are reduced space requirements, elimination of secondary clarifiers, and improved treatment of cold and diluted wastewaters, rapid startup and fully automated operation.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2011 AND 2010**

A five member board of Commissioners, appointed by Neptune Township, governs the Authority. An Executive Director, appointed by the Commissioners, administers the Authority. Including the Executive Director, TNSA has 20 full time employees and 1 part time administrative employee.

The Authority has no power to levy or to collect taxes. Operation and maintenance costs are funded from service fees and other charges. Acquisition and construction of capital assets are funded through Operating Revenues, the General Fund, Federal and State Grants, Sewer Revenue Bonds and New Jersey Environmental Infrastructure Trust Financing Program Loans.

Trends

In the early 1960s, the Township of Neptune constructed a wastewater treatment plant with a capacity of 2.5 million gallons per day to serve the western part of the Township. The plant employed the trickling filter process to provide "secondary treatment" according to then-current New Jersey treatment standards.

The Public Sanitary Sewerage Facilities Assistance Act of 1965 authorized municipal participation in federal grants-in-aid programs for wastewater treatment. In 1972, in furtherance of the State's regionalization policy, the Township of Neptune Sewerage Authority (TNSA) was created to implement build and operate pollution abatement facilities for Avon-by-the-Sea, Bradley Beach, Neptune City, Neptune Township (including Ocean Grove) and parts of Tinton Falls and Wall Township.

Under the Federal Water Pollution Control Act Amendments of 1972 (PL92-500), the United States Environmental Protection Agency ("USEPA") provided substantial funding of wastewater treatment facilities, provided those facilities were designed according to USEPA national standards. TNSA's plan called for the nucleus of the plant to be Neptune Township's original 2.5 million gallon per day trickling filter plant, called "Train #1". The Authority would add a parallel, interconnected, 2.5 million gallon per day "Train #2", and a parallel, essentially separate, 3.5 million gallon per day "Train #3".

Over time, as USEPA's standards became more stringent, additional treatment procedures were required. An aerated effluent stabilization lagoon, to enhance the trickling filter process, was added in 1976. The State of New Jersey and USEPA provided 14.5 million of grants-in-aid to TNSA for construction.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2011 AND 2010**

In 1977, the State adopted the Water Pollution Control Act (N.J.S.A. 58:10A-1 et seq.) to address requirements of the Federal Clean Water Act of 1977 (PL 95-217). Under the New Jersey Act, wastewater treatment plants were required to obtain permits for the discharge of effluents to State waters. The permits would contain specific effluent limitations for each wastewater discharger based on so-called "conventional pollutants" (oxygen demand, suspended solids, coliforms, and certain physical/chemical parameters widely used at the time). The same pollutants had been the basis for both design and approval of the original TNSA treatment plant. Eventually, USEPA delegated permitting authority to the New Jersey Department of Environmental Protection ("NJDEP") under the New Jersey Pollutant Discharge Elimination System ("NJPDES").

The Clean Water Act emphasized toxic substances that had not been addressed by the USEPA national standards nor, therefore, by most 1970s plant designs. In 1986, NJDEP added a limit on effluent acute toxicity to TNSA's permit. Consequently, from January 1987 through December 1990, TNSA failed 56 percent of its quarterly toxicity tests, although maintaining a solid record of passing grades for conventional pollutants.

NJDEP did not cite TNSA for the failures because its plant had not been designed to handle toxicity. However, in 1994 and under 1991 amendments to NJ's Pollution Control Act (N.J.S.A. 58:10A-1 et seq.), NJDEP was compelled to initiate enforcement action. On June 26, 1995, TNSA accepted an Administrative Consent Order ("ACO") with NJDEP that temporarily set aside toxicity limitations in its permit while the Authority sought the causes of, and remedies to, the toxicity problem.

Events

TNSA embarked on a comprehensive program aimed at bringing the treatment facility to complete compliance with all NJDEP parameters. The comprehensive program included:

- Pilot studies (GAC/Activated Sludge/BIOFOR)
- Toxicity identification, evaluation and reduction studies
- Service area studies and surveys

As a result of many plant upgrades the Authority has effected since 1996, and for the first time in well over a decade, TNSA is out of NJDEP "ACO" program. The plant has passed the majority of its bioassay tests with better than 100% results and no measurable trace of toxicity.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2011 AND 2010**

Financial Analysis

Financial Condition

The Authority's financial condition remained strong at year end with adequate liquid assets, a reasonable level of unrestricted net assets, and reliable facilities and systems to meet demand. The Authority's financial condition, technical capabilities, and operating and modernization plans are secure.

	<u>2011</u>	<u>2010</u>
Total Current Assets	\$ 14,858,531	\$ 13,901,918
Total Noncurrent Assets	188,146	230,680
Net Capital Assets	<u>33,675,599</u>	<u>34,507,035</u>
 Total Assets	 \$ <u>48,722,276</u>	 \$ <u>48,639,633</u>
Total Current Liabilities Payable		
From Unrestricted Assets	\$ 2,465,197	\$ 2,353,554
Total Current Liabilities Payable		
From Restricted Assets	3,748,298	3,615,641
Total Noncurrent Liabilities	<u>10,616,388</u>	<u>12,456,519</u>
 Total Liabilities	 \$ <u>16,829,883</u>	 \$ <u>18,425,714</u>
Total Net Assets Invested in Capital		
Assets, Net of Related Debt	21,639,719	20,797,035
Total Restricted Net Assets	1,661,508	1,725,998
Total Unrestricted Net Assets	<u>8,591,166</u>	<u>7,690,886</u>
 Total Net Assets	 \$ <u>31,892,393</u>	 \$ <u>30,213,919</u>
 Total Liabilities and Net Assets	 \$ <u>48,722,276</u>	 \$ <u>48,639,633</u>

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2011 AND 2010

Results of Operations

Operations and administrative functions were conducted as intended by, and within the budget established by, TNSA's Board of Commissioners:

	<u>2011</u>	<u>2010</u>
Total Operating Revenues	\$ <u>7,504,290</u>	\$ <u>7,503,287</u>
Operating Expenses	4,283,544	4,237,780
Depreciation	<u>1,079,443</u>	<u>1,055,146</u>
Total Operating Expenses	<u>5,362,987</u>	<u>5,292,926</u>
Operating Income	<u>2,141,303</u>	<u>2,210,361</u>
Nonoperating Revenues/(expenses):		
Interest Income	46,994	31,116
Litigation settlement	-	545,687
Gain on sale of fixed assets	5,370	10,000
Loss on bond refunding	-	(82,191)
Bond Interest Expense	(472,659)	(603,119)
Amortization of Deferred Charges	<u>(42,534)</u>	<u>(46,129)</u>
Total Nonoperating Revenues (expenses)	<u>(462,829)</u>	<u>(144,636)</u>
Net Income	1,678,474	2,065,725
Net Assets, January 1	<u>30,213,919</u>	<u>28,148,194</u>
Net Assets, December 31	\$ <u><u>31,892,393</u></u>	\$ <u><u>30,213,919</u></u>

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2011 AND 2010**

Statement of Cash Flows

Cash flow was adequate to meet operating, capital and debt requirements.

	<u>2011</u>	<u>2010</u>
Net Cash Provided by Operating Activities	\$ 2,250,499	\$ 3,302,750
Net Cash Used in Capital and Related Financing Activities	(2,565,160)	(1,953,603)
Net Cash Provided by Investing Activities	<u>46,994</u>	<u>31,116</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(267,667)	1,380,263
Balance, Beginning of Year	<u>13,382,062</u>	<u>12,001,799</u>
Balance, End of Year	\$ <u>13,114,395</u>	\$ <u>13,382,062</u>

Rates, Billing and Collection Processes

The annual Service Charge to each of TNSA's seven customers is set by allocating the year's operating and debt service requirements among the customers, based on their actual prior-year inflows and capacity ownership, respectively.

Service Charges are certified to each customer not later than January 31st of each year and are due, in equal installments on and be made on or before the 1st day of April, July, October and January. Pursuant to the "Sewerage Authorities Law" (N.J.S.A. 40:14A), customers are assessed interest at the rate of one and one-half percent (1.5%) per month on any Service Charge installment, or portion thereof, unpaid beyond its due date.

Capital Improvement Program and Debt Administration

TNSA's 5-Year Capital Improvement Program ("Plan") was prepared in consultation with, and reviewed by, the Authority's engineer, commissioners, and staff and presented as directed by the Division of Local Government Services ("DLGS"), State of New Jersey. Funding the plan will not result in extraordinary increases in annual Service Charges to customers.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2011 AND 2010**

	<u>Est. Total Cost</u>	<u>Unreserved Retained Earnings</u>	<u>Renewal & Replacement Reserve</u>	<u>Debt Auth.</u>	<u>Other Sources</u>
Modify Graphic Panel	\$ - 155,000	\$ 155,000			
Repair Plant Roadways	200,000	200,000			
Full-Size Pickup Truck	40,000	40,000			
Upgrade Public Address Sys.	75,000	75,000			
Laird Avenue Pump Station Pumps	125,000	125,000			
Aerated Stabilization Pond Cleaning and Rehabilitation	500,000	500,000			
Ocean Outfall Rehabilitation	4,000,000			\$ 4,000,000	
Digester Rehabilitation	3,000,000			3,000,000	
Grit Chamber 3 & 4 Rehabilitation	200,000	200,000			
Waste Stack Burner	<u>150,000</u>	<u>150,000</u>			
Total	\$ <u>8,445,000</u>	\$ <u>1,445,000</u>		\$ <u>7,000,000</u>	

Closing Comments

The Financial condition of the Township of Neptune Sewerage Authority is strong. Its facilities, staff, management, and its planning and funding options, are sufficient to assure TNSA's ability to meet its operating responsibilities well into the future.

FINANCIAL STATEMENTS

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
DECEMBER 31, 2011 AND 2010**

	<u>Assets</u>	
	<u>2011</u>	<u>2010</u>
Current Assets:		
Unrestricted Assets:		
Petty cash	\$ 203	\$ 88
Cash and cash equivalents	5,150,718	5,665,925
Accounts receivable:		
Customer accounts receivable	1,656,933	474,638
Other receivables	<u>87,203</u>	<u>45,218</u>
Total Unrestricted Assets	<u>6,895,057</u>	<u>6,185,869</u>
Restricted Assets:		
Cash and cash equivalents	<u>7,963,474</u>	<u>7,716,049</u>
Total Restricted Assets	<u>7,963,474</u>	<u>7,716,049</u>
Total Current Assets	<u>14,858,531</u>	<u>13,901,918</u>
Noncurrent Assets:		
Unamortized deferred charges	<u>188,146</u>	<u>230,680</u>
Total Noncurrent Assets	<u>188,146</u>	<u>230,680</u>
Capital Assets:		
Land	153,900	153,900
Treatment plant	42,397,718	42,369,978
Pumping station	3,370,453	3,192,453
Force main and ocean outfall	6,224,337	6,224,337
Office furniture and equipment	224,455	243,274
Vehicles	<u>273,330</u>	<u>279,635</u>
	52,644,193	52,463,577
Less: accumulated depreciation	<u>18,968,594</u>	<u>17,956,542</u>
Net capital assets	<u>33,675,599</u>	<u>34,507,035</u>
Total Assets	\$ <u>48,722,276</u>	\$ <u>48,639,633</u>

See accompanying notes to financial statements.

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS (continued)
DECEMBER 31, 2011 AND 2010

Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
Current Liabilities (payable from unrestricted assets):		
Accounts payable	\$ 243,424	\$ 227,972
Accrued liabilities	147,833	79,644
Current portion of long-term debt	1,835,000	1,810,000
Accrued interest payable	<u>238,940</u>	<u>235,938</u>
Total Current Liabilities (payable from unrestricted assets)	<u>2,465,197</u>	<u>2,353,554</u>
Current Liabilities (payable from restricted assets):		
Reserve for Escrow	1,760	1,760
Security held for member municipalities	<u>3,746,538</u>	<u>3,613,881</u>
Total Current Liabilities (payable from restricted assets)	<u>3,748,298</u>	<u>3,615,641</u>
Non-Current Liabilities:		
Unrestricted Liabilities:		
Accrued employee benefits	415,508	380,775
Long-term debt (net of discounts of \$33,287 and \$39,607 in 2011 and 2010 respectively and inclusive of premiums of \$169,167 and \$215,351 in 2011 and 2010, respectively	<u>10,200,880</u>	<u>12,075,744</u>
Total Non-Current Liabilities	<u>10,616,388</u>	<u>12,456,519</u>
Total Liabilities	<u>16,829,883</u>	<u>18,425,714</u>
Net Assets:		
Invested in capital assets, net of related debt	21,639,719	20,797,035
Restricted for bond service reserve	1,411,508	1,475,998
Restricted for renewal and replacement	250,000	250,000
Unrestricted	<u>8,591,166</u>	<u>7,690,886</u>
Total Net Assets	<u>31,892,393</u>	<u>30,213,919</u>
Total Liabilities and Net Assets	\$ <u>48,722,276</u>	\$ <u>48,639,633</u>

See accompanying notes to financial statements.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
COMPARATIVE STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Service charges of member municipalities	\$ 7,502,200	\$ 7,502,927
Miscellaneous income	<u>2,090</u>	<u>360</u>
Total Operating Revenues	<u>7,504,290</u>	<u>7,503,287</u>
Operating Expenses:		
Personnel costs and benefits	2,382,404	2,206,974
Administrative and general	372,717	385,524
Plant, system and maintenance	1,528,423	1,645,282
Depreciation	<u>1,079,443</u>	<u>1,055,146</u>
Total Operating Expenses	<u>5,362,987</u>	<u>5,292,926</u>
Operating Income	<u>2,141,303</u>	<u>2,210,361</u>
Non-Operating Revenue (Expenses):		
Interest income	46,994	31,116
Litigation settlement	-	545,687
Gain on sale of fixed assets	5,370	10,000
Loss on bond refunding	-	(82,191)
Interest expense	(472,659)	(603,119)
Amortization expense	(<u>42,534</u>)	(<u>46,129</u>)
Total Non-Operating Revenue (Expenses)	(<u>462,829</u>)	(<u>144,636</u>)
Net Income	1,678,474	2,065,725
Net Assets, January 1	<u>30,213,919</u>	<u>28,148,194</u>
Net Assets, December 31	\$ <u>31,892,393</u>	\$ <u>30,213,919</u>

See accompanying notes to financial statements.

**TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,**

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities:		
Cash Received from Member Municipalities	\$ 6,319,905	\$ 7,415,456
Cash Paid to Suppliers	(2,460,632)	(2,559,257)
Cash Paid to Employees	(1,610,864)	(1,553,809)
Other Operating Receipts	<u>2,090</u>	<u>360</u>
Net Cash Flows from Operating Activities	<u>2,250,499</u>	<u>3,302,750</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Property, Plant and Equipment	(248,007)	(111,098)
Principal Payments on Bonds Payable	(1,810,000)	(1,690,000)
Authority Contribution to Bond Refunding	-	(36,277)
Sale of Fixed Assets	5,370	10,000
Proceeds from Litigation	-	545,687
Interest Expense	<u>(512,523)</u>	<u>(671,915)</u>
Net Cash Used in/(Provided by) Capital and Related Financing Activities	<u>(2,565,160)</u>	<u>(1,953,603)</u>
Cash Flows from Investing Activities:		
Interest Received on Investments	<u>46,994</u>	<u>31,116</u>
Net Cash Provided by Investing Activities	<u>46,994</u>	<u>31,116</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(267,667)	1,380,263
Cash and Cash Equivalents at Beginning of Year	<u>13,382,062</u>	<u>12,001,799</u>
Cash and Cash Equivalents Ending	\$ <u><u>13,114,395</u></u>	\$ <u><u>13,382,062</u></u>
Reconciliation to Balance Sheet:		
Unrestricted Cash and Cash Equivalents	\$ 5,150,921	\$ 5,666,013
Restricted Cash and Cash Equivalents	<u>7,963,474</u>	<u>7,716,049</u>
	\$ <u><u>13,114,395</u></u>	\$ <u><u>13,382,062</u></u>

See accompanying notes to financial statements.

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
STATEMENT OF CASH FLOWS (continued)
FOR THE YEARS ENDED DECEMBER 31,

	<u>2011</u>	<u>2010</u>
Reconciliation of Operating Income to Net Cash Flows from Operating Activities:		
Operating Income	\$ 2,141,303	\$ 2,210,361
Depreciation	<u>1,079,443</u>	<u>1,055,146</u>
	<u>3,220,746</u>	<u>3,265,507</u>
Change in Assets and Liabilities:		
(Increase)/Decrease in Receivables	(1,182,295)	(73,210)
(Increase)/Decrease in Other Receivables	(41,985)	(33,154)
Increase/(Decrease) in Accounts Payable	15,452	(746)
Increase/(Decrease) in Accrued Expenses	105,924	28,126
Increase/(Decrease) in Security Held for Member Municipalities	<u>132,657</u>	<u>136,227</u>
	<u>(970,247)</u>	<u>37,243</u>
Net Cash Flows from Operating Activities	\$ <u>2,250,499</u>	\$ <u>3,302,750</u>

During 2010 the Authority refinanced its 1998 Bonds. \$4,970,000 of new bonds were issued and \$5,055,000 of 1998 Bonds were redeemed. The new bonds were sold at a premium of \$230,476 and costs of issuance were \$111,625. The 1998 Bonds were called on October 15, 2010 at which time \$70,885 of interest accrued to date was paid.

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 1 ORGANIZATION

Reporting Entity

The Township of Neptune Sewerage Authority, a public body, corporate and political of the County of Monmouth, State of New Jersey, was organized and exists under the Sewerage Authority Law, constituting Chapter 138 of the Pamphlet Laws of 1946, of the State of New Jersey, and the acts amendatory thereof and supplemental thereof. The Authority was established in accordance with the provisions of the Act in order to own and operate a regional sewerage treatment system to serve the Townships of Neptune and Wall, Ocean Grove Sewerage District, and the Boroughs of Avon-by-the-Sea, Bradley Beach, Tinton Falls, and Neptune City. The Act authorized the Authority to issue its bonds and other obligations in an unlimited aggregate amount in order to accomplish its public purpose of promoting the relief of waters in or bordering the State of New Jersey from pollution by providing adequate sewerage treatment and disposal services to the Service Area.

The Authority provides sewerage treatment to its seven member municipalities in accordance with service agreements established with each municipality. The service agreements obligate each member to the Authority for their proportionate share of the Authority's operating expenses, debt service and required reserve additions to the extent not met by other sources.

The Authority's financial statements include all accounts of the Authority's operations.

The criteria for including organizations as component units within the Authority's reporting entity, as set forth in Section 2100 of GASB's Codification of Government Accounting and Financial Reporting Standards, including whether:

- the organization is legally separate (can sue and be sued in their own name)
- the Authority holds the corporate powers of the organization
- the Authority appoints a voting majority of the organization's board
- the Authority is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Authority
- there is a fiscal dependency by the organization on the Authority

Based on the above criteria, the Authority has no component units.

Based on the above criteria, the Authority is a component unit of the Township. The Authority issues separate financial statements from the Township. However, if the Township presented its financial statements in accordance with GAAP, these financial statements would be included with the Township's on a blended basis.

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation and Accounting

The Authority's financial statements are presented on the full accrual basis in accordance with the accounting principles generally accepted in the United States of America. The Authority applies all Government Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principles Board (APB) of the Committee on Accounting Procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprise where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet. Net assets (i.e., total assets net of total liabilities) are segregated into invested capital assets, net of related debt; restricted for capital activity; restricted for debt service; and unrestricted components.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

B. Budgetary Accounting

Each year the Authority adopts a budget which is approved by the State of New Jersey, Department of Community Affairs, Division of Local Government Services. The budget may be amended by resolution of the Board of Commissioners of the Authority. The budgetary basis of accounting is utilized to determine the Authority has sufficient cash to operate and pay debt service. As such, certain items such as bond payments are included in budgetary expenses while depreciation is not included. A reconciliation from the budgetary basis to the statement of revenues, expenses and changes in fund equity is included in Schedule 1 of the Supplementary Information.

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

C. 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 government units from a loss of funds on deposit with a failed banking institution in New Jersey.

N.J.S.A. 17:9-42 requires government 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 government 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 government units.

For the Statements of Cash Flows, the Authority combines the unrestricted cash with the restricted cash and cash equivalents. The Authority considers investments with maturities of three months or less at the time of purchase to be cash equivalents.

D. Restricted Accounts

In accordance with the Bond Resolutions and the Trust Agreement securing the 2003 and 2010 Revenue Bonds ("the Bonds"), the Authority has established various cash and investment accounts with a trustee with restrictions on the use of funds. These funds, accounts and the related principal restrictions are as follows:

Construction Fund - The Construction Fund has been established for the payment of the cost of each project for which bonds have been issued under the Trust Agreement. Upon completion of the construction project, any funds remaining and not reserved for unpaid costs shall be applied to payment of costs of any portion of the system, payment of any principal or interest on the bonds, payment of any sinking fund installment, or redemption of any bonds.

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Restricted Accounts (continued)

Revenue Fund - All pledged revenues as defined in the Trust Agreement are required to be paid over to the Trustee upon receipt and deposited in the Revenue Fund. Transfers from the Revenue Fund shall be made on the first business day of each month in amounts needed to establish the respective fund balances as follows:

Operating Fund - to increase the amount which is on deposit in the Operating Fund to an amount equal to the Authority's net operating expenses for the current month and the next succeeding three months.

Bond Service Fund - to equal the interest and principal falling due on the Bonds during the fiscal year.

Bond Reserve Fund - to maintain or provide an amount equal to the average annual debt service requirement as defined in the Trust Agreement in the bonds for any succeeding fiscal year.

Renewal and Replacement Fund - to equal the reasonably required reserve called for by the Trust Agreement.

General Fund - to deposit therein the balance of the pledged revenues to the extent any monies are available.

Operating Fund - to pay all reasonable and necessary costs of operating, maintaining and repairing the sewer system.

Bond Service Fund - to pay principal and interest on the bonds.

Bond Reserve Fund - to make up any deficiencies in the Bond Service Fund or any other Sinking Fund Account. In addition to transfers from the Revenue Fund, monies from the Renewal and Replacement and the General Funds may be transferred into this Fund.

Renewal and Replacement Fund - If the amount in the Bond Reserve Fund shall be less than the Bond Reserve requirement, the Trustee shall withdraw from the General Fund and then from the Renewal and Replacement Fund, and pay into the Bond Reserve Fund the amount needed to increase the amount in the Bond Reserve Fund so that it equals the Bond Reserve requirement. Monies in this Fund may be applied to the reasonable and necessary expenses of the Authority with respect to the Sewer System for major repairs, renewals, replacements or maintenance items of a type not recurring annually or at shorter intervals.

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Restricted Accounts (continued)

General Fund - If the amount in the Bond Reserve Fund shall be less than the Bond Reserve requirement the Trustee shall withdraw from the General Fund and pay into the Bond Reserve Fund the amount needed to increase the amount in the Bond Reserve Fund so that it equals the Bond Reserve requirement. Under the condition set forth in the Trust Agreement, the Trustee may transfer monies from the General Fund to the Revenue Fund or to the Authority to be spent on any lawful purpose.

E. Property, Plant and Equipment

Property, plant and equipment are stated at cost. The cost of property, plant and equipment is depreciated over its estimated useful life, by the straight-line method. Major improvements to existing plant and equipment are capitalized. Repairs and maintenance that do not extend the economic life of plant and equipment are charged to expense as incurred. Upon the sale or retirement of property, plant and equipment, the cost and related accumulated depreciation is eliminated from the accounts and any related gain or loss is reflected in the Statement of Revenues, Expenses and Changes in Net Assets.

System construction costs are charged to construction in progress until such time as given segments of the system are completed and placed in operation. The assets are then transferred to the appropriate property and plant account and depreciated on a straight-line basis over the asset's estimated useful life.

The estimated useful lives of the assets are:

Treatment Plant	75 years
Force Main and Ocean Outfall	75 years
Biofor Treatment Plant	40 years
Pumping Station	10-40 years
Equipment	5-15 years
Vehicles	5 years
Office Furniture	5 years

F. Use of Estimates

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

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Investment Income

Investment Income on amounts held by the Authority as security for member municipalities is restricted and added to principal amounts for reinvestment. All other investment income earned is unrestricted and is utilized to defray the cost of operations and debt service.

H. Capitalized Interest

The Authority capitalizes interest on self-constructed assets during the period of construction. The amount of interest cost capitalized on qualifying assets acquired with proceeds of tax-exempt borrowings that are externally restricted to finance acquisition of specified assets is all interest cost of the borrowing less any interest earned on related interest-bearing investments acquired with such unexpended proceeds from the date of the borrowings until the assets are substantially complete and are ready for their intended use. Interest cost of tax-exempt borrowings is eligible for capitalization on other qualifying assets of the Authority when the specified qualifying assets are no longer eligible for interest capitalization. The Authority did not capitalize interest costs during the periods ended December 31, 2011 and 2010.

I. Inventory of Supplies

Minimal inventories of replacement parts, chemicals and supplies are maintained by the Authority and are expensed at the time the individual items are purchased.

J. Income Taxes

The Authority is exempt from federal and state income taxes as it is a public body politic and corporate of the State of New Jersey.

K. Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses and contributions of capital. Net assets are classified in the following four components: invested in capital assets, net of related debt; restricted for capital activity; restricted for debt service; and unrestricted net assets. Invested in capital assets, net of related debt, consists of all capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets; debt related to unspent proceeds or other restricted cash and investments is excluded from the determination. Restricted for capital activity and debt service consists of net assets for which constraints are placed thereon by external parties, such as lenders, grantors, contributors, laws, regulations and enabling legislation, including self-imposed legal mandates. Unrestricted net assets consists of all other net assets not included in the above categories.

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 3 CASH, CASH EQUIVALENTS, and INVESTMENTS

A. Deposits

Cash and Cash Equivalents consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
Cash	\$ 71,003	\$ 86,320
Money Market Funds	<u>13,043,392</u>	<u>13,295,742</u>
	<u>\$ 13,114,395</u>	<u>\$ 13,382,062</u>

As of December 31, 2011, the Authority's Cash and Cash Equivalents are insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

The carrying amount of the Authority's cash and cash equivalents at December 31, 2011 was \$13,114,395 and the bank balance was \$13,119,582. Of the bank balance, \$326,190 was covered by federal depository insurance, and the remaining \$12,793,392 was covered under the unit certificate of eligibility as required by New Jersey statutes.

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a failure of a financial institution or counterparty to a transaction, the Authority will not be able to recover the value of its investment. The Authority mitigates this risk by depositing or investing with public depositories protected from loss under the provisions of the GUPTA.

B. Investments

The Authority had no investments at December 31, 2011 and 2010.

NOTE 4 PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment consisted of the following at December 31:

	<u>Balance Dec. 31, 2010</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance Dec. 31, 2011</u>
Land	\$ 153,900	\$ -	\$ -	\$ 153,900
Plant and Improvements	51,786,768	205,740	-	51,992,508
Equipment and Vehicles	<u>522,909</u>	<u>42,267</u>	<u>67,391</u>	<u>497,785</u>
	52,463,577	248,007	67,391	52,644,193
Less: Accumulated Depreciation	<u>17,956,542</u>	<u>1,079,443</u>	<u>67,391</u>	<u>18,968,594</u>
Property, Plant and Equipment, Net	<u>\$ 34,507,035</u>	<u>\$ (831,436)</u>	<u>\$ -</u>	<u>\$ 33,675,599</u>

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 5 DEFERRED CHARGES

Deferred Charges relate to the issuance costs, including legal, printing and financing costs, of the 1998, 2003 and 2010 Sewer Revenue Bond Series. These charges are being amortized on the interest method over the life of the respective bonds. During 2010, the 1998 Sewer Revenue Bond Series was refunded and the deferred charges written off as part of the loss on bond refunding.

Deferred Charges consist of the following at December 31:

	<u>2011</u>	<u>2010</u>
Bond Issuance Cost	\$ 465,546	\$ 465,546
Less:		
Accumulated Amortization	<u>277,400</u>	<u>234,866</u>
Net Deferred Charges	\$ <u>188,146</u>	\$ <u>230,680</u>

NOTE 6 LONG-TERM DEBT

Long-Term Debt consisted of the following at December 31:

	<u>2011</u>	<u>2010</u>
2003 Series A, Sewer Revenue Bonds	\$ 7,330,000	\$ 8,370,000
2003 Series B, Sewer Revenue Bonds	50,000	105,000
2003 Series C, Sewer Revenue Bonds	135,000	265,000
2010 Series, Sewer Revenue Refunding Bonds	<u>4,385,000</u>	<u>4,970,000</u>
Total Long-term debt	11,900,000	13,710,000
Unamortized Bond Premium	169,167	215,351
Unamortized Bond Discount	(33,287)	(39,607)
Current Portion	(<u>1,835,000</u>)	(<u>1,810,000</u>)
Net Long-term debt	\$ <u>10,200,880</u>	\$ <u>12,075,744</u>

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 6 LONG-TERM DEBT (continued)

2003 Sewer Revenue Bonds

The 2003 Revenue Bonds were issued in the aggregate amount of \$16,485,000. These Bonds consist of \$14,965,000 in Sewer Revenue Bonds, Series 2003A; \$425,000 in Sewer Revenue Bonds, Series 2003B; and \$1,095,000 Sewer Revenue Bonds, Series 2003C. These Bonds are dated January 1, 2003 and were delivered on January 21, 2003.

The Sewer Revenue Bonds, Series 2003A were authorized for the purpose of refunding \$3,170,000 of the outstanding principal amount of the Authority's Sewer Revenue Bonds, Series 1992A; to refund a portion of the \$12,000,000 Project Note Series 2002; to make a deposit to the Bond Reserve Fund; and to provide funds to pay all fees and expenses incurred with the issuance of the Bonds. The Bonds consist of \$12,800,000 in Serial Bonds which mature annually on July 1 from 2003 through 2019; interest during this period ranges from 2% to 4.5% payable semi-annually January 1 and July 1; and \$2,165,000 in 4.625% Term Bonds due July 1, 2022 at 4.73%.

The Sewer Revenue Bonds, Series 2003B were authorized for the purpose of refunding \$400,000 of the outstanding principal amount of the Authority's Sewer Revenue Bonds, Series 1992B, and to provide funds to pay all fees and expenses incurred with the issuance of the Bonds. The Bonds consist of \$425,000 in Serial Bonds which mature annually on July 1 from 2006 through 2012; interest during this period ranges from 2% to 3.6% payable semi-annually January 1 and July 1.

The Sewer Revenue Bonds, Series 2003C were authorized for the purpose of refunding \$1,040,000 of the outstanding principal amount of the Authority's Sewer Revenue Bonds, Series 1992C, and to provide funds to pay all fees and expenses incurred with the issuance of the Bonds. The Bonds consist of \$1,095,000 in Serial Bonds which mature annually on July 1 from 2005 through 2012; interest during this period ranges from 2% to 3.625% payable semi-annually January 1 and July 1.

The 2003A Bonds maturing prior to July, 2013 are not redeemable prior to their stated dates of maturity. The 2003A Bonds maturing on or after July 1, 2013 may be redeemed prior to their stated dates of maturity at the option of the Authority, on or after July 1, 2012, upon notice as provided in the Resolution, as a whole or in part, on any date at the Redemption Price of 100% of the principal amount thereof plus accrued interest to date fixed for redemption. If less than all the 2003A Bonds of like maturity are to be redeemed, the particular 2003A Bonds to be redeemed shall be selected as provided in Section 702 of the Resolution.

The 2003B Bonds and the 2003C Bonds are not subject to redemption prior to their stated dates of maturity.

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 6 LONG-TERM DEBT (continued)

2003 Sewer Revenue Bonds (continue)

The 2003A Bonds maturing on July 1, 2022 are subject to mandatory sinking fund redemption prior to maturity in part by lot on July 1, 2020, July 1, 2021, and July 1, 2022 at a redemption price equal to the principal amount thereof and accrued interest thereon to the date fixed for redemption, without premium, from mandatory sinking fund payments as follows:

<u>Date</u>	<u>Principal Amount</u>
July 1, 2020	\$ 690,000
July 1, 2021	720,000
July 1, 2022 *	755,000

* Final Maturity

The Series B Bonds are payable by the Borough of Tinton Falls.

The Series C Bonds are payable by the Borough of Tinton Falls and the Township of Wall.

2010 Sewer Revenue Refunding Bonds

The Sewer Revenue Refunding Bonds, Series 2010 were authorized for the purpose of refunding \$5,055,000 of the outstanding principle amount of the Authority's Sewer Revenue Bonds, Series 1998, and to provide funds to pay all fees and expenses incurred with the issuance of the Bonds. The Bonds consist of \$4,970,000 in Serial Bonds which mature annually on July 1, 2011 through 2018. Interest during that period ranges from 3.000% to 4.000% payable semi-annually on January 1 and July 1.

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 6 LONG-TERM DEBT (continued)

Annual Debt Service

The following table sets forth the annual debt service (budgetary basis) of the Authority for all bonds outstanding:

12 Month Period Ending Dec 31,	2010	2003 Series A	2003 Series B	2003 Series C	Total Debt Service
2012	\$ 727,800	\$ 1,373,136	\$ 50,900	\$ 137,447	\$ 2,289,283
2013	725,700	777,586			1,503,286
2014	728,150	776,586			1,504,736
2015	725,000	779,406			1,504,406
2016	725,200	775,746			1,500,946
2017	719,400	775,559			1,494,959
2018	722,800	773,691			1,496,491
2019		774,981			774,981
2020		774,175			774,175
2021		771,569			771,569
2022		772,459			772,459
	<u>\$ 5,074,050</u>	<u>\$ 9,124,894</u>	<u>\$ 50,900</u>	<u>\$ 137,447</u>	<u>\$ 14,387,291</u>

The following table sets forth the debt service requirements for principal and interest:

12 Month Period Ended Dec. 31	Principal	Interest	Total
2012	\$ 1,835,000	\$ 454,283	\$ 2,289,283
2013	1,100,000	403,286	1,503,286
2014	1,140,000	364,736	1,504,736
2015	1,180,000	324,406	1,504,406
2016	1,225,000	263,046	1,488,046
2017-2021	4,665,000	660,075	5,325,075
2022	<u>755,000</u>	<u>17,459</u>	<u>772,459</u>
	<u>\$ 11,900,000</u>	<u>\$ 2,487,291</u>	<u>\$ 14,387,291</u>

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 6 LONG-TERM DEBT (continued)

Changes in the outstanding debt for 2011 are as follows:

<u>Issue</u>	<u>Balance Dec. 31, 2010</u>	<u>Paid</u>	<u>Balance Dec. 31, 2011</u>
Series 2003A	\$ 8,370,000	\$ 1,040,000	\$ 7,330,000
Series 2003B	105,000	55,000	50,000
Series 2003C	265,000	130,000	135,000
Series 2010	<u>4,970,000</u>	<u>585,000</u>	<u>4,385,000</u>
	<u>\$ 13,710,000</u>	<u>\$ 1,810,000</u>	<u>\$ 11,900,000</u>

NOTE 7 SECURITY HELD FOR MEMBER MUNICIPALITIES

Service agreements with member municipalities provide that payments shall be at 102% of the member municipality's obligation for sewer treatment services. The additional 2% shall be deposited to the credit of the municipality in a Sewer Rent Reserve Account until deposits and interest earned in investment of such amounts equals the next two quarterly payments to become due from the member municipality.

Investment accounts have been established for each of the member municipalities as directed by the individual governing bodies.

NOTE 8 COMPENSATED ABSENCES

Per the Authority's "Personnel Code", its employees are entitled to sick leave benefits and vacation time.

Sick Leave

Sick leave allowances are determined as follows:

After one year of employment, an employee will be allowed 15 days sick leave in each twelve month period. Sick leave eligibility will be credited on the basis of one and one-quarter days for each month in which the employee is on the payroll.

Unused sick leave may be accumulated from year to year without a limit. An employee is entitled to use the accumulated sick leave with pay when needed.

Sick leave in excess of the accrued time may be granted at the discretion of the Authority when warranted by the employee's overall work record.

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 8 COMPENSATED ABSENCES (continued)

Sick Leave (continued)

An employee who has used five days or less of sick time in a calender year can elect to be compensated for up to five (5) of the remaining days and banking the remainder of the days in their accumulated sick time totals. The compensation for up to seven (7) unused days may be taken as a cash payment or as compensatory time off. If compensatory time off is chosen, this will be taken as straight time (i.e. 8 hours = 8 hours compensatory time off).

One half of the accumulated sick leave shall be paid upon retirement, permanent disability or death. Sick leave will not be granted as credit toward early retirement.

At December 31, 2011 and 2010, the computed contingent liability for accumulated sick leave compensation is \$415,508 and \$380,775, respectively. This is presented on the comparative balance sheet as an unrestricted noncurrent liability under to caption "Accrued Employee Benefits".

Vacation Time

It is the policy of the Authority that all employees be granted time away from work for the purpose of vacation. Each employee shall take advantage of the authorized vacation period for reasons of health, rest relaxation and pleasure; and therefore extra compensation in lieu of vacation will not be allowed. The amount of time granted shall be determined by the employee's length of service. A vacation year shall run from the anniversary date of each employee's employment date.

All vacation time earned in a given year must be used within the vacation year or be forfeited.

Employees who terminate their employment will receive vacation pay according to their accruals, provided the employee is in compliance with all requirements related to termination.

At December 31, 2011 and 2010, the computed contingent liability for accrued vacation time is \$74,689 and \$66,675, respectively. This is presented on the comparative balance sheet as an unrestricted current liability included with other accrued liabilities under the caption "Accrued Liabilities".

NOTE 9 PENSION PLAN

Description of the System

The Authority contributes to a cost-sharing multiple-employer plan, the Public Employees Retirement System ("PERS"). Members were required to contribute 5.5% of their annual covered salary up to October 1, 2011, at that date the rate increased from 5.5% to 6.5% of their annual covered salary. PERS is administered by the State of New Jersey Division of Pensions and Benefits and is included along with other state-administered pension trust and agency funds in the general-purpose financial statements of the State of New Jersey. Financial reports may be obtained for the Plan by writing to: New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295.

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 9 PENSION PLAN (continued)

Membership

Membership in the PERS is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction. Since PERS covers public employees throughout the State separate records are not maintained for each reporting unit; accordingly, the actuarial data for the employees of the Authority who are members of PERS are not available.

Contributions

The contribution policy for the PERS is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994 and Chapter 115, P.L. of 1998, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. Employers are required to contribute at an actuarially-determined rate. The required employer contributions for 2011 and 2010 were \$155,608 and \$124,589, respectively. The annual employer contribution includes funding for basic retirement allowances, cost-of-living adjustments, the cost of medical premiums after retirement for qualified retirees, and noncontributory death benefits. The Authority contribution to the plan for the past three years are as follows:

<u>Year</u>	<u>PERS</u>
2011	\$155,608
2010	124,589
2009	55,932

All contributions were equal to the required contributions for each of the three years, respectively.

In 2004 the Authority deferred a portion of their pension obligation as allowed. The present value of the deferral at December 31, 2011 is \$60,836.11. This amount is included as an accrued liability on the balance sheet. The Authority is obligated to pay \$6,673 per year for 15 years beginning in 2012 to pay back the deferral. The State is charging 8.25% interest.

NOTE 10 POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB")

A. Plan Description

In addition to the pension benefits described in Note 9, the Authority contributes to the New Jersey State Health Benefits Program (SHBP), a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq., governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 10 POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS ("OPEB")
(continued)

A. Plan Description (continued)

The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. The Authority provides post-employment health care benefits to employees and their spouses upon retirement after twenty-five years of service to the Authority and remains in effect until the employee becomes Medicare eligible. The plan can be amended by the Authority subject to applicable and employment agreements and resolutions.

The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes the financial statements and required supplementary information for the SHBP. That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website.

B. Funding Policy

Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post employment health benefits under the plan have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

Contributions to pay for health premiums of participating retirees in the SHBP are billed to the Authority on a monthly basis. The Authority currently contributes on a pay-as-you-go basis based upon monthly invoices from the State of New Jersey Division of Pensions. Employees are not required to contribute. Contributions to the plan for the last three years and the number of former employees eligible for and participating in the post employment health care benefits program as of the respective year ended December 31 was as follows:

<u>Year</u>	<u>Contribution</u>	<u>Number of Employees</u>
2011	\$ 86,987	7
2010	87,969	7
2009	77,789	7

All contributions were equal to the required contributions for each of the three years respectively.

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011 AND 2010

NOTE 11 RISK MANAGEMENT

Health insurance coverage for the Authority's employees is obtained through the New Jersey State Health Benefits Program ("SHBP"). SHBP provides the following basic benefit coverage to all participants: hospital, surgical, group major medical, prescription drug coverage for active and qualified retired Authority employees and their families. Worker's compensation is obtained through the New Jersey Utilities Joint Insurance Fund, a public entity risk pool. General liability and property coverage is provided by Zurick American Insurance Company; general liability coverage is in the amount of \$1,000,000 per occurrence and property coverage is in the amount of \$1,000,000 combined single limit. A commercial umbrella policy from American Alternative Insurance Company increases the limits to \$10,000,000 for each occurrence and in the aggregate for general liability and property coverage.

There have been no reductions in insurance coverage from the prior year. Additionally, the amount of settlements has not exceeded insurance coverage in the past three years.

NOTE 12 CONTINGENCIES

The Authority is subject to extensive federal and state environmental regulations. The Authority's management is not aware of any violations that may have a material effect on the financial statements.

The Authority has no outstanding contracts for various improvement projects at December 31, 2011.

The Authority is in litigation with one of the customer municipality regarding alleged overbilling. The Authority maintains the allegations are without merit.

NOTE 13 SUBSEQUENT EVENTS

On March 27, 2012 the Authority defeased \$6,250,000 of the remaining \$7,330,000 outstanding Series 2003A Bonds by issuing \$5,930,000 Series 2012 Bonds. The future debt service savings as a result of this transaction totaled \$705,664.06, approximately \$70,000 per year for the next 10 years.

Management has evaluated subsequent events through July 17, 2012, the date the financial statements were issued.

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NEPTUNE, NEW JERSEY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES
Year Ended December 31, 2011
(With Comparative Actual Amounts for the Year Ended December 31, 2010)

	<u>2011 Budget</u>	<u>2011 Actual</u>	<u>Variance</u>	<u>2010 Actual</u>
Operating Revenues:				
Service Charges	\$ 7,502,200	\$ 7,502,200		\$ 7,502,927
Interest Income	51,000	46,994	\$ (4,006)	31,116
Miscellaneous Income		2,090	2,090	360
Total Budget	<u>\$ 7,553,200</u>	<u>\$ 7,551,284</u>	<u>\$ (1,916)</u>	<u>\$ 7,534,403</u>
Operating Expenses:				
Personel Costs and Benefits:				
Administrative Salaries and Wages	\$ 137,500	\$ 124,818	\$ 12,682	\$ 117,375
Operational Salaries and Wages	1,475,000	1,486,046	(11,046)	1,436,434
Pension	162,000	216,444	(54,444)	124,589
Hospitalization & Dental	357,000	359,378	(2,378)	339,464
Prescription Plan	75,000	67,550	7,450	64,614
Payroll Taxes	137,000	128,168	8,832	124,498
Total Personel Costs and Benefits	2,343,500	2,382,404	(38,904)	2,206,974
Administrative and General Expenses				
Insurance	225,000	204,029	20,971	211,565
Travel	6,000	680	5,320	1,097
Training	9,500	4,977	4,523	9,257
Postage	2,000	1,155	845	1,106
Telephone	15,000	12,939	2,061	12,660
Office Supplies and Equipment	20,200	18,709	1,491	9,536
Maintenance Agreements	7,000	5,145	1,855	4,095
Books and Publications	1,000	491	509	1,316
Advertising	3,000	682	2,318	1,263
Licensing Fees	50,000	44,397	5,603	41,642
Affiliation Fees	7,000	5,831	1,169	5,590
Administrative	4,000	1,252	2,748	4,341
Auditing and Financial Consulting	42,000	28,598	13,402	30,090
Legal and Legal Consulting	103,000	38,832	64,168	46,966
Trustee Fees	5,000	5,000	-	5,000
Total Administrative and General Expenses	<u>499,700</u>	<u>372,717</u>	<u>126,983</u>	<u>385,524</u>

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NEPTUNE, NEW JERSEY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES
Year Ended December 31, 2011
(With Comparative Actual Amounts for the Year Ended December 31, 2010)

	2011 Budget	2011 Actual	Variance	2010 Actual
Plant, System and Maintenance Expenses				
Electric	850,000	607,430	242,570	676,721
Fuel Oil	12,000	4,735	7,265	7,079
Water	7,000	5,911	1,089	5,660
Chemical/Odor Control	375,000	179,935	195,065	193,573
Janitorial Supplies	9,000	5,247	3,753	6,242
Equipment and Maintenance	380,000	175,734	204,266	246,191
Natural Gas	120,000	92,526	27,474	95,105
Uniforms	8,000	7,198	802	6,643
Lab Supplies	40,000	27,582	12,418	52,769
Lubricants	13,000	8,414	4,586	10,155
Sodium Hypochlorite	140,000	99,847	40,153	97,898
Sludge Processing	275,000	223,153	51,847	144,607
Ocean Outfall	70,000	0	70,000	36,275
Gasoline	10,000	11,085	(1,085)	7,615
Vehicle Maintenance	10,000	6,153	3,847	6,950
Engineering and Engineering Consulting	125,000	73,473	51,527	51,799
Total Plant, System and Maintenance Expenses	2,444,000	1,528,423	915,577	1,645,282
Total Operating Expenses	5,287,200	4,283,544	1,003,656	4,237,780
Other Costs Funded by Operating Revenues:				
Capital Outlay:				
Plant Improvements and Equipment	375,000	248,007	126,993	111,098
Total Capital Outlay	375,000	248,007	126,993	111,098
Debt Service:				
Bond Interest	508,000	468,136	-	603,119
Other Interest		4,523		
Bond Principal	1,810,000	1,810,000	-	1,690,000
Total Debt Service	2,318,000	2,282,659	-	2,293,119
Total Other Costs Funded by Operating Revenues	2,693,000	2,530,666	126,993	2,404,217
Total Costs Funded by Operating Revenues	7,980,200	6,814,210	1,130,649	6,641,997
Excess (Deficit) of Revenues over Costs	(427,000)	737,074	1,128,733	892,406
Total Budget	\$ 7,553,200	\$ 7,551,284	\$ (1,916)	\$ 7,534,403

TOWNSHIP OF NEPTUNE SEWERAGE AUTHORITY
NEPTUNE, NEW JERSEY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY
OPERATING REVENUES
Year Ended December 31, 2011
(With Comparative Actual Amounts for the Year Ended December 31, 2010)

	<u>2011 Budget</u>	<u>2011 Actual</u>	<u>Variance</u>	<u>2010 Actual</u>
Reconciliation of Budgetary Basis to Net Income				
Excess of Revenues over Costs		\$ 737,074		\$ 892,406
Capitalized Plant Improvements		248,007		111,098
Gain on sale of fixed assets		5,370		10,000
Litigation Settlement		0		545,687
Loss on Bond Refunding		0		(82,191)
Depreciation Expense		(1,079,443)		(1,055,146)
Amortization of Deferred Charges		(42,534)		(46,129)
Debt Service - Bond Principal		<u>1,810,000</u>		<u>1,690,000</u>
Net Income		<u>\$ 1,678,474</u>		<u>\$ 2,065,725</u>