

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY

YEARS ENDED DECEMBER 31, 2012 AND 2011

FINANCIAL STATEMENTS AND

SUPPLEMENTARY INFORMATION

WITH

INDEPENDENT AUDITOR'S REPORTS

AND

COMMENTS AND RECOMMENDATIONS

ROBERT A. HULSART AND COMPANY
Certified Public Accountants

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SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2012 AND 2011

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1.

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the Southeast Monmouth Municipal Utilities Authority (the "Authority"), in the County of Monmouth, State of New Jersey, as of and for the year ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority, in the County of Monmouth, State of New Jersey, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information as listed on the table of contents 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 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 opinions on the financial statements that collectively comprise the Authority's basic financial statements. The introductory section and supplemental information, listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplemental information, referred to in the preceding paragraph, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory section listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

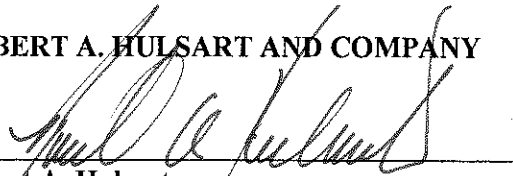
The accompanying schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and New Jersey OMB's Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid respectively, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2013 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Respectfully submitted,

ROBERT A. HULSART AND COMPANY



Robert A. Hulsart
Certified Public Accountant
Robert A. Hulsart and Company
Wall Township, New Jersey

October 4, 2013

SOUTHEAST MONMOUTH MUNICIPAL**UTILITIES AUTHORITY**

c/o Wall Township
2700 Allaire Road
Wall, New Jersey 07719

October 4, 2013

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 Standard Boards (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, Statement of Revenues, Expenses, and Changes in Net Position, and Statements of Cash Flows as of and for the years ended December 31, 2012 and 2011.

The balance sheets show the financial position of the Southeast Monmouth Municipal Utilities Authority (the "Authority") at December 31st of each year. Assets are compared with Liabilities and Net Position are the result.

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

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, 2012 and 2011, the Authority had total assets of \$21.7 million and \$15.8 million, respectively. The Authority received \$1.7 million in loan proceeds from the NJEIT in 2012 as reimbursement for capital expenditures in the same amount. Cash decreased by \$.1 million, accounts receivable decreased by \$.1 million, unamortized bond issue costs decreased by \$.05 million and accumulated depreciation increased by \$1.6 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 and operations and depreciation totaling \$2.7 million. This resulted in operating income of \$2.3 million.

Condensed Financial Information

Key Authority financial information for the year includes the following:

ASSETS

	<u>2012</u>	<u>2011</u>
Unrestricted Currents Assets	\$ 7,844,541	3,873,309
Restricted Non-Current Assets	1,300,246	926,544
Capital Assets, Net of Accumulated Depreciation	12,520,260	10,871,178
Unamortized Bond Costs	<u>40,681</u>	<u>80,614</u>
Total Assets	<u>\$ 21,705,728</u>	<u>15,751,645</u>

LIABILITIES AND NET POSITION

Current Liabilities Payable from Current Assets	\$ 10,000	10,000
Current Liabilities Payable from Restricted Assets	6,472,773	2,412,961
Non-Current Liabilities	6,611,910	7,006,372
Net Assets:		
Invested in Capital Assets, Net of Related Debt	6,331,356	4,031,504
Restricted	151,602	2,057,898
Unrestricted	<u>2,128,087</u>	<u>232,910</u>
Total Liabilities and Net Position	<u>\$ 21,705,728</u>	<u>15,751,645</u>

Other Financial Information

Total Operating Revenue	\$ 5,104,510	5,113,665
Total Operating Expenses	<u>(2,707,100)</u>	<u>(2,655,483)</u>
Operating Income	2,397,410	2,458,182
Total Non-Operating Revenues (Expenses)	<u>(108,677)</u>	<u>(215,850)</u>
Change in Net Position	<u>\$ 2,288,733</u>	<u>2,242,332</u>

The Authority's financial report is designated 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.

BALANCE SHEETSAS OF DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
<u>Assets</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 221	262,017
Accounts Receivable	948,541	1,046,600
NJEIT Loan Proceeds Receivable	6,895,779	2,564,692
Total Current Assets	<u>7,844,541</u>	<u>3,873,309</u>
Non-Current Assets:		
Restricted Assets:		
Cash and Cash Equivalents	1,300,246	926,544
Unamortized Bond Issue Costs	40,681	80,614
Total Non-Current Assets	<u>1,340,927</u>	<u>1,007,158</u>
Capital Assets:		
Construction in Progress	7,182,017	5,419,826
Property, Plant and Equipment	5,862,388	5,816,548
Less: Accumulated Depreciation	(524,145)	(365,196)
Total Net Capital Assets	<u>12,520,260</u>	<u>10,871,178</u>
Total Assets	<u>\$21,705,728</u>	<u>15,751,645</u>
<u>Liabilities and Net Position</u>		
Current Liabilities Payable from Current Assets:		
Accounts Payable and Accrued Expenses	\$ 10,000	10,000
Total Current Liabilities and 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
Current Portion of Loans Payable - NJEIT	6,472,773	532,961
Total Current Liabilities Payable from Restricted Assets:	<u>6,472,773</u>	<u>2,412,961</u>
Non-Current Liabilities:		
Long-Term Portion of Loans Payable - NJEIT	6,611,910	6,991,405
Unamortized Bond Premium, Net		14,967
Total Non-Current Liabilities	<u>6,611,910</u>	<u>7,006,372</u>
Total Liabilities	<u>13,094,683</u>	<u>9,429,333</u>
Net Position:		
Invested in Capital Assets, Net of Related Debt	6,331,356	4,031,504
Restricted:		
Bond Service Fund		1,922,300
Renewal and Replacement Fund	151,602	135,598
Unrestricted	2,128,087	232,910
Total Net Position	<u>8,611,045</u>	<u>6,322,312</u>
Total Liabilities and Net Position	<u>\$21,705,728</u>	<u>15,751,645</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2012 AND 2011

Exhibit B

	<u>2012</u>	<u>2011</u>
Operating Revenue:		
Treated Water Revenue	\$ 5,104,510	5,113,665
Operating Expenses:		
Cost of Operations	2,550,866	2,508,645
Depreciation	156,234	146,838
Total Operating Expenses	<u>2,707,100</u>	<u>2,655,483</u>
Operating Income	<u>2,397,410</u>	<u>2,458,182</u>
Non-Operating Revenues (Expenses):		
Amortization of Bond Issue Costs	(39,933)	(74,909)
Amortization of Bond Premium	14,967	29,654
Interest Income	114	105
Interest Expense	(126,950)	(170,700)
Total No-Operating Revenues (Expenses)	<u>(151,802)</u>	<u>(215,850)</u>
Adjustment for Prior Year Fixed Assets	43,125	
Change in Net Position	2,288,733	2,242,332
Total Net Position - Beginning of Year	<u>6,322,312</u>	<u>4,079,980</u>
Total Net Position - End of Year	<u>\$ 8,611,045</u>	<u>6,322,312</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY

STATEMENTS OF CASH FLOWS

Exhibit C

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities:		
Cash Received from Members	\$ 5,203,769	4,805,773
Payments to Suppliers	(2,552,066)	(2,508,645)
Net Cash Provided by Operating Activities	<u>2,651,703</u>	<u>2,297,128</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	(1,762,191)	(4,175,932)
NJEIT Loan Proceeds Received	1,762,191	4,175,932
Principal Payments - Bonds	(1,880,000)	(1,845,000)
Principal Payments - Loans	(532,961)	(531,458)
Interest Payments	(126,950)	(170,701)
Cost of Issuance	(2,539,911)	(2,547,159)
Net Cash Used in Capital and Related Financing Activities		
Cash Flows from Investing Activities:		
Interest Income	<u>114</u>	<u>105</u>
Net (Decrease) Increase in Cash and Cash Equivalents	111,906	(249,926)
Cash and Cash Equivalents - Beginning of Year	<u>1,188,561</u>	<u>1,438,487</u>
Cash and Cash Equivalents - End of Year	<u>\$ 1,300,467</u>	<u>1,188,561</u>
Cash and Cash Equivalents Per Financial Statements:		
Unrestricted Cash and Cash Equivalents	\$ 221	262,017
Restricted Cash and Cash Equivalents	<u>1,300,246</u>	<u>926,544</u>
Total Cash and Cash Equivalents Per Financial Statements	<u>\$ 1,300,467</u>	<u>1,188,561</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income	\$ 2,397,413	2,458,182
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	156,234	146,838
Changes in Assets and Liabilities:		
Accounts Receivable	<u>98,059</u>	<u>(307,892)</u>
Net Cash Provided by Operating Activities	<u>\$ 2,651,706</u>	<u>2,297,128</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2012 AND 2011

NOTE 1: General

The Southeast Monmouth Municipal Utilities Authority (the "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 participated municipality is defined as a "Member". The Authority 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 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 conditions 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 statutes, 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.

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 cost (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 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.

NOTE 2: Summary of Significant Accounting Policies (Continued)

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.

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 year for the water treatment and transmission system and 10 years for equipment.

NOTE 2: Summary of Significant Accounting Policies (Continued)**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 \$35,415 and \$70,170 has been recorded for the years ended December 31, 2012 and 2011.

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 \$4,519 and \$4,740 has been recorded in the years ended December 31, 2012 and 2011.

Accumulated amortization as of December 31, 2012 and 2011 is \$219,110 and \$179,176 respectively. Unamortized bond issuance costs were \$40,681 and \$80,614 at December 31, 2012 and 2011, respectively.

G. Unamortized Bond Premium

As of December 31, 2012 and 2011, 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, 2012 and 2011 is \$88,685 and \$73,718, respectively. The bond premium is fully amortized as of December 31, 2012.

H. Restricted Net Position

Net position 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.

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.

NOTE 3: Cash and Cash Equivalents and Investments (Continued)

Following is a summary of the Authority's deposits:

<u>Depository Account</u>	<u>Bank Balance</u>	
	<u>2012</u>	<u>2011</u>
Insured:		
FDIC	\$ 250,221	250,201
Collateralized:		
GUDPA	<u>1,050,246</u>	<u>938,360</u>
	<u>\$ 1,300,467</u>	<u>1,188,561</u>

The carrying amount of the Authority's cash and cash equivalents as of December 31, 2012 was \$1,300,467 and the bank balance was \$1,300,467. Of the bank balance, \$250,221 was covered by federal depository insurance and \$1,050,246 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, 2012 and 2011.

Investments

As of December 31, 2012 and 2011, the Authority had no investments.

NOTE 4: Capital Assets

Capital Asset activity for the year ended December 31, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Water Treatment and Transition System	\$ 5,797,554			5,797,554
Equipment	<u>18,994</u>	<u>30,032</u>	<u>15,808</u>	<u>64,834</u>
	<u>5,816,548</u>	<u>30,032</u>	<u>15,808</u>	<u>5,862,388</u>
Accumulated Depreciation:				
Water Treatment and Transition System	(362,347)	(144,939)		(507,286)
Equipment	<u>(2,849)</u>	<u>(11,295)</u>	<u>(2,715)</u>	<u>(16,859)</u>
	<u>(365,196)</u>	<u>(156,234)</u>	<u>(2,715)</u>	<u>(524,145)</u>
Net Depreciable Assets	5,451,352	(126,202)	13,093	5,338,243
Construction in Progress	<u>5,419,826</u>	<u>1,762,191</u>		<u>7,182,017</u>
Capital Assets (Net)	<u>\$ 10,871,178</u>	<u>1,635,989</u>	<u>13,093</u>	<u>12,520,260</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%. These bonds were paid in full during 2012.

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. This loan was paid in full in 2012.

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:

2013	\$ 145,368
2014	145,368
2015	147,283
2016	149,198
2017	151,113
Thereafter	<u>1,939,769</u>
	<u>\$ 2,678,099</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:

2013	\$ 234,127
2014	234,127
2015	237,212
2016	240,296
2017	243,381
Thereafter	<u>3,124,163</u>
	<u>\$ 4,313,306</u>

\$ 4,313,306

NOTE 5: Long-Term Debt (Continued)

Loans Payable – New Jersey Environmental Infrastructure Trust (Continued)

In addition, the Authority obtained a NJEIT loan in 2012 interim financing relating to Environmental Infrastructure Trust Improvements. The trust loan was for \$6,093,278 with an interest rate of 0.00%. The loan was issued on August 15, 2012 with a maturity date of May 2, 2013. Future payments on the loan are as follows:

2013 \$ 6,093,278

The following summarizes activity in long-term debt for the year ended December 31, 2012.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Repayments</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Bonds Payable	\$ 1,880,000		(1,880,000)		
NJEIT Loans	<u>7,524,366</u>	<u>6,093,278</u>	<u>(532,961)</u>	<u>13,084,683</u>	<u>6,472,776</u>
Total Bonds and Notes Payable	<u>\$ 9,404,366</u>	<u>6,093,278</u>	<u>(2,412,961)</u>	<u>13,084,683</u>	<u>6,472,776</u>

NOTE 6: Subsequent Events – Date of Management Evaluation

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

In May 2013, the Authority issued Water Revenue Bonds, Series 2013 G (Trust Fund) as follows:

Trust Principal	\$ 3,160,000
Fund Principal	3,348,924
DEP Fee Borrowed	<u>83,723</u>
Total	<u>\$ 6,592,647</u>
Fund Principal Forgiveness	<u>\$ 1,674,461</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

Schedule 1
Sheet 1 of 3

<u>Due During Fiscal Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 2,678,099</u>	<u>280,896</u>	<u>2,958,995</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

Schedule 1
Sheet 2 of 3

<u>Due During Fiscal Years Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 4,313,306</u>	<u>452,402</u>	<u>4,765,708</u>

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY
WALL, NEW JERSEY

SCHEDULE OF NJEIT DEBT SERVICE REQUIREMENTS, BY YEARS

SERIES 2012
Loan #1352005-005
\$6,093,278

Schedule 1
Sheet 3 of 3

<u>Due During Fiscal</u> <u>Years Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	<u>\$ 6,093,278</u>	<u>-</u>	<u>6,093,278</u>

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY
WALL, NEW JERSEY

COMPARISON OF REVENUES AND COSTS
(BUDGETARY BASIS)

Schedule 2

YEAR ENDED DECEMBER 31, 2012

	<u>2012</u> <u>Budget</u>	<u>2012</u> <u>Actual</u>	<u>Variable</u> <u>Favorable/</u> <u>(Unfavorable)</u>
Revenues:			
Treated Water Revenue	\$ 5,104,510	5,104,510	-
Costs of Providing Services:			
Operations	2,433,823	2,433,891	(68)
Renewal & Replacement Reserve	60,000	43,996	16,004
Administrative	43,000	72,979	(29,979)
Total Costs of Providing Services	<u>2,536,823</u>	<u>2,550,866</u>	<u>(14,043)</u>
Other Costs Funded by Revenues:			
Principal Maturity	2,412,961	2,412,961	-
Interest Expense	154,726	126,950	27,776
Total Other Costs Funded by Revenues	<u>2,567,687</u>	<u>2,539,911</u>	<u>27,776</u>
Total Costs Funded by Operating Revenues	5,104,510	5,090,777	13,733
Budgetary Revenues Over Expenditures	<u>\$ -</u>	<u>13,733</u>	<u>(13,733)</u>
<u>Reconciliation of Budgetary Basis to Net</u>			
<u>Change in Net Position</u>			
Budgetary Revenues Over Expenses		13,733	
Adjustments to Budgetary Basis:			
Principal Maturities		2,412,961	
Interest Income		114	
Depreciation		(156,234)	
Amortization		(24,966)	
Fixed Asset Additions/Adjustments		43,125	
Total Adjustments		<u>2,275,000</u>	
Net Change in Net Position		<u>\$ 2,288,733</u>	

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY
WALL, NEW JERSEY

BOARD OF COMMISSIONERS AND MANAGEMENT

Schedule 3

DECEMBER 31, 2012

Bryan Dempsey, Spring Lake	Chairman and Executive Director
Alan Bunting, Sea Girt	Chairman
Jeffry Bertrand, Wall Township	Commissioner
Thomas Nolan, Brielle	Commissioner
Art Herner, Spring Lake Heights	Commissioner
Steve Mayer	Chief Financial Officer
Henry Patterson	NJWSA Executive Director
Beth Gates	Director of Finance and Administration of NJWSA

Robert A. Hulsart and Company

CERTIFIED PUBLIC ACCOUNTANTS

ARMOUR S. HULSART, C.P.A., R.M.A., P.S.A. (1959-1992)
ROBERT A. HULSART, C.P.A., R.M.A., P.S.A.
ROBERT A. HULSART, JR., C.P.A., P.S.A.

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**INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements Southeast Monmouth Municipal Utilities Authority (the "Authority"), County of Monmouth, State of New Jersey as of and for the year ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated October 4, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's, County of Monmouth, State of New Jersey's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions of 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.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of it 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*.

Purpose of this Report

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

Respectfully submitted,

ROBERT A. HULSART AND COMPANY

Robert A. Hulsart

**Certified Public Accountant
Robert A. Hulsart and Company
Wall Township, New Jersey**

October 4, 2013

Robert A. Hulsart and Company

CERTIFIED PUBLIC ACCOUNTANTS

ARMOUR S. HULSART, C.P.A., R.M.A., P.S.A. (1959-1992)
 ROBERT A. HULSART, C.P.A., R.M.A., P.S.A.
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RICHARD J. HELLENBRECHT, JR., C.P.A., P.S.A.

**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 (UNQUALIFIED OPINION ON COMPLIANCE;
 NO MATERIAL WEAKNESSES OR SIGNIFICANT DEFICIENCIES IN
 INTERNAL CONTROL OVER COMPLIANCE IDENTIFIED)**

K-2

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

Compliance

We have audited the Southeast Monmouth Municipal Utilities Authority (the "Authority"), in the County of Monmouth, State of New Jersey, with the types of compliance requirements described in the *(OMB) Circular A-133 Compliance Supplement* and the *New Jersey State Aid/Grant Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal and state programs for the year ended December 31, 2012. The 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 Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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

In our opinion, the Southeast Monmouth Municipal Utilities Authority, in the County of Monmouth, State of New Jersey, complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended December 31, 2012.

Internal Control Over Compliance

The management of the Southeast Monmouth Municipal Utilities Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal or state program in order to determine our 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 the Authority's internal control over compliance.

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

Respectfully submitted,

ROBERT A. HULSART AND COMPANY

Robert A. Hulsart

**Certified Public Accountant
Robert A. Hulsart and Company
Wall Township, New Jersey**

October 4, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2012

	<u>Federal CFDA Number</u>	<u>Pass-Trough Entity ID Number</u>	<u>Expenditures</u>
<u>Federal Grantor/Pass-Through Grantor</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	1352005-002	\$ -
Instrumentation and Control System Rehabilitation	66.468	1352005-003	84,325
Water Treatment Plant Improvements	66.468	1352005-005	<u>1,237,318</u>
Total			<u>\$ 1,321,643</u>

See Independent Auditor's Report and Accompanying Notes.

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF EXPENDITURES OF STATE AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2012

State Grantor/Program Title	State Account Number	Grant Award Amount	(Memo) Cash Received	Grant Period		Fiscal Year Expenditures	Cumulative Expenditures
				From	To		
Department of Environmental Protection Agency N.J. Environmental Infrastructure Trust Program: Rehabilitation of the Ozone System: 2010 NJEIT Trust Loan	1352005-002	\$ 1,231,500		3/10/2010	8/1/2029		941,315
Instrumentation and Control System Rehabilitation: 2010 NJEIT Trust Loan	1352005-003	764,629	28,109	3/10/2010	8/1/2029	28,109	441,754
Interim Loan: 2012 NJEIT Trust Loan	1352005-005	1,523,320		8/15/2012	5/2/2013	412,439	412,439
		<u>\$ 3,519,449</u>	<u>28,109</u>			<u>440,548</u>	<u>1,795,508</u>

See Independent Auditor's Report and Accompanying Notes.

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY

NOTES TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2012

NOTE 1: Basis of Presentation

The accompanying Schedules of Expenditures of Federal and State Awards include the federal and state grant activity of Southeast Monmouth Municipal Utilities Authority for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of 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*. Because the Schedule presents only a selected portion of the operations of Southeast Monmouth Municipal Utilities Authority, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Southeast Monmouth Municipal Utilities Authority. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE 2: Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported in accordance with accounting principles generally accepted in the United States of America ("GAAP").

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED DECEMBER 31, 2012

A. SUMMARY OF AUDITOR'S RESULTS

1. The Auditor's report expresses an unqualified opinion on the financial statements of Southeast Monmouth Municipal Utilities Authority.
2. No significant deficiencies relating to the audit of the financial statements of Southeast Monmouth Municipal Utilities Authority were identified.
3. No instances of noncompliance material to the financial statements of Southeast Monmouth Municipal Utilities Authority were identified during the audit.
4. No significant deficiencies in internal control over its major federal and state award programs were identified during the audit.
5. The auditor's report on compliance for the major federal and state award programs for Southeast Monmouth Municipal Utilities Authority expresses an unqualified opinion on its major federal and state programs.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs were:

<u>Grantor</u>	<u>CFDA #</u>
Capitalization Grants for Drinking Water	66.468
N.J. Environmental Trust Program	N/A
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Southeast Monmouth Municipal Utilities Authority was not determined to be a low-risk auditee.

B. FINDINGS AND QUESTIONED COSTS – FINANCIAL STATEMENT AUDIT

None

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AND STATE AWARD PROGRAMS AUDIT

None

SOUTHEAST MONMOUTH MUNICIPAL UTILITIES AUTHORITY

COMMENTS AND RECOMMENDATIONS

YEAR ENDED DECEMBER 31, 2012

None noted.