

Southeast Monmouth Municipal Utilities Authority

Years Ended December 31, 2011 and 2010

Financial Statements
and Supplementary Information

With

Independent Auditor's Reports

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CONFIDENTIAL MANAGEMENT LETTER

April 26, 2012

To the Board of Commissioners
Southeast Monmouth Municipal Utilities Authority
Wall, New Jersey

In planning and performing our audit of the financial statements of the Southeast Monmouth Municipal Utilities Authority (the "Authority") for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

However, during our audit, we became aware of a matter that is an opportunity for strengthening internal controls and operating efficiency. This letter does not affect our report dated April 26, 2012 on the financial statements of the Southeast Monmouth Municipal Utilities Authority.

We will review the status of this comment during our next audit engagement. We have already discussed this comment and suggestions with appropriate members of management and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendation.

To the Board of Commissioners
Southeast Monmouth Municipal Utilities Authority
Wall, New Jersey
April 26, 2012
Page 2

Our comment is summarized as follows:

Improve General Ledger Accounting System

During 2011, the Authority implemented a general ledger system maintained by the CFO to record and track its receipts, disbursements and bank balances. However, the general ledger records all revenues and expenses in two accounts and does not split them into separate accounts based upon function or category. Additionally, the Authority is not currently maintaining the records internally for the receipts, disbursements and assets related to their New Jersey Infrastructure Trust ("NJEIT") financing programs. The Authority relies upon the information provided to them by the New Jersey Water Supply Authority, who operates and maintains the Water Treatment Plant/Transmission System under a service agreement. We recommend that the Authority implement a complete general ledger accounting system to fully account for the assets, liabilities, revenues and expenses of the Authority including all NJEIT related transactions.

We believe that the implementation of this recommendation will provide the Southeast Monmouth Municipal Utilities Authority with a stronger system of internal accounting control while also making its operations more efficient. We will be happy to discuss the details of this recommendation with you and assist in any way possible with its implementation. This report is intended solely for the information and use of the Board of Commissioners, management and others within the Authority and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

HUTCHINS, FARRELL, MEYER & ALLISON, P.A.



Robert H. Hutchins

RHH/tln

Southeast Monmouth Municipal Utilities Authority

Financial Statements

Years Ended December 31, 2011 and 2010

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INDEPENDENT AUDITOR'S REPORT

The Board of Commissioners
Southeast Monmouth Municipal Utilities Authority
Wall, New Jersey

We have audited the balance sheets of the Southeast Monmouth Municipal Utilities Authority ("Authority"), as of December 31, 2011 and 2010 and the related statements of revenues, expenses and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits 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 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 Authority at December 31, 2011 and 2010 and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 26, 2012 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government 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 this *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 performed for the purpose of forming an opinion on the financial statements of the Authority taken as a whole. The accompanying financial information listed as Other Supplementary Information in the table of contents is not a required part of the financial statements, but is presented as additional analytical data. The accompanying Schedules of Expenditures of Federal and State Awards are presented for purposes of additional analysis as required by the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are also not a required part of the financial statements. The Other Supplementary Information and the Schedules of Expenditures of Federal and State Awards are the responsibility of management and are derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial 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 as a whole.

Hutchins, Farrell, Meyer & Allison, P.A.
Toms River, New Jersey

April 26, 2012

**SOUTHEAST MONMOUTH
MUNICIPAL UTILITIES AUTHORITY
c/o Wall Township
2700 Allaire Road
Wall, New Jersey 07719**

April 26, 2012

Board of Commissioners of
Southeast Monmouth Municipal Utilities Authority
Wall, New Jersey 07719

The Management's Discussion and Analysis (MD&A) is an element of required supplementary information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – "Basic Financial Statement and Management's Discussion and Analysis for State and Local Governments" issued in June 1999.

Financial Statements

The financial statements included in this report are the Balance Sheets, Statements of Revenues, Expenses, and Changes in Net Assets, and Statements of Cash Flows as of and for the years ended December 31, 2011 and 2010.

The Balance Sheets shows the financial position of the Southeast Monmouth Municipal Utilities Authority (Authority) at December 31st of each year. Assets are compared with Liabilities and Net Assets are the result.

The Statements of Revenues, Expenses, and Changes in Net Assets measure performance for each year and how this performance impacts Net Assets.

Finally, the Statements of Cash Flows demonstrates why cash balances increased or decreased during the year.

Financial Analysis

In September 2009, the Authority issued water treatment facilities revenue bonds and assumed the New Jersey Infrastructure Trust loans of Monmouth County Improvement Authority to acquire the Manasquan water treatment plant and transmission system.

At December 31, 2011 and 2010, the Authority had total assets of \$15.8 million and \$15.9 million, respectively. The Authority received \$4.2 million in loan proceeds from the NJEIT in 2011 as reimbursement for capital expenditures in the same amount. Cash decreased by \$.2 million, accounts receivable increased by \$.3 million, unamortized bond issue costs decreased by \$.1 million and accumulated depreciation increased by \$.2 million.

The Authority's operating revenues of \$5.1 million was primarily treated water revenue from its members under the treated water purchase contracts. Operating expenses were made up of costs of operations and depreciation totaling \$2.7 million. This resulted in operating income of \$2.4 million.

Condensed Financial Information

Key Authority Financial Information for the year includes the following:

	<u>2011</u>	<u>2010</u>
Unrestricted current assets	\$ 3,873,309	\$ 7,747,579
Restricted non-current assets	926,544	1,170,238
Capital Assets, net of accumulated depreciation	10,871,178	6,842,084
Unamortized bond costs	<u>80,614</u>	<u>155,524</u>
Total Assets	<u>\$ 15,751,645</u>	<u>\$15,915,425</u>

LIABILITIES AND NET ASSETS

Current liabilities payable from current assets	\$ 10,000	\$ 10,000
Current liabilities payable from restricted assets	2,412,961	2,376,459
Non-current liabilities	7,006,372	9,448,986
Net Assets:		
Invested in Capital Assets, net of Related Debt	4,031,504	1,801,882
Restricted	2,057,898	662,211
Unrestricted	<u>232,910</u>	<u>1,615,887</u>
Liabilities and Net Assets	<u>\$ 15,751,645</u>	<u>\$15,915,425</u>

Other Financial Information:

Total operating revenue	\$ 5,113,665	\$ 4,983,286
Total operating expenses	<u>(2,655,483)</u>	<u>(2,765,831)</u>
Operating Income	2,458,182	2,217,455
Total Non-Operating Revenues (Expenses)	<u>(215,850)</u>	<u>(208,799)</u>
Change in Net Assets	<u>\$ 2,242,332</u>	<u>\$ 2,008,656</u>

The Authority's financial report is designed to provide users of the financial statements with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. The financial statements of the Authority are a matter of public record and may be examined at 2700 Allaire Road, Wall, New Jersey during the Authority's business hours.

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY
WALL, NEW JERSEY

BALANCE SHEETS

As of December 31, 2011 and 2010

<u>Assets</u>	<u>2011</u>	<u>2010</u>
Current Assets:		
Cash and Cash Equivalents	\$ 262,017	\$ 268,249
Accounts Receivable	1,046,600	738,708
NJEIT Loan Proceeds Receivable	2,564,692	6,740,622
Total Current Assets	<u>3,873,309</u>	<u>7,747,579</u>
Non-Current Assets:		
Restricted Assets:		
Cash and Cash Equivalents	926,544	1,170,238
Unamortized Bond Issue Costs	80,614	155,524
Total Non-Current Assets	<u>1,007,158</u>	<u>1,325,762</u>
Capital Assets:		
Construction in Progress	5,419,826	1,243,894
Property, Plant and Equipment	5,816,548	5,816,548
Less: Accumulated Depreciation	(365,196)	(218,358)
Net Capital Assets	<u>10,871,178</u>	<u>6,842,084</u>
Total Assets	<u>\$ 15,751,645</u>	<u>\$ 15,915,425</u>
<u>Liabilities and Net Assets</u>		
Current Liabilities Payable From Current Assets:		
Accounts Payable and Accrued Expenses	\$ 10,000	\$ 10,000
Total Current Liabilities Payable From Current Assets	<u>10,000</u>	<u>10,000</u>
Current Liabilities Payable From Restricted Assets:		
Current Portion of Bonds Payable	1,880,000	1,845,000
Current Portion of Loans Payable - NJEIT	532,961	531,459
Total Current Liabilities Payable From Restricted Assets	<u>2,412,961</u>	<u>2,376,459</u>
Non-Current Liabilities:		
Long-Term Portion of Bonds Payable	-	1,880,000
Long-Term Portion of Loans Payable - NJEIT	6,991,405	7,524,365
Unamortized Bond Premium, Net	14,967	44,621
Total Non-Current Liabilities	<u>7,006,372</u>	<u>9,448,986</u>
Total Liabilities	<u>9,429,333</u>	<u>11,835,445</u>
Net Assets:		
Invested in Capital Assets, net of Related Debt Restricted	4,031,504	1,801,882
Bond Service Fund	1,922,300	579,528
Renewal and Replacement Fund	135,598	82,683
Unrestricted	232,910	1,615,887
Total Net Assets	<u>6,322,312</u>	<u>4,079,980</u>
Total Liabilities and Net Assets	<u>\$ 15,751,645</u>	<u>\$ 15,915,425</u>

See Independent Auditor's Report and accompanying notes to financial statements.

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY
WALL, NEW JERSEY

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS

Years ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating Revenue:		
Treated Water Revenue	\$ 5,113,665	\$ 4,983,286
Operating Expenses:		
Cost of Operations	2,508,645	2,619,942
Depreciation	146,838	145,889
Total Operating Expenses	<u>2,655,483</u>	<u>2,765,831</u>
Operating Income	<u>2,458,182</u>	<u>2,217,455</u>
Non-Operating Revenues (Expenses):		
Amortization of Bond Issue Costs	(74,909)	(104,266)
Amortization of Bond Premium	29,654	44,064
Interest Income	105	520
Interest Expense	(170,700)	(149,117)
Total Non-Operating Revenues (Expenses)	<u>(215,850)</u>	<u>(208,799)</u>
Change in Net Assets	2,242,332	2,008,656
Total Net Assets - Beginning of Year	<u>4,079,980</u>	<u>2,071,324</u>
Total Net Assets - Ending of Year	<u>\$ 6,322,312</u>	<u>\$ 4,079,980</u>

See Independent Auditor's Report and
accompanying notes to financial statements.

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY
WALL, NEW JERSEY

STATEMENTS OF CASH FLOWS

Years ended December 31, 2011 and 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash Received From Members	\$ 4,805,773	\$ 5,088,310
Payments To Suppliers	(2,508,645)	(2,619,942)
Net Cash Provided By Operating Activities	2,297,128	2,468,368
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and Construction of Capital Assets	(4,175,932)	(1,262,888)
NJEIT Loan Proceeds Received	4,175,932	1,243,896
Principal Payments - Bonds	(1,845,000)	(1,810,000)
Principal Payments - Loans	(531,458)	(359,138)
Interest Payments	(170,701)	(149,117)
Costs of Issuance	-	(96,069)
Net Cash Used In Capital and Related Financing Activities	(2,547,159)	(2,433,316)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Income	105	520
Net (Decrease) Increase in Cash and Cash Equivalents	(249,926)	35,572
Cash and Cash Equivalents - Beginning of Year	1,438,487	1,402,915
Cash and Cash Equivalents - End of Year	\$ 1,188,561	\$ 1,438,487
Cash and Cash Equivalents Per Financial Statements:		
Unrestricted Cash and Cash Equivalents	\$ 262,017	\$ 268,249
Restricted Cash and Cash Equivalents	926,544	1,170,238
Total Cash and Cash Equivalents Per Financial Statements:	\$ 1,188,561	\$ 1,438,487
Reconciliation of Operating Income To Net Cash Provided By Operating Activities:		
Operating Income	\$ 2,458,182	\$ 2,217,455
Adjustments To Reconcile Operating Income To Net Cash Provided By Operating Activities:		
Depreciation	146,838	145,889
Changes in Assets and Liabilities:		
Accounts Receivable	(307,892)	105,024
Net Cash Provided By Operating Activities	\$ 2,297,128	\$ 2,468,368

See Independent Auditor's Report and
accompanying notes to financial statements.

Southeast Monmouth Municipal Utilities Authority

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

Note 1: General

The Southeast Monmouth Municipal Utilities Authority ("Authority"), a public body, was created in 2008 and began operations in August 2009 to purchase and operate the Manasquan Water Treatment Plant and Transmission System (the "System") in order to maintain, operate and improve the System and to foster and promote the provision and distribution of an adequate supply of water for public and private use. The Authority serves the Borough of Brielle, the Borough of Sea Girt, the Borough of Spring Lake, the Borough of Spring Lake Heights, and the Township of Wall. Each participating municipality is defined as a "Member." The Authority has entered into a Treated Water Purchase Contract with each of its Members, obligating each Member to make payments to the Authority for its proportionate share of the Authority's operating expenses, debt service and required reserves.

The Authority was established pursuant to parallel ordinances adopted by each of the Member municipalities as a body corporate and politic of the State of New Jersey, organized and existing under and pursuant to the Municipal Utilities Authorities Law (N.J.S.A. 40:14B-1, et seq.).

New Jersey statutes provide for the creation, dissolution and operations of separate bodies corporate and politic for the purpose of fostering the provision and distribution of an adequate supply of water and the collection, treatment, disposal and recycling of wastewater and sewage sludge. The statutes were enacted as the "Municipal and Counties Utilities Authorities Act", and are codified in New Jersey Statutes annotated as N.J.S.A. 40:14B-1 et seq. Additional statutory requirements relating to the financial operations of independent local authorities were established as the "Local Authorities Fiscal Control Law", which is codified as N.J.S.A. 40A:5A-1 et seq. The provisions of the Local Authorities Fiscal Control Law established the Local Finance Board and the Division of Local Government Services, in the Department of Community Affairs, State of New Jersey, as oversight agencies for the creation, project financing, budgeting and overall financial condition of local authorities.

The Board of Commissioners of the Authority consists of five members, appointed by each of the Member municipalities.

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

A. Reporting Entity

The Authority is considered to be a legally separate entity, stand-alone governmental unit under accounting principles generally accepted in the United States of America (GAAP). This determination is based on three factors; the Authority is able to determine its budget without another government having the authority to approve and modify that budget, the Authority is able to set rates without approval from another government, and the Authority has the ability to issue debt without the approval of another government.

Southeast Monmouth Municipal Utilities Authority

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

Note 1: General (continued)

B. Basis of Presentation

The financial statements of the Authority have been prepared in accordance with GAAP applicable to enterprise funds of state and local governments. Enterprise funds are used to account for operations:

- (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing 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, accountability or other purposes.

Note 2: Summary of Significant Accounting Policies

A. Basis of Accounting

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to government entities. The Government Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. As permitted by accounting principles generally accepted in the United States of America, the Authority has elected to apply only Financial Accounting Standards Board ("FASB") Statements and Interpretations issued on or before November 30, 1989.

The Authority prepares its financial statements on an Enterprise Fund basis. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private businesses where the intent is that all costs of providing certain goods and services to the general public be financed or recovered primarily through user charges, or where it has been deemed that periodic determination of net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Accordingly, the Authority's financial statements are presented on the accrual basis of accounting. Revenues from operations, investments, and other sources are recorded when earned and expenses are recorded when liabilities are incurred.

B. Cash and Cash Equivalents

Cash and Cash Equivalents include interest-bearing accounts and short-term investments with an original maturity of three months or less, carried at market value.

C. Accounts Receivable

The Authority's Members make quarterly payments to the Authority based on the annual Treated Water Purchase Contract. Due to the bill paying methods of Members, the final

Southeast Monmouth Municipal Utilities Authority

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

Note 2: Summary of Significant Accounting Policies (continued)

C. Accounts Receivable (continued)

quarterly payment for the year may not be received by the Authority prior to year end. These amounts are reflected as accounts receivable in the accompanying balance sheet. No allowance for doubtful accounts has been established since all balances are deemed collectible.

D. Restricted Assets

The Authority is operating under a bond resolution adopted March 26, 2009.

Pursuant to the bond resolution, the Authority established the following funds:

Revenue Fund – assets held by the Bond Trustee consisting of all revenues received by the Authority. Withdrawals are made for payment to the Authority's other funds for authorized operating expenses and transfers to the other funds subject to limitations.

Operating Fund – assets held by the Authority for reasonable and necessary operating expenses. The Trustee transfers necessary funds from the Revenue Fund to meet the Operating Fund requirement quarterly, no later than the tenth business day of the first month of the quarter.

Bond Service Fund – assets held by the Trustee sufficient to meet the next succeeding interest payment, principal payment and sinking fund installment. The Trustee transfers necessary funds from the Revenue Fund to meet the Bond Service requirement.

Sinking Fund – assets held by the Trustee to meet the sinking fund requirements on outstanding bonds, as required by the applicable bond resolutions.

Bond Reserve Fund – assets held by the Trustee in an amount equal to or exceeding: i. bond reserve requirement, ii. any unpaid interest which is then due and payable on outstanding bonds plus the interest to become due on outstanding bonds on or before the next succeeding interest payment date plus the principal amount of outstanding bonds maturing at or before the next succeeding principal maturity date of the bonds.

Renewal and Replacement Fund – assets held to be used for the payment of extraordinary operation and maintenance costs and contingencies.

Rebate Fund – assets held to be used for amounts which are required to be rebated to the United States government.

General Fund – assets held, which, if free and clear of any lien or pledge created by the Resolution, may be spent for any lawful purpose.

Southeast Monmouth Municipal Utilities Authority

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

Note 2: Summary of Significant Accounting Policies (continued)

E. Property, Plant and Equipment

Property, Plant and Equipment is stated at cost and includes direct construction costs, other expenditures related to construction, and certain professional and administrative costs. System construction costs are charged to construction in progress until such time as each segment of the system is completed and put into operation.

Depreciation is determined on a straight-line basis for all plant and equipment. Present policy is to record half year depreciation in the year of purchase. Acquisitions and improvements greater than \$10,000 are capitalized. Depreciation is provided over 40 years for the water treatment and transmission system and 10 years for equipment.

F. Bond Issuance Costs

Bond issuance costs related to the 2009 revenue bonds of \$209,851 are being amortized using the bonds outstanding method which approximates the effective interest method. Amortization expense of \$70,170 and \$104,266 has been recorded for the years ended December 31, 2011 and 2010.

Net issuance costs related to the 2010 NJEIT loans of \$49,939 are being amortized using the loans outstanding method which approximates the effective interest rate method. Amortization expense of \$4,740 and \$0 has been recorded in the years ended December 31, 2011 and 2011.

Accumulated amortization as of December 31, 2011 and 2010 is \$179,176 and \$104,266, respectively. Unamortized bond issuance costs were \$80,614 and \$155,524 at December 31, 2011 and 2010, respectively.

G. Unamortized Bond Premium

As of December 31, 2011 and 2010, a bond premium in the amount of \$88,685 is being amortized using the bonds outstanding method which approximates the effective interest method. Net accumulated amortization at December 31, 2011 and 2010, is \$73,718 and \$44,064, respectively.

H. Restricted Net Assets

Net assets are restricted for specific uses as required by the Authority's bond resolutions. The purpose for each is indicated on the face of the balance sheet and is explained in Note 2D.

Southeast Monmouth Municipal Utilities Authority

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

Note 3: Cash and Cash Equivalents and Investments

The Authority's investment practices are governed by New Jersey State Statute 40A:5-15.

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

N.J.S.A. 17:9-42 requires New Jersey governmental units to deposit public funds only in public depositories located in New Jersey, where the funds are protected from loss under the provisions of the Governmental Unit Deposit Protection Act ("GUDPA"). New Jersey statutes require public depositories to maintain collateral for deposit of public funds that exceed insurance limits based on specific criteria outlined in the statutes.

Following is a summary of the Authority's deposits:

<u>Depository Account</u>	<u>2011</u>	<u>Bank Balance</u>	<u>2010</u>
Insured:			
FDIC	\$ 250,201		\$ 250,035
Collateralized:			
GUDPA	<u>938,360</u>		<u>1,188,452</u>
	<u>\$ 1,188,561</u>		<u>\$ 1,438,487</u>

The carrying amount of the Authority's Cash and Cash Equivalents as of December 31, 2011 was \$1,188,561 and the bank balance was \$1,188,561. Of the bank balance, \$250,201 was covered by federal depository insurance and \$938,360 was invested in Government Money Market Mutual Funds.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the government's deposits may not be returned to it. GUDPA does not protect intermingled trust funds such as salary withholdings. The Authority had no such trust funds at December 31, 2011 and 2010.

Investments

As of December 31, 2011 and 2010, the Authority had no investments.

Southeast Monmouth Municipal Utilities Authority

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

Note 4: Capital Assets

Capital Asset activity for the year ended December 31, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Water Treatment and Transmission System	\$ 5,797,554	\$ -	\$ -	\$ 5,797,554
Equipment	18,994	-	-	18,994
Less Accumulated Depreciation	<u>(218,358)</u>	<u>(146,838)</u>	<u>-</u>	<u>(365,196)</u>
Total Capital Assets Being Depreciated, Net of Accumulated Depreciation	5,598,190	(146,838)	-	5,451,352
Construction In Progress	<u>1,243,894</u>	<u>4,175,932</u>	<u>-</u>	<u>5,419,826</u>
Capital Assets	<u>\$ 6,842,084</u>	<u>\$ 4,029,094</u>	<u>\$ -</u>	<u>\$ 10,871,178</u>

Note 5: Long-Term Debt

Bonds Payable

In September 2009, the Authority issued Water Treatment Facilities Revenue Bonds, Series 2010A (Revenue Bonds) totaling \$5,535,000. The proceeds from the bonds were used to acquire the wastewater treatment and transmission system from the Monmouth County Improvement Authority (MCIA). Interest on the bonds ranges from 1.5% to 2.25%. Future principal payment on these bonds is:

2012 \$1,880,000

Loans Payable - New Jersey Environmental Infrastructure Trust

In addition to the bond proceeds paid to MCIA, the Authority assumed MCIA's New Jersey Environmental Infrastructure Trust (NJEIT) loans payable on the System as part of the transaction to purchase the System. The loan consists of a trust portion and a fund portion. The balance of the trust loan at the time of acquisition was \$250,000 with interest of 5%. The amount of the fund loan assumed was \$226,574, interest free. Future principal payment on this loan is:

2012 \$ 158,467

Southeast Monmouth Municipal Utilities Authority

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

Note 5: Long-Term Debt (continued)

Loans Payable - New Jersey Environmental Infrastructure Trust (continued)

In 2010, the Authority obtained a loan from NJEIT for instrumentation improvements in the water treatment plant. The loan consists of a trust portion and a fund portion payable through August 2029. The trust loan of \$746,959 has an interest rate of 3.38%. Repayments of the trust loan include a New Jersey Department of Environmental Protection fee of \$30,585 being repaid over a period of four years and an annual NJEIT fee of \$2,241 for the life of the loan. The fund loan of \$2,293,888 is interest free. Future principal payments on this loan are:

2012	\$ 143,452
2013	145,368
2014	145,368
2015	147,283
2016	149,198
Thereafter	<u>2,090,882</u>
	<u>\$ 2,821,551</u>

In addition, the Authority obtained a NJEIT loan in 2010 for ozone upgrade at the water treatment plant. The loan consists of a trust portion and a fund portion payable through August 2029. The trust loan of \$1,203,041 has an interest rate of 3.38%. Repayments on the trust loan include a New Jersey Department of Environmental Protection fee of \$49,260 being repaid over four years and an annual NJEIT fee of \$3,609 for the life of the loan. The fund loan of \$3,694,501 is interest free. Future principal payments on this loan are:

2012	\$ 231,042
2013	234,127
2014	234,127
2015	237,212
2016	240,296
Thereafter	<u>3,367,544</u>
	<u>\$ 4,544,348</u>

The following summarizes activity in long-term debt for the year ended December 31, 2011.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Repayments</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Bond Payable	\$ 3,725,000	\$ -	\$(1,845,000)	\$ 1,880,000	\$ 1,880,000
NJEIT Loans	<u>8,055,824</u>	<u>-</u>	<u>(531,458)</u>	<u>7,524,366</u>	<u>532,961</u>
Total Bonds and Loans Payable	<u>\$ 11,780,824</u>	<u>\$ -</u>	<u>\$(2,376,458)</u>	<u>\$ 9,404,366</u>	<u>\$ 2,412,961</u>

Southeast Monmouth Municipal Utilities Authority

Notes to Financial Statements

Years Ended December 31, 2011 and 2010

Note 6: Subsequent Events - Date of Management Evaluation

Management has evaluated events occurring after December 31, 2011 for possible adjustment to or disclosure in the financial statements through April 26, 2012, the date on which the financial statements were available to be issued.

No subsequent events requiring recognition or disclosure in the financial statements were identified by the Authority.

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY
WALL, NEW JERSEY

SCHEDULE OF REVENUE BOND SERVICE REQUIREMENTS, BY YEARS
SERIES 2009
\$5,535,000

<u>Due During Fiscal Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,880,000	\$ 42,300	\$ 1,922,300
	<hr/>	<hr/>	<hr/>
	<u>\$ 1,880,000</u>	<u>\$ 42,300</u>	<u>\$ 1,922,300</u>

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY
WALL, NEW JERSEY

SCHEDULE OF NJEIT DEBT SERVICE REQUIREMENTS, BY YEARS
SERIES 2002A
\$476,574

Due During Fiscal Years Ending <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 158,467	\$ 4,250	\$ 162,717
	<u>\$ 158,467</u>	<u>\$ 4,250</u>	<u>\$ 162,717</u>

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY
WALL, NEW JERSEY

SCHEDULE OF NJEIT DEBT SERVICE REQUIREMENTS, BY YEARS
SERIES 2010A
Loan # 1352005-003
\$3,040,847

Due During Fiscal Years Ending <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 143,452	\$ 30,798	\$ 174,250
2013	145,368	29,457	174,825
2014	145,368	28,020	173,388
2015	147,283	26,584	173,867
2016	149,198	25,052	174,250
2017	151,113	23,424	174,537
2018	153,029	21,700	174,729
2019	153,029	19,880	172,909
2020	154,944	18,425	173,369
2021	156,859	16,510	173,369
2022	158,774	15,303	174,077
2023	160,690	13,618	174,308
2024	162,605	11,856	174,461
2025	164,520	10,017	174,537
2026	166,436	8,102	174,538
2027	166,436	6,359	172,795
2028	170,266	4,367	174,633
2029	172,181	2,222	174,403
	<u>\$ 2,821,551</u>	<u>\$ 311,694</u>	<u>\$ 3,133,245</u>

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY
WALL, NEW JERSEY

SCHEDULE OF NJEIT DEBT SERVICE REQUIREMENTS, BY YEARS
SERIES 2010A
Loan # 1352005-002
\$4,897,542

Due During Fiscal Years Ending December 31,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 231,042	\$ 49,602	\$ 280,644
2013	234,127	47,443	281,570
2014	234,127	45,129	279,256
2015	237,212	42,816	280,028
2016	240,296	40,348	280,644
2017	243,381	37,726	281,107
2018	246,466	34,950	281,416
2019	246,466	32,019	278,485
2020	249,550	29,675	279,225
2021	252,635	26,590	279,225
2022	255,720	24,647	280,367
2023	258,804	21,932	280,736
2024	261,889	19,094	280,983
2025	264,974	16,133	281,107
2026	268,059	13,048	281,107
2027	268,059	10,241	278,300
2028	274,228	7,033	281,261
2029	277,313	3,578	280,891
	<u>\$ 4,544,348</u>	<u>\$ 502,004</u>	<u>\$ 5,046,352</u>

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY
WALL, NEW JERSEY

COMPARISON OF REVENUES AND COSTS
(BUDGETARY BASIS)

Year ended December 31, 2011

	2011 <u>Budget</u>	2011 <u>Actual</u>	Variance Favorable/ <u>(Unfavorable)</u>
Revenues:			
Treated Water Revenue	\$ 5,113,665	\$ 5,113,665	\$ -
Costs of Providing Services:			
Operations	2,435,729	2,435,724	5
Renewal & Replacement Reserve	60,000	7,090	52,910
Administrative	43,000	65,831	(22,831)
Total Costs of Providing Services	<u>2,538,729</u>	<u>2,508,645</u>	<u>30,084</u>
Other Costs Funded By Revenues:			
Principal Maturity	2,376,459	2,376,459	-
Interest Expense	198,477	170,700	27,777
Total Other Costs Funded By Revenues	<u>2,574,936</u>	<u>2,547,159</u>	<u>27,777</u>
Total Costs Funded By Operating Revenues	<u>5,113,665</u>	<u>5,055,804</u>	<u>57,861</u>
Budgetary Revenues Over Expenses	<u>\$ -</u>	<u>\$ 57,861</u>	<u>\$ 57,861</u>

Reconciliation of Budgetary Basis to Net Change in Net Assets:

Budgetary Revenues Over Expenses	\$ 57,861
Adjustments to Budgetary Basis:	
Principal Maturities	2,376,459
Interest Income	105
Depreciation	(146,838)
Amortization	(45,255)
Total Adjustments	<u>2,184,471</u>
Net Change in Net Assets	<u>\$ 2,242,332</u>

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF EXPENDITURES OF STATE AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2011

State Grantor/Program Title	State Account Number	Grant Award Amount	(Memo) Cash Received	Grant Period		Fiscal Year	Cumulative Expenditures
				From	To		
Department of Environmental Protection Agency:							
NJ Environmental Infrastructure Trust Program:							
Rehabilitation of the Ozone System:							
2010 NJEIT Trust Loan	4840 707 031 11	1,231,500	700,822	3/10/10	08/01/29	700,822	941,315
Instrumentation and Control System Rehabilitation:							
2010 NJEIT Trust Loan	4840 707 031 12	764,629	343,163	3/10/10	08/01/29	343,163	413,645
Totals		\$ 1,996,129	\$ 1,043,985			\$ 1,043,985	\$ 1,354,960

Southeast Monmouth Municipal Utilities Authority

Comments and Recommendations

Year Ended December 31, 2011

None noted.

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY
WALL, NEW JERSEY

BOARD OF COMMISSIONERS AND MANAGEMENT

December 31, 2011

Bryan Dempsey, Spring Lake	Chairman
Kevin Thompson, Sea Girt	Vice - Chairman
Joseph Verruni, Wall Township	Commissioner and Executive Director
Thomas Nolan, Brielle	Commissioner
Art Herner, Spring Lake Heights	Commissioner
Steve Mayer	CFO
Henry Patterson	NJWSA Executive Director
Beth Gates	Director of Finance and Administration of NJWSA

Hutchins, Farrell, Meyer & Allison, P.A.

Certified Public Accountants • Business & Financial Advisors

Robert H. Hutchins, CPA, CVA
Eugene M. Farrell, CPA, RMA, CFP
Robert W. Allison, CPA, RMA
Alan E. Meyer, CPA/ABV, CFF
Joann DiLieto, CPA

Patrice R. Antonucci, CPA
Glenn G. VanPell, CPA
Karen D. Davis, CPA, CVA
Crystal L. Fitzpatrick, CPA
Hélène T. Morizzo, CPA

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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
Southeast Monmouth Municipal Utilities Authority
Wall, New Jersey

We have audited the basic financial statements of the Southeast Monmouth Municipal Utilities Authority ("Authority") as of and for the year ended December 31, 2011, and have issued our report thereon dated April 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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, Department of Community Affairs, Division of Local Government Services.

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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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*.

We noted certain matters that we reported to management of Southeast Monmouth Municipal Utilities Authority in a separate letter dated April 26, 2012.

This report is intended for the information and use of the management of the Authority, the Board of Commissioners, the State of New Jersey, Department of Community Affairs, Division of Local Government, as well as other federal and state awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Hutchins, Farrell, Meyer & Allison, P.A.
Toms River, New Jersey

April 26, 2012

Hutchins, Farrell, Meyer & Allison, P.A.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND NEW JERSEY OMB CIRCULAR 04-04

The Board of Commissioners
Southeast Monmouth Municipal Utilities Authority
Wall, New Jersey

Compliance

We have audited Southeast Monmouth Municipal Utilities Authority's (the "Authority") compliance with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular *A-133 Compliance Supplement* and New Jersey OMB Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid* that could have a direct and material effect on Southeast Monmouth Municipal Utilities Authority's major federal and state programs for the year ended December 31, 2011. Southeast Monmouth Municipal Utilities Authority's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs is the responsibility of the Southeast Monmouth Municipal Utilities Authority's management. Our responsibility is to express an opinion on the Southeast Monmouth Municipal Utilities Authority's compliance based on our audit.

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

In our opinion, Southeast Monmouth Municipal Utilities Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended December 31, 2011.

Internal Control Over Compliance

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

A deficiency in 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 and correct, noncompliance with a type of compliance requirement of a federal and state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal and state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of 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 over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Commissioners, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hutchins, Farrell, Meyer & Allison, P.A.
Toms River, New Jersey

April 26, 2012

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2011

<u>Federal Grantor/Pass-through Grantor</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity ID Number</u>	<u>Expenditures</u>
U.S. Department of Environmental Protection Agency:			
Pass Through N.J. Department of Environmental Protection Agency			
Capitalization Grants for Drinking Water:			
Rehabilitation of the Ozone System	66.468	4840 707 031 11	\$ 2,102,461
Instrumentation and Control System Rehabilitation	66.468	4840 707 031 12	<u>1,029,484</u>
Total			<u>\$ 3,131,945</u>

See Independent Auditor's Report and
Accompanying Notes