

STONY BROOK REGIONAL SEWERAGE AUTHORITY
PRINCETON, NEW JERSEY

YEARS ENDED NOVEMBER 30, 2010 AND 2009

FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION

with

INDEPENDENT AUDITOR'S REPORTS

and

COMMENTS AND RECOMMENDATIONS

STONY BROOK REGIONAL SEWERAGE AUTHORITY
PRINCETON, NEW JERSEY

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

The Board Members
Stony Brook Regional Sewerage Authority
Princeton, New Jersey 08540

We have audited the accompanying basic financial statements of the Stony Brook Regional Sewerage Authority ("Authority"), as of and for the years ended November 30, 2010 and 2009, as listed in the accompanying Table of Contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Authority as of November 30, 2010 and 2009, 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 our report dated February 18, 2011 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The accompanying Schedule of Federal Financial Awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. The accompanying financial information listed as Other Supplementary Information is not a required part of the basic financial statements, but is presented as additional analytical data. 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.

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

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

February 18, 2011

Management's Discussion and Analysis

Management has prepared the following in accordance with Government Accounting Standards Board ("GASB") Statement Number 34:

Management believes the Authority's financial condition is strong. Internal controls are in place to provide reasonable assurance that all financial transactions are properly recorded and the financial statements are prepared in accordance with Generally Accepted Accounting Principles.

Audit Assurance

The unqualified opinion of our independent auditors, Hutchins, Farrell, Meyer & Allison, P.A. is included in this report.

This section presents management's analysis of the Authority's financial condition and activities for the year. This information should be read in conjunction with the attached financial statements.

Financial Highlights

Total assets at year-end net of accumulated depreciation and amortization totaled \$69.13 million and exceeded liabilities in the amount of \$29.38 million. Net assets total \$39.76 million versus \$36.72 million for the prior year. The increase from the prior year net assets was the result of net income of \$3,042,518. Working capital balances are adequate to meet the operational needs of the Authority including small capital projects provided in the budget.

Revenues totaled \$15,204,253 which is a decrease of \$565,449 or 3.6% less than the prior year. Revenues were under budget by \$118,897 or 0.8%. This shortfall in revenue was largely due to falling interest rates which resulted in less interest income.

Expenditures totaled \$14,131,168 which is \$1,191,982 under budget. A significant portion of this saving came from less natural gas used due to the completion of the energy saving RTO project. In addition we were able to purchase natural gas at lower commodity prices. Other savings came from lower electric generation rates, chemical costs and savings in salaries and benefits.

The amount spent in 2010 for construction and equipment totaled \$3,955,187. The construction in progress accounts decreased from \$6,260,251 at November 30, 2009 to \$2,054,032 at November 30, 2010, a decrease of \$4,206,219.

The construction of the new mechanical surface aerators and chemical storage and feed systems for polymer and sodium hydroxide were completed in 2010 at a cost of \$3.14 million. The project will be closed out once the certificate of occupancy has been received from Princeton Township. The project was funded by the American Recovery and Reinvestment Act (ARRA) of 2009 and the New Jersey Environmental Infrastructure Financing Program.

The preliminary draft discharge permit for the Pennington WWTP and the Hopewell WWTP has been received and commented upon by SBRSA staff. SBRSA is currently waiting for the draft permit from NJDEP. The Pennington WWTP upgrade and expansion study cannot begin until issues with the new discharge limits have been resolved between SBRSA and NJDEP.

The River Road Headworks Project design was completed in 2010 and the project was bid on January 5, 2011. It is expected that this project will be completed by the summer of 2012. The project includes the construction of new grit chambers, installation of new influent screens, grit and screenings handling system, new building to house the equipment and a new odor control system. This project was funded under the 2010 New Jersey Environmental Infrastructure Financing Program. The total cost of this project is estimated at \$10.8 million.

Large capital projects projected to be completed over the next three to four years will be funded by the proceeds of the 2004 bond issue. Some of the construction proceeds will be used to fund New Jersey Department of Environmental Protection (NJDEP) mandates for phosphorous removal. Other projects include the expansion of the Pennington Wastewater Treatment Plant.

The small capital project completed in 2010 was the installation of the emergency bypass dampers on both incinerator bypass stacks. Small capital projects awarded and started in 2010 include the Millstone Pump Station Sewage Pump Rebuild Project and the Millstone and South Brunswick Pumping Station Carbon Replacement. These two projects will be completed by early 2011.

Our current capital plan has a balance of \$31.1 million at November 30, 2010.

Overview of Annual Financial Report

Management's Discussion and Analysis ("MD&A") serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplementary information. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's strategic plan, budget, bond resolutions and other management tools were used for this analysis.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes to Net Assets; a Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Assets presents the financial position of the Authority on a full accrual historical cost basis. This statement presents information on all of the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases and decreases in net assets is one indicator of whether the financial position of the Authority is improving or deteriorating.

While the Statement of Net Assets provides information about the nature and amount of resources and obligations at year-end, the Statement of Revenues, Expenses and Changes to Net Assets presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in retained earnings are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows.

The Statement of Cash Flows presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The Notes to the Financial Statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. Supplementary information comparing the budget to actual expenses, as well as the schedule of amounts refundable to or receivable from individual members.

Summary of Organization and Business

The Authority is a public body corporate and politic of the State and was created pursuant to the Sewerage Authorities Act by ordinances passed during 1971 by the Borough of Princeton, the Township of Princeton, the Township of West Windsor, the Borough of Pennington, the Borough of Hopewell and the Township of Hopewell, all of which are municipal corporations of the State located in the County of Mercer. By ordinance adopted on May 4, 1976, the Township of South Brunswick in the County of Middlesex, was empowered to become a voting member of the Authority and subsequently became part of the Authority's statutory district.

The Authority has broad powers under the Act, including among others, the following: to sue and be sued; to enter into leases and contracts; to acquire property by any lawful means, including the exercise of the power of eminent domain; to hold, operate and administer its property; to issue its negotiable bonds and to secure their payment and rights of holders thereof under a bond resolution; to enter into contracts with municipalities for the treatment and disposal of sewage originating in such municipalities; to charge and collect Service Charges for the use of its facilities and to revise such Service Charges which the act requires to be such that the revenues of the Authority will at all times be adequate to pay all operating and maintenance expenses, including reserves, insurance, extensions and replacements, and to pay punctually the principal of and interest on any bonds and to maintain reserves and sinking funds therefore as may be required by the terms of any contract with bondholders; and to make and enforce rules and regulations for the management of its business affairs.

The Authority is made up of one representative from each member municipality. Each representative is appointed by the Member municipality to a five-year term. Authority officers are elected by its Members for one-year terms on or after each February 1.

The River Road Wastewater Treatment Plant (“WWTP”) began operation in 1978 while the upstream treatment facilities became operational in 1984. Upon completion of the River Road Plant, the Authority commenced operation and began diverting flows from existing facilities located in Princeton Township to the Authority's new facilities. The River Road Plant utilizes a two-stage activated sludge process for the treatment of wastewater. The facilities for wastewater treatment consist of aerated grit chambers, two stages of aeration and clarification, filtration, chlorination and dechlorination and reaeration facilities. The River Road Plant's effluent discharges to the Millstone River, and is in accordance with New Jersey Department of Environmental Protection (NJDEP) agency approved plans and discharge permits.

The Hopewell and Pennington WWTPs, also known as the upstream facilities, have identical treatment processes. The facilities for wastewater treatment consist of an influent bar screen, primary settling, aeration, secondary settling, filtration, chlorination, dechlorination and post aeration.

The Hopewell and Pennington WWTPs discharge to the Beden Brook and the Stony Brook, respectively and are in accordance with NJDEP approved plans and discharge permits. Sludge from all three of the Authority wastewater treatment plants is incinerated at the River Road Plant.

The Authority also owns several miles of interceptor sewers, three pumping stations and associated force mains. Each Participant Municipality is responsible for the maintenance of its own wastewater collection and distribution system.

The River Road WWTP currently provides service to Princeton Borough, Princeton Township, West Windsor Township, a portion of South Brunswick Township, and through South Brunswick, the western part of Plainsboro Township. (Plainsboro Township is neither a Participant nor a Member). The existing upstream facilities currently provide service to Hopewell Borough, Pennington Borough, and a limited portion of Hopewell Township through Pennington Borough. A Member customer service contract has been executed between the Authority and Hopewell Township for another limited area in Hopewell Township served by the Authority's Hopewell WWTP.

Financial Analysis

The following comparative condensed financial statements and other selected information serve as the key financial data and indicators for management, monitoring and planning. Comments regarding budget-to-actual variances and year-to-year variances are included in each section by the name of the statement or account.

CONDENSED FINANCIAL STATEMENTS

CONDENSED STATEMENT OF NET ASSETS

	November 30,		Variance	
	2010	2009	Dollars	Percentage
Assets:				
Current Assets	\$ 26,157,460	\$ 21,369,498	\$ 4,787,962	22.41%
Property, Plant and Equipment - Net	42,766,217	41,893,280	872,937	2.08%
Other Assets	211,184	209,988	1,196	0.57%
Total Assets	\$ 69,134,861	\$ 63,472,766	\$ 5,662,095	8.92%
Liabilities:				
Current Liabilities	\$ 6,117,349	\$ 6,149,498	\$ (32,149)	-0.52%
Non-Current Liabilities	23,257,912	20,606,186	2,651,726	12.87%
Total Liabilities	29,375,261	26,755,684	2,619,577	9.79%
Net Assets:				
Restricted or Invested in Capital Assets	\$ 32,631,904	\$ 33,150,420	\$ (518,516)	-1.56%
Unrestricted	7,127,696	3,566,662	3,561,034	99.84%
Total Net Assets	39,759,600	36,717,082	3,042,518	8.29%
Total Liabilities and Net Assets	\$ 69,134,861	\$ 63,472,766	\$ 5,662,095	8.92%

CONDENSED STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS

	November 30,		Variance	
	2010	2009	Dollars	Percentage
Operating Revenues:				
Service Charges	\$ 12,295,150	\$ 12,365,319	\$ (70,169)	-0.57%
Septage, Sludge and Leachate	2,821,763	3,143,654	(321,891)	-10.24%
Other	36,676	33,913	2,763	8.15%
Total Operating Revenues	15,153,589	15,542,886	(389,297)	-2.50%
Operating Expenses:				
Operations and Maintenance	10,132,379	10,851,800	(719,421)	-6.63%
Depreciation	3,082,250	2,829,960	252,290	8.91%
Total Operating Expenses	13,214,629	13,681,760	(467,131)	-3.41%
Operating Income	1,938,960	1,861,126	77,834	4.18%
Non-Operating Revenues/(Expenses)	1,103,558	(594,622)	1,698,180	-285.59%
Change in Net Assets	3,042,518	1,266,504	1,776,014	140.23%
Net Assets - Beginning of Year	36,717,082	35,450,578	1,266,504	3.57%
Net Assets - End of Year	\$ 39,759,600	\$ 36,717,082	\$ 3,042,518	8.29%

OTHER SELECTED INFORMATION

	Year		Variance	
	<u>2010</u>	<u>2009</u>	<u>Amount</u>	<u>Percentage</u>
Ratio of Operating Revenue To:				
Operating Expenses	1.15	1.14	0.010	0.9%
Operating Expenses Net of Depreciation	1.50	1.43	0.070	4.9%
Total Assets	0.22	0.24	(0.018)	-7.7%
Total Net Assets	0.38	0.42	(0.042)	-10.0%
Debt Related Ratios				
Equity To Long-Term Debt	1.74	1.82	(0.080)	-4.4%
Current Ratio	4.28	3.47	0.810	23.3%
Debt Service Coverage	5.72	4.03	1.690	41.9%
Other				
Employees at year-end	45	45.0	0	0.0%
Annual flow in million gallons	3,646.8	3,792.3	(146)	-3.8%
Cost per million gallons	\$ 3,371	\$ 3,261.0	110	3.4%

BASIC FINANCIAL STATEMENTS

STONY BROOK REGIONAL SEWERAGE AUTHORITY
PRINCETON, NEW JERSEY

STATEMENT OF NET ASSETS

November 30, 2010 and 2009

<u>Assets</u>	<u>2010</u>	<u>2009</u>	<u>Liabilities and Net Assets</u>	<u>2010</u>	<u>2009</u>
Unrestricted Assets:					
Current Assets:			Current Liabilities:		
Cash - Held By Authority	\$ 813,217	\$ 791,021	Payable From Unrestricted Assets:		
Cash Equivalents - Held By:			Accounts Payable and Accrued Expenses	\$ 958,046	\$ 802,464
Authority	37,058	36,960	Total Current Liabilities Payable		
Trustee	7,282,535	3,562,928	From Unrestricted Assets	958,046	802,464
Accrued Interest Receivable	33,184	92,603	Payable From Restricted Assets:		
Accounts Receivable	290,587	376,592	Construction Accounts Payable	257,292	249,523
Prepaid Expenses	23,457	22,324	Long-Term Bonds Payable -		
Total Unrestricted Current Assets	8,480,038	4,882,428	Due Within One Year	2,038,322	3,309,020
			Deferred Revenue	2,500,000	1,656,915
Restricted Assets:			Interest Payable	329,500	406,456
Current Assets:			Contractor Hauler Deposits	34,189	34,189
Cash Equivalents - Held By Trustee	10,311,153	13,471,409	Total Current Liabilities Payable From		
NJEIT/ARRA Funds Receivable	7,366,269	3,015,661	Restricted Assets	5,159,303	5,656,103
Total Restricted Current Assets	17,677,422	16,487,070	Total Current Liabilities	6,117,349	6,458,567
Total Current Assets	26,157,460	21,369,498	Long-Term Liabilities:		
Non Current Assets:			Accrued Compensated Absences	394,296	417,679
Unamortized Debt Issue Costs	211,184	209,988	Bonds Payable	22,863,616	19,879,438
Property, Plant and Equipment	111,227,025	107,271,838	Total Long-Term Liabilities	23,257,912	20,297,117
Less Accumulated Depreciation	(68,460,808)	(65,378,558)	Total Liabilities	29,375,261	26,755,684
Net Capital Assets	42,766,217	41,893,280	Net Assets:		
Total Assets	\$ 69,134,861	\$ 63,472,766	Invested in Capital Assets,		
			Net of Related Liabilities	17,864,279	18,704,822
			Restricted	14,767,625	14,349,975
			Unrestricted	7,127,696	3,662,285
			Total Net Assets	39,759,600	36,717,082
			Total Liabilities and Net Assets	\$ 69,134,861	\$ 63,472,766

STONY BROOK REGIONAL SEWERAGE AUTHORITY
PRINCETON, NEW JERSEY

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS

Years ended November 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Operating Revenues:		
Members' Service Charges	\$ 12,295,150	\$ 12,365,319
Septage, Sludge and Leachate	2,821,763	3,143,654
Other	<u>36,676</u>	<u>33,913</u>
Total Operating Revenues	<u>15,153,589</u>	<u>15,542,886</u>
Operating Expenses Exclusive of Interest and Depreciation	<u>10,132,379</u>	<u>10,851,800</u>
Operating Income Before Interest and Depreciation	<u>5,021,210</u>	<u>4,691,086</u>
Depreciation	<u>3,082,250</u>	<u>2,829,960</u>
Operating Income	<u>1,938,960</u>	<u>1,861,126</u>
Non-Operating Revenues/(Expenses):		
Interest Earned on Investments	87,297	252,557
Interest Expense - Debt Service	(812,449)	(812,910)
Amortization of Bond Issue Costs	(28,204)	(34,269)
NJ Smart Start Incentive	200,000	
ARRA Principal Forgiveness	<u>1,656,914</u>	
Total Non-Operating Revenues/(Expenses)	<u>1,103,558</u>	<u>(594,622)</u>
Net Income	3,042,518	1,266,504
Net Assets - Beginning of Year	<u>36,717,082</u>	<u>35,450,578</u>
Net Assets - End of Year	<u>\$ 39,759,600</u>	<u>\$ 36,717,082</u>

STONY BROOK REGIONAL SEWERAGE AUTHORITY
PRINCETON, NEW JERSEY

COMPARATIVE STATEMENTS OF CASH FLOWS

Years ended November 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts From Customers and Users	\$ 12,381,155	\$ 12,263,558
Receipts for Septage, Sludge and Leachate	2,821,763	3,143,654
Miscellaneous Receipts	36,676	33,912
Payments To Suppliers	(5,278,497)	(6,323,366)
Payments To Employees	<u>(4,715,047)</u>	<u>(4,641,425)</u>
Net Cash Provided/(Used) By Operating Activities	<u>5,246,050</u>	<u>4,476,333</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets	(3,955,187)	(3,315,554)
Deferred Revenue	2,500,000	1,656,915
Proceeds From Capital Debt	642,491	828,458
Principal Payments on Long-Term Debt	(3,309,020)	(2,900,000)
NJ Smart Start Incentive	200,000	
Interest Paid on Bonds	<u>(889,405)</u>	<u>(886,194)</u>
Net Cash Provided By Financing Activities	<u>(4,811,121)</u>	<u>(4,616,375)</u>
CASH FLOWS TO/(FROM) INVESTING AND RELATED FINANCING ACTIVITIES:		
Interest Received	<u>146,716</u>	<u>314,006</u>
Net Cash Provided/(Used) By Investing and Related Activities	<u>146,716</u>	<u>314,006</u>
Net (Decrease)/Increase in Cash and Cash Equivalents	<u>581,645</u>	<u>173,964</u>
Cash and Cash Equivalents - Beginning of Year	17,862,318	18,634,982
Adjustment to Beginning Balance		<u>(946,628)</u>
	<u>17,862,318</u>	<u>17,688,354</u>
Cash and Cash Equivalents - End of Year	<u>\$ 18,443,963</u>	<u>\$ 17,862,318</u>
Reconciliation of Operating Income To Net Cash Provided By Operating Activities:		
Operating Income	\$ 1,938,960	\$ 1,861,126
Depreciation	3,082,250	2,829,960
Changes in Operating Assets and Liabilities:		
Accounts Receivable	86,005	(101,761)
Prepaid Expenses	(1,133)	3,302
Accounts Payable - Unrestricted Assets	155,582	(98,919)
Other Liabilities	<u>(15,614)</u>	<u>(17,375)</u>
	<u>\$ 5,246,050</u>	<u>\$ 4,476,333</u>

NOTES TO FINANCIAL STATEMENTS

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(1) GENERAL

The Stony Brook Regional Sewerage Authority ("Authority") was created to construct and operate a wastewater collection and treatment system to serve six municipalities in the Stony Brook watershed area of Mercer and Middlesex Counties, New Jersey. The Authority has entered into a service contract agreement with its member municipalities, obligating each participating municipality to the Authority for its proportionate share of the Authority's operating expenses, debt service and required reserve additions to the extent not met by other resources.

The financial statements of the Authority have been prepared on the accrual basis of accounting and in accordance with generally accepted accounting principles ("GAAP") applicable to enterprise funds of state and local governments.

The Authority's financial statements include all the accounts of all the Authority's operations. The primary criterion for including activities within a reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board ("GASB") Codification of Governmental Accounting and Financial Reporting Standards, is whether:

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

GASB Statement No. 14, The Financial Reporting Entity, establishes standards to determine whether a government component unit should be included in the financial reporting entity. The basic criterion for inclusion or exclusion from the financial reporting entity is the exercise of oversight responsibility for agencies, boards and commissions by the primary government. The exercise of oversight responsibility includes financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters. The Authority has determined that there were no additional entities required to be included in the reporting entity under the criteria as described above, in the current year.

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority have been prepared in conformity with GAAP as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the GASB's accounting policies are described below.

In June 1999, the GASB unanimously approved Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. Significant changes in the Statement which directly affect the Authority include the following:

- a. Financial statements include a Management Discussion and Analysis ("MD&A") section providing an analysis of the Authority's overall financial position and results of operations.
- b. Required supplemental information, which consists of schedules of budgeted and actual revenue and expenses.

Reporting Entity

The Authority's financial statements include the operations of the wastewater collection and waste-water treatment system for which the Board members of the Authority exercise financial accountability. The Board members are appointed to five-year terms by their respective municipalities. The Authority is considered a joint venture of the participating governments. There are no additional entities required to be included in the reporting entity and the Authority is not included in any other reporting entity.

Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis and in accordance with generally accepted accounting principles applicable to enterprise funds of state and local governments. An Enterprise Fund is used to account for operations: (i) that are financed primarily through user charges, or (ii) where the governing body has decided that determination of net income is appropriate.

The Authority's reports are based on all applicable GASB pronouncements as well as applicable Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles, Board Opinions, and Accounting Review Boards of the Committee on Accounting Procedure issued on or before November 30, 2006, unless those pronouncements conflict with or contradict GASB pronouncements. Where applicable, certain prior-year amounts have been reclassified to conform to current-year presentation.

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets

In accordance with the Bond Resolution and supplemental resolutions, the Authority has established various cash and investment accounts with a trustee. In addition, the Bond Resolution provides for certain restrictions on the use of funds in these accounts.

<u>ACCOUNT</u>	<u>AMOUNT</u>	<u>USE FOR WHICH RESTRICTED</u>
Revenue	All revenue except grants-in-aid and interest on investments.	Authorized operating expenses and, as of the first day of each month, transfers to the various accounts described below.
Bond Service	Amount needed to pay matured principal and interest plus principal and interest due on or before the following December 1 st .	Principal and interest on the bonds.
Bond Reserve	Amount needed to equal the greatest amount of debt service due in any fiscal year.	Transfers to meet minimum levels required in the Bond Service or Sinking Accounts. Any excess may be transferred into the Renewal and Replacement Account.
Renewal & Replacement	Amount needed to increase the balance to equal the Renewal and Replacement Reserve Requirement as defined by the resolutions.	Transfers to meet minimum levels required in the Bond Service, Sinking or Bond Reserve Accounts or major repairs, renewals, and extensions of the system.
General	Any amount determined by the Authority after meeting requirements of the Bond Service Fund, the Sinking Fund, the Bond Reserve Fund and the Renewal and Replacement Fund.	Transfers to meet minimum levels required in the Bond Service, Bond Reserve, Sinking Fund or Renewal and Replacement Accounts; if all accounts meet minimum requirements, then for any lawful purpose.
Sinking Fund	Beginning in 2004, the amount needed to increase the balance so that it equals the amount of Sinking Fund installments payable on the following December 1 st .	Principal and interest on bonds due on various dates through 2012.
Construction	Proceeds from bonds and grants-in-aid for construction projects.	Construction costs.

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets (continued)

In accordance with the terms of the bond resolutions, cash and investments of the Bond Service, Bond Reserve, Renewal and Replacement, and Construction Accounts are classified as Restricted Assets.

The amounts by which the Restricted Assets exceed the corresponding liabilities that they will liquidate are reservations of retained earnings, as these excesses are not available for the payment of current operating expenses.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Authority considers investments with maturities of three months or less to be cash equivalents. Non-negotiable certificates of deposit are not considered investments.

Investments

Investments are stated at cost which approximates market.

Interest Income on Construction Account Investments

Interest Income on investments in the Construction Account is classified as a non-operating revenue and the related accrued interest receivable as a Restricted Asset, as the use of this income has been designated by resolution of the Authority to pay future construction costs.

Inventory

Inventory of supplies, estimated to be immaterial at year-end, is recorded as an expense when purchased and, accordingly, is not included in the financial statements.

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, Plant and Equipment

Property, Plant and Equipment is stated at cost which includes direct construction costs, other expenditures related to construction and net interest expense on tax-exempt borrowings obtained to finance construction projects.

System construction costs are charged to Construction in Progress until such time as given segments of the system are completed and put into operation.

Depreciation is determined on a straight-line basis for all Plant and Equipment. Depreciation on assets acquired with grants-in-aid is recorded as a reduction of contributed capital. Depreciation is provided over the following estimated useful lives:

Building and Improvements	40 years
Sewer Mains and Interceptors	40 years
Other Equipment	5 - 15 years
Vehicles	5 years

Details of Property, Plant and Equipment as of November 30, 2010 and 2009 are as follows:

	Balance, November 30, <u>2010</u>	Balance, November 30, <u>2009</u>
Land	\$ 911,690	\$ 911,690
Treatment Plant	83,750,849	75,670,327
Pumping Stations	10,416,589	10,416,589
Collection System	11,150,036	11,150,036
Office Furniture and Equipment	2,338,777	2,293,065
Automotive Equipment	605,052	569,880
Construction in Progress	<u>2,054,032</u>	<u>6,260,251</u>
	111,227,025	107,271,838
Less: Accumulated Depreciation	<u>68,460,808</u>	<u>65,378,558</u>
Net Property, Plant and Equipment	<u>\$ 42,766,217</u>	<u>\$ 41,893,280</u>

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unamortized Debt Issue Costs

Deferred Debt Issue Costs are being amortized over the life of the bond issue based on the interest method.

Pension Plan

All employees participate in the Public Employees' Retirement System ("PERS"). The Division of Pensions within the Treasury Department of the State of New Jersey is the administrator of the funds and charges the Authority annually for its respective contributions. The plan does not maintain separate records for each Authority in the State and, therefore, the actuarial data for the Authority is not available.

The plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The plan is a cost-sharing, multiple-employer defined benefit plan and as such does not maintain separate records for each Authority in the state and, therefore, the actual data for the Authority is not available. The Division of Pensions issues publicly-available financial reports for the plan that includes financial statements and required supplementary information. The reports may be obtained by writing the State of New Jersey, Division of Pensions.

Covered employees are required by State statute to contribute a certain percentage of their salary to the plan. Each member's percentage is based on age determined at the effective date of enrollment. In addition, the PERS may bill the Authority annually at an actuarially-determinable rate for its required contribution. The current employee rate is 5.5% of base salary.

The contribution requirements of plan members and the Authority are established and may be amended by the PERS Board of Trustees. For the years ended November 30, the Authority was required to contribute the following:

	<u>PERS</u>
2010	\$ 252,721
2009	224,576
2008	167,715

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Procedures

The Authority follows these procedures in establishing the Operating Fund budget:

The annual budget for each fiscal year of the Authority is introduced by resolution passed by not less than a majority of the governing body. Copies are submitted to the Director of the Division of Local Government Services prior to the beginning of the Authority's fiscal year for approval prior to its adoption.

The budget must comply with the terms and provisions of any security agreements, and is to be in such form and detail as to items of revenue, expenses and other contents as required by law or by rules and regulations of the Local Finance Board.

No authority budget can be finally adopted until the Director has approved the budget.

Public hearings are conducted to obtain citizen comments on the proposed budget.

Operating expense appropriations lapse at the close of the fiscal year to the extent that they have not been expended.

The level at which expenditures cannot exceed the budget is at the total budget level.

The budget may be increased after adoption when an item of revenue has been made available after the adoption date.

Income Taxes

No provision for Income Taxes has been made as the Authority is exempt from Federal and State income taxes.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

The Authority provides Compensated Absences benefits to its employees. As of November 30, 2010, the vested amount is \$507,748. This amount is comprised of a long-term liability of \$394,296 and \$113,452 is included in current liabilities for Accounts Payable and Accrued Expenses.

(3) CASH AND CASH EQUIVALENTS

The Authority had the following Cash and Cash Equivalents at November 30, 2010:

Checking and Savings Accounts	\$ 812,717
Petty Cash	500
State of New Jersey Cash	
Management Fund	4,815,501
Certificates of Deposit	8,283,900
U.S. Treasury Fund	<u>4,531,345</u>
 Total Cash and Cash Equivalents	 <u>\$ 18,443,963</u>

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"), the Savings Association Insurance Fund ("SAIF"), or by any other agencies of the United States that insure deposits or the State of New Jersey Cash Management Fund. New Jersey statutes permit the deposit of public funds only in banks which meet the requirements of the Governmental Unit Deposit Protection Act or the State of New Jersey Cash Management Fund. This Act, commonly referred to as "GUDPA", requires that banks which accept public funds to be a public depository. The statutes require public depositories to maintain collateral for deposits of public funds that exceed insurance limits.

All collateral must be deposited with the Federal Reserve Bank, the Federal Home Loan Bank Board or a banking institution that is a member of the Federal Reserve System and has capital funds of not less than \$25,000,000.

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(3) CASH AND CASH EQUIVALENTS (CONTINUED)

Bank balances are insured up to \$100,000 in the aggregate by the FDIC for each bank. At November 30, 2010, the book value of the Authority's deposits was \$18,443,963 and the bank balances of the Authority's cash and deposits amounted to \$18,454,008. Of the bank balances, \$750,000 was covered by the FDIC, \$4,815,501 was covered by the New Jersey Governmental Unit Deposit Protection Act, and \$12,888,507 is collateralized held by third parties. The Authority's deposits which are displayed on the Statement of Net Assets as Cash and Cash Equivalents are categorized as:

<u>Depository Account</u>	<u>Bank Balance</u>
Insured:	
FDIC	\$ 750,000
Collateralized - Held by Third Party:	
New Jersey Cash Management Plan	4,815,501
GUDPA	<u>12,888,507</u>
Total	<u>\$ 18,454,008</u>

New Jersey Cash Management Fund

All investments in the Fund are governed by the regulations of the Investment Council which prescribes standards designed to insure the quality of investments and to minimize the risks related to investments. To date, the Fund has never defaulted on principal or interest on any short term security held by its participants. Further, a reserve is being accumulated as additional protection for other than State participants. Finally, the Council monitors eligible securities on a regular basis. As of November 30, 2010, the Authority had \$4,815,501 on deposit with the New Jersey Cash Management Fund.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk. As of November 30, 2010, the Authority's bank balance was not exposed to custodial credit risk.

(4) INVESTMENTS

At year-end, the Authority had no investments.

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(5) PROPERTY PLANT AND EQUIPMENT

Property, Plant and Equipment is summarized as follows.

	Balance, November 30, <u>2009</u>	<u>Increase</u>	<u>Decrease</u>	Balance, November 30, <u>2010</u>
Land	\$ 911,690			\$ 911,690
Treatment Plant	75,670,327	\$ 8,080,522		83,750,849
Pumping Stations	10,416,589			10,416,589
Collection System	11,150,036			11,150,036
Office Furniture & Equipment	2,293,065	45,712		2,338,777
Automotive Equipment	569,880	35,172		605,052
Construction in Progress	<u>6,260,251</u>		\$ 4,206,219	<u>2,054,032</u>
	107,271,838	8,161,406	4,206,219	111,227,025
Less: Accumulated Depreciation	<u>65,378,558</u>	<u>3,082,250</u>		<u>68,460,808</u>
Net Property, Plant and Equipment	<u>\$ 41,893,280</u>	<u>\$ 5,079,156</u>	<u>\$ 4,206,219</u>	<u>\$ 42,766,217</u>

(6) LONG-TERM DEBT

Bonds payable consisted of the following:

	<u>2010</u>	<u>2009</u>
1993 Series B Revenue Refunding Bonds	\$ 3,410,000	\$ 4,430,000
1999 Series A Revenue Refunding Bonds		670,000
2002 Series Revenue Refunding Bonds	2,425,000	3,575,000
2004 Series Revenue Bonds	7,980,000	8,170,000
2007 NJEIT Financing	5,264,063	5,515,000
2009 NJEIT/ARRA Financing	1,625,375	828,458
2010 NJEIT Financing	<u>4,197,500</u>	
	24,901,938	23,188,458
Total Current Portion	<u>2,038,322</u>	<u>3,030,000</u>
Long-Term Debt	<u>\$ 22,863,616</u>	<u>\$ 20,158,458</u>

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(6) LONG-TERM DEBT (CONTINUED)

1989 Series A and Series B Revenue Bonds

In September 1989, the Authority issued (a) the \$10,000,000 Series A Revenue Bonds to finance all or part of the cost of certain modifications and improvements to the Authority's system and (b) the \$7,500,000 Series B Revenue Bonds to provide funds to pay all or part of the cost of constructing and equipping a wastewater sludge cake receiving facility for the processing of wastewater sludge cake from within and outside the Authority's service area. The bond proceeds, together with certain other available funds of the Authority, also provided funds to establish certain reserves and accounts, including capitalized interest, and to finance certain costs of issuance.

During 1993, \$6,985,000 of the remaining \$9,700,000 of 1989 Series A Bonds were refunded. The Series B Bonds were not refunded. The remaining 1989 Series B Bonds were refunded in September of 1999.

1993 Refunding Bonds

On February 17, 1993, the Authority issued \$9,590,000 in Revenue Refunding Bonds (1993 Series A) with an average interest rate of 4.96 percent to advance-refund \$2,400,000 of outstanding 1985 Series Revenue Bonds with an average interest rate of 8.40 percent and \$5,950,000 of outstanding 1989 Series A Revenue Bonds with an average interest rate of 7.33 percent. The 1993 Series A Bonds refunded a portion of the 1985 and 1989 Series A Bonds, as follows:

1985 Series A Bonds	\$ 2,400,000
1989 Series A Bonds	<u>5,950,000</u>
	<u>\$ 8,350,000</u>

On May 11, 1993, the Authority issued \$16,455,000 in Revenue Refunding Bonds (1993 Series B) with an average interest rate of 4.49 percent to advance refund \$8,510,000 of outstanding 1977 Series A Revenue Bonds and \$6,080,000 of outstanding 1977 Series B Revenue Bonds, both with an average interest rate of 5.45 percent; \$300,000 of outstanding 1985 Series Revenue Bonds with an average interest rate of 8.4 percent; and \$1,035,000 of 1989 Series A Revenue Bonds with an average interest rate of 7.25 percent.

The net proceeds of \$9,318,819 (1993 Series A) and \$16,097,305 (1993 Series B) plus an additional \$660,789 of prior-issued funds were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1977, 1985 and 1989 Series A Revenue Bonds. As a result, these advance-refunded bonds are considered to be defeased, and the liability for these bonds has been removed from Long-Term Debt.

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(6) LONG-TERM DEBT (CONTINUED)

1993 Refunding Bonds (continued)

The 1993 Series A and 1993 Series B advance-refundings combined resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,398,330. This difference (net deferred charge on advance-refunding) is being charged to operations through the year 2012 using the interest method of amortization. The Authority completed the advance-refunding to reduce its total debt service payments over the next eighteen (18) years by \$1,399,429 and to obtain an economic gain (difference between the present values of the old and the new debt service payments) of \$912,218.

During 2002, \$6,870,000 of the remaining \$7,895,000 1993 Series A Bonds were refunded. The 1993 Series A Revenue Refunding Bonds are fully retired.

1993 Series B Revenue Refunding Bonds

In May 1993, the Authority issued the \$16,455,000 Series B Revenue Refunding Bonds to take further advantage of declining interest rates. The 1993 Series B Revenue Refunding Bonds advance-refunded all of the 1977 Series A and B Bonds and a portion of the 1985 and 1989 A Bonds as follows:

1977 Series A Bonds	\$ 8,510,000
1977 Series B Bonds	6,080,000
1985 Series A Bonds	300,000
1989 Series A Bonds	<u>1,035,000</u>
	<u>\$ 15,925,000</u>

The Bonds are due in the amounts and at the interest rates shown in the table below:

<u>Due Date</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>
December 1, 2012	<u>\$ 5,395,000</u>	5.45%

The bonds maturing on December 1, 2012 are subject to mandatory redemption through the following sinking fund installments on the dates indicated below:

<u>Year</u>	<u>Amount</u>
2010	\$ 1,075,000
2011	1,135,000
2012	<u>1,200,000</u>
Total	<u>\$ 3,410,000</u>

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(6) LONG-TERM DEBT (CONTINUED)

2002 Refunding Bonds

On October 15, 2002, the Authority issued \$10,275,000 in Revenue Refunding Bonds (2002 Series) with an average interest rate of 3.94% to: (a) currently-refund \$6,870,000 aggregate principal amount of Revenue Refunding Bonds, 1993 Series A (b) advance-refund \$3,420,000 aggregate principal amount of the Revenue Bonds (1996 Series).

The net proceeds of \$10,275,000 (2002 Series) plus an additional \$339,318 of prior-issued funds were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1993 Series A and the Revenue Bonds (Series 1996). As a result, these refunded bonds are considered to be defeased, and the liability for these bonds has been removed from Long-Term Debt.

The Series 2002 refundings resulted in a difference between reacquisition price and the net carrying amount of old debt of \$76,252. This difference (net deferred charge on refunding) is being charged to operations through the year 2016, using the interest method of amortization. The Authority completed the refunding to reduce total debt service payments over the next fifteen (15) years by \$868,047 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$665,242.

The Series 2002 Revenue Refunding Bonds are due in the amounts and at interest rates shown in the table below:

<u>Due Date</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>
December 1:		
2010	\$ 290,000	3.25%
2011	310,000	4.00
2012	335,000	4.00
2013	345,000	5.00
2014	365,000	5.00
2015	385,000	5.00
2016	<u>395,000</u>	4.00
	<u>\$ 2,425,000</u>	

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(6) LONG-TERM DEBT (CONTINUED)

2004 Revenue Bonds

In 2004, the Authority issued \$8,865,000 of Revenue Bonds for the purpose of funding various projects and plant improvements.

The Series 2004 Revenue Bonds are due in the amounts and at interest rates shown in the table below:

<u>Due Date</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>
December 1:		
2010	\$ 195,000	3.50%
2011	200,000	3.50
2012	210,000	4.10
2013	220,000	4.10
2014	225,000	4.10
2015	235,000	4.10
2016	245,000	4.10
2017	255,000	4.15
2018	265,000	4.25
2019	280,000	4.35
2020	290,000	4.40
2021	305,000	4.45
2022	320,000	4.55
2023	335,000	4.65
2026	1,105,000	4.80
2029	1,265,000	4.90
2033	<u>2,030,000</u>	5.00
	<u>\$ 7,980,000</u>	

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(6) LONG-TERM DEBT (CONTINUED)

2007 New Jersey Environmental Infrastructure Trust Fund Loan

In 2007, the Authority participated in the New Jersey Environmental Infrastructure Trust Financing Program in the amount of \$5,515,000 to finance energy efficiencies to the sludge incineration facilities. The financing is made up of two parts: the Trust Loan bears interest at 3.40% to 5.00%; the Fund Loan is Principal only.

The Series 2007 Trust Loan Agreement Bonds are due in the amounts and at interest rates shown in the table below:

<u>Due Date</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>
August 1:		
2011	\$ 115,000	5.00%
2012	120,000	3.40
2013	125,000	3.50
2014	125,000	3.60
2015	130,000	5.00
2016	140,000	5.00
2017	145,000	5.00
2018	150,000	5.00
2019	160,000	4.00
2020	165,000	4.00
2021	170,000	5.00
2022	180,000	5.00
2023	190,000	4.25
2024	200,000	4.50
2025	205,000	4.50
2026	215,000	4.50
2027	<u>225,000</u>	4.25
	<u>\$ 2,760,000</u>	

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(6) LONG TERM DEBT (CONTINUED)

2007 New Jersey Environmental Infrastructure Trust Fund Loan (continued)

The 2007 Fund Loan Agreement Portion of the Trust Financing is due as follows
(Principal only):

<u>Due Date</u>	<u>Principal Amount</u>
2011	\$ 148,908
2012	148,440
2013	149,015
2014	146,278
2015	146,591
2016	148,781
2017	147,529
2018	146,122
2019	147,686
2020	146,810
2021	145,809
2022	146,747
2023	147,373
2024	148,577
2025	146,075
2026	146,559
2027	<u>146,763</u>
	<u>\$ 2,504,063</u>

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(6) LONG-TERM DEBT (CONTINUED)

2009 New Jersey Environmental Infrastructure Trust Fund Loan

In 2009, the Authority participated in the New Jersey Environmental Infrastructure Trust Financing Program in the amount of \$3,310,373 to finance the replacement of eight mechanical surface aerators located in the existing nitrification tanks. In addition, the project includes replacement of the polymer and caustic chemical storage and feed systems for sludge processing and various appurtenance work.

The financing is made up of three parts: the Trust Loan in the amount of \$825,000 which bears interest at 2.00% to 5.00%; the Fund Loan in the amount of \$828,458 is Principal only; and the American Recovery and Reinvestment Act ("ARRA") provides for principal forgiveness in the amount of \$1,656,915.

The 2009 Fund Loan Agreement Portion of the Trust Financing is due as follows (Principal only):

<u>Due Date</u>	<u>Principal Amount</u>
2011	\$ 42,125
2012	42,125
2013	42,125
2014	42,125
2015	42,125
2016	42,125
2017	42,125
2018	42,125
2019	42,125
2020	42,125
2021	42,125
2022	42,125
2023	42,125
2024	42,125
2025	42,125
2026	42,125
2027	42,125
2028	42,125
2029	<u>42,125</u>
	<u>\$ 800,375</u>

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(6) LONG-TERM DEBT (CONTINUED)

The Series 2009 Trust Loan Agreement Bonds are due in the amounts and at interest rates shown in the table below:

<u>Principal Due Date</u>	<u>Rate of Amount</u>	<u>Rate of Interest</u>
August 1:		
2011	\$ 30,000	2.00%
2012	30,000	3.00
2013	30,000	5.00
2014	35,000	5.00
2015	35,000	5.00
2016	35,000	5.00
2017	35,000	5.00
2018	40,000	5.00
2019	40,000	4.00
2020	45,000	4.00
2021	45,000	4.00
2022	45,000	3.50
2023	50,000	4.00
2024	50,000	4.00
2025	50,000	3.75
2026	55,000	4.00
2027	55,000	4.00
2028	60,000	4.00
2029	<u>60,000</u>	4.00
	<u>\$ 825,000</u>	

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(6) LONG-TERM DEBT (CONTINUED)

2010 New Jersey Environmental Infrastructure Trust Fund Loan

In 2010, the Authority participated in the New Jersey Environmental Infrastructure Trust Financing Program in the amount of \$12,917,500 to finance the Headworks project. The project includes the construction of four new grit chambers and the installation of influent screens.

The financing is made up of three parts: the Trust Loan in the amount of \$6,220,000 (net of bond premium) which bears interest at 5.00%; the Fund Loan in the amount of \$4,197,500 is Principal only; and principal forgiveness in the amount of \$2,500,000. The Trust Loan in the amount of \$6,220,000 closed on December 2, 2010 which is subsequent to this fiscal year end and is not reflected as a liability for this fiscal year. In addition the portion of the funding in the amount of \$2,500,000 is considered a deferred revenue because the principal forgiveness was contingent upon the Trust fund closing subsequent to the end of this fiscal year.

The 2010 Fund Loan Agreement Portion of the Trust Financing is due as follows (Principal only):

<u>Due Date</u>	<u>Principal Amount</u>
2011	\$ 142,288
2012	213,432
2013	213,432
2014	213,432
2015	213,432
2016	213,432
2017	213,432
2018	213,432
2019	213,432
2020	213,432
2021	213,432
2022	213,432
2023	213,432
2024	213,432
2025	213,432
2026	213,432
2027	213,432
2028	213,432
2029	213,432
2030	<u>213,436</u>
	<u>\$ 4,197,500</u>

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(6) LONG-TERM DEBT (CONTINUED)

Annual Debt Service

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

12-Month Period Ending <u>November 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010 Balance	\$ 1,560,000	\$ 329,500	\$ 1,889,500
2011	2,123,322	741,005	2,864,327
2012	2,298,997	653,398	2,952,395
2013	1,124,573	561,008	1,685,581
2014	1,151,835	528,863	1,680,698
2015	1,187,148	495,138	1,682,286
2016-2020	4,699,713	2,031,180	6,730,893
2021-2025	4,877,367	1,458,613	6,335,980
2026-2030	4,318,983	766,340	5,085,323
2031-2033	<u>1,560,000</u>	<u>158,500</u>	<u>1,718,500</u>
	<u>\$ 24,901,938</u>	<u>\$ 7,723,545</u>	<u>\$ 32,625,483</u>

(7) RISK MANAGEMENT

The Authority is a member of the New Jersey Utility Authorities Joint Insurance Fund ("Fund").

The Fund was created on September 15, 1991, in accordance with P.L. 1983, C.372, entitled "An Act concerning joint insurance funds for local units of government, and supplementing Chapter 10 of Title 40A of the New Jersey statutes." The Fund is both an insured and self-administered group of utility authorities established for the purpose of providing low cost insurance coverage and safety programs for the member utility authorities in order to keep insurance premiums, claims and administrative costs at a minimum.

The following coverages are offered by the Fund to its members:

- a. Worker's Compensation and Employer's Liability
- b. Liability other than Motor Vehicles
- c. Property Damage other than Motor Vehicles
- d. Motor Vehicle
- e. Environmental Liability

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(7) RISK MANAGEMENT (CONTINUED)

The Joint Insurance Fund is also a member of The Municipal Excess Liability Joint Insurance Fund which provides excess insurance for worker's compensation and employer's liability.

The Authority has chosen to purchase property insurance including boiler and machinery coverage outside of the Joint Insurance Fund.

A participating utility authority must remain in the Fund for the full term of membership unless earlier terminated by a majority vote of the Fund Commissioners or a two-thirds vote of the Executive Committee for non-payment of assessments or continued non-compliance after written notice to comply with the by-laws or other obligations. Termination may occur only after proper notice has been given, in accordance with the Fund's by-laws.

(8) AMOUNTS REQUIRED BY BOND RESOLUTION

The following cash and investment accounts are required by the bond resolutions as of November 30, 2010:

	<u>Amount Required</u>	<u>Balance On Hand</u>	<u>Excess or (Deficiency)</u>
Bond Service Account	\$ 1,889,500	\$ 1,890,167	\$ 667
Bond Reserve Account	2,247,905	2,254,829	6,924
Renewal and Replacement Account	600,000	600,000	
General Account	<u> </u>	<u>7,279,200</u>	<u>7,279,200</u>
	<u>\$ 4,737,405</u>	<u>\$ 12,024,196</u>	<u>\$ 7,286,791</u>

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(9) NET ASSETS

Net Assets consist of Investment in Capital Assets and Restricted and Unrestricted balances (required by the Bond Resolution) as follows:

	Balance, November 30, <u>2010</u>	Balance, November 30, <u>2009</u>
Net Assets:		
Capital Assets, Net of Related Liabilities	<u>\$ 17,864,279</u>	<u>\$ 18,704,822</u>
Restricted:		
Bond Service	1,889,500	3,436,455
Bond Reserve	2,247,905	3,842,910
Renewal and Replacement	600,000	600,000
Capital Projects	<u>10,030,220</u>	<u>6,470,610</u>
Total Restricted	14,767,625	14,349,975
Unrestricted – Designated for Emergencies	1,000,000	1,000,000
Unrestricted	<u>6,127,696</u>	<u>2,662,285</u>
	<u>\$ 39,759,600</u>	<u>\$ 36,717,082</u>
Change in Unrestricted Net Assets		
Beginning Balance		\$ 2,662,285
Net Income	\$ 1,073,085	
Change in Bond Reserve Requirement	1,595,005	
Capital Contribution	<u>1,300,000</u>	
		3,968,090
Capital Projects		<u>(502,679)</u>
Ending Balance		<u>\$ 6,127,696</u>

(10) LITIGATION, CLAIMS AND CONTINGENT LIABILITIES

In the ordinary conduct of its business, the Authority may be a party to litigation. At November 30, 2010, in the opinion of management based upon consultation with legal counsel, there were no matters pending or threatened which would have a material adverse effect on the financial position of the Authority.

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2010 AND 2009

(11) DEFERRED COMPENSATION

The Authority offers its employees a Deferred Compensation Plan ("Plan") created in accordance with Internal Revenue Code Section 457. The Plan is available to all eligible employees. The Plan permits them to defer a portion of their salary before Federal income tax. The deferred compensation is available to employees or their beneficiaries upon termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the Plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights, have been removed from the books and accounts of the Authority as they are no longer the property or rights of the Authority.

SUPPLEMENTARY INFORMATION

STONY BROOK REGIONAL SEWERAGE AUTHORITY
PRINCETON, NEW JERSEY

SCHEDULE OF CHANGES IN UNRESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

Year ended November 30, 2010

	Held By Authority Operating Accounts	Held By Trustee		Memo	
		Revenue Account	General Account	2010 Totals	2009 Totals
Sources:					
Members' Service Charges		\$ 12,295,150		\$ 12,295,150	\$ 12,365,319
Members' Service Charges - Prior Year Interest	\$ 228,234 754		\$ 12,412	228,234 13,166	475,833 24,670
Receipts From Septage, Sludge and Leachate Services	2,906,856	911		2,907,767	2,998,155
Miscellaneous Receipts Transfers Within Other Unrestricted Accounts	258,827			258,827	109,854
Transfers From Restricted Accounts	10,823,000	(12,296,061)	1,473,061	4,906,510	3,147,418
Total Sources	14,217,671		6,391,983	20,609,654	19,121,249
Uses:					
Operations/Capital Expenditures Transfers To Restricted Accounts	14,195,376		2,672,377	14,195,376 2,672,377	14,788,362 3,842,753
Total Uses	14,195,376		2,672,377	16,867,753	18,631,115
Increase/(Decrease)	22,295		3,719,606	3,741,901	490,134
Balance, Beginning of Year	827,981	3,334	3,559,594	4,390,909	3,900,775
Balance, End of Year	\$ 850,276	\$ 3,334	\$ 7,279,200	\$ 8,132,810	\$ 4,390,909
Balance Comprised of:					
Cash	\$ 813,217			\$ 813,217	\$ 791,021
Cash Equivalents	37,059	3,334	7,279,200	7,319,593	3,599,888
Total	\$ 850,276	\$ 3,334	\$ 7,279,200	\$ 8,132,810	\$ 4,390,909

STONY BROOK REGIONAL SEWERAGE AUTHORITY
PRINCETON, NEW JERSEY

SCHEDULE OF CHANGES IN RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

Year ended November 30, 2010

	Held By Trustee						2010 Totals	(Memo) 2009 Totals
	Debt Service Account	Bond Reserve Account	Replacement Account	2004 Construction Account	2007 NJEIT Construction Account	2009 NJEIT Construction Account		
Sources:								
Interest Received on Investments Credited To Income	\$ 666	\$ 59,179	\$ 11,670	\$ 62,034			\$ 133,549	\$ 289,315
Transfers:								
From Unrestricted Accounts	2,651,470						2,651,470	3,842,756
NJEIT Fund Loan			\$ 148,486		\$ 587,794		736,280	618,201
DEP Loan			188,408		828,458		1,016,866	649,236
ARRA Principal Forgiveness					1,385,607		1,385,607	271,308
Total Sources	2,652,136	59,179	11,670	62,034	336,894	2,801,859	5,923,772	5,670,816
Uses:								
Payment of Bond Interest Charged To Expenses	889,405						889,405	886,194
Payment of Bond Principal	3,309,020						3,309,020	2,900,000
Transfer To Unrestricted Accounts		1,738,644	11,670	13,549	319,884	2,801,856	4,885,603	3,147,420
Total Uses	4,198,425	1,738,644	11,670	13,549	319,884	2,801,856	9,084,028	6,933,614
Increase/(Decrease)	(1,546,289)	(1,679,465)	48,485	17,010	3		(3,160,256)	(1,262,798)
Balance, Beginning of Year	3,436,457	3,934,294	600,000	5,499,596	1,062		13,471,409	14,734,207
Balance, End of Year	\$ 1,890,168	\$ 2,254,829	\$ 600,000	\$ 5,548,081	\$ 18,072	\$ 3	\$ 10,311,153	\$ 13,471,409
Balance Comprised of: Cash Equivalents	\$ 1,890,168	\$ 2,254,829	\$ 600,000	\$ 5,548,081	\$ 18,072	\$ 3	\$ 10,311,153	\$ 13,471,409
Total	\$ 1,890,168	\$ 2,254,829	\$ 600,000	\$ 5,548,081	\$ 18,072	\$ 3	\$ 10,311,153	\$ 13,471,409

STONY BROOK REGIONAL SEWERAGE AUTHORITY
PRINCETON, NEW JERSEY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES

Year ended November 30, 2010

	<u>2010 Budget</u>	<u>2010 Actual</u>	<u>2009 Budget</u>	<u>2009 Actual</u>
Operating Revenues:				
Members Charges:				
Gross	\$ 12,295,150	\$ 12,295,150	\$ 12,365,319	\$ 12,365,319
Net	<u>12,295,150</u>	<u>12,295,150</u>	<u>12,365,319</u>	<u>12,365,319</u>
Septage, Sludge and Leachate	2,828,000	2,821,763	3,160,240	3,143,654
Interest Income	160,000	50,664	250,000	126,816
Other	40,000	36,676	36,000	33,913
Retained Earnings	<u> </u>	<u> </u>	<u>100,000</u>	<u>100,000</u>
Total Operating Revenues	<u>\$ 15,323,150</u>	<u>\$ 15,204,253</u>	<u>\$ 15,911,559</u>	<u>\$ 15,769,702</u>
Costs Funded By Operating Revenues:				
Salaries and Wages				
Employees:				
Administrative	\$ 446,514	\$ 450,870	\$ 445,162	\$ 453,136
Operations and Maintenance	3,098,639	3,010,643	3,044,683	3,025,188
Benefits	<u>1,311,591</u>	<u>1,230,151</u>	<u>1,147,767</u>	<u>1,144,167</u>
Total Costs Funded By Operating Revenues	<u>\$ 4,856,744</u>	<u>\$ 4,691,664</u>	<u>\$ 4,637,612</u>	<u>\$ 4,622,491</u>
Administrative Expenses:				
Insurance	\$ 296,642	\$ 270,142	\$ 310,947	\$ 268,982
Seminars	12,485	6,711	12,735	6,300
Meetings and Travel	11,627	4,926	11,263	4,988
Telephone	40,290	37,669	43,181	38,242
Computer Payroll Service	14,018	15,026	12,966	14,828
Office Supplies	14,815	13,147	14,708	11,798
Data Processing Supplies	20,075	14,235	20,075	22,958
Service Contracts	73,616	52,755	73,736	65,667
Dues	14,564	12,314	13,171	10,452
Magazines, Books, etc.	4,780	3,818	4,952	2,009
Postage	6,480	6,478	6,000	5,266
Advertising and Printing	3,025	1,871	3,125	1,833
Rental and Easements	12,981	13,048	12,634	13,291
Regulatory Fees and Permits	71,700	42,735	70,200	41,413
Miscellaneous	<u>13,576</u>	<u>14,847</u>	<u>14,276</u>	<u>18,595</u>
Total Administrative Expenses	<u>\$ 610,674</u>	<u>\$ 509,722</u>	<u>\$ 623,969</u>	<u>\$ 526,622</u>

STONY BROOK REGIONAL SEWERAGE AUTHORITY
PRINCETON, NEW JERSEY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES

Year ended November 30, 2010

	2010 <u>Budget</u>	2010 <u>Actual</u>	2009 <u>Budget</u>	2009 <u>Actual</u>
Operating and Maintenance Expenses:				
Fuel Oil and Natural Gas	\$ 1,300,792	\$ 868,154	\$ 2,019,987	\$ 1,759,338
Water	48,514	36,956	42,652	43,259
Electricity	1,975,951	1,831,652	2,195,568	1,737,558
Operating Chemicals	846,669	577,158	770,689	723,448
Maintenance Tools and Supplies	184,440	200,760	184,440	211,225
Janitorial Supplies	7,350	12,586	7,350	8,621
Laboratory Chemicals and Supplies	18,853	8,894	19,053	12,163
Uniforms	18,279	18,822	17,317	17,504
Training	25,126	7,716	25,546	13,393
Safety Equipment	52,580	38,883	51,895	48,302
Outside Lab Testing	27,005	24,770	30,700	29,340
Pretreatment Supplies	300		300	
Ash Hauling	357,832	210,100	357,488	267,516
Maintenance and Repairs	249,405	297,920	166,774	254,565
Operations Supplies	106,671	89,811	127,040	80,400
Buildings and Grounds	44,600	66,092	44,600	39,960
Spare Parts	174,950	241,233	157,970	171,970
Hazardous Waste Disposal	10,000	3,604	10,000	569
Medical Testing	2,690	6,200	2,655	1,954
Contingency for Fines	20,000		20,000	2,000
Minor Operational Improvements	121,835	16,541	142,835	68,668
Total Operating and Maintenance Expenses	<u>\$ 5,593,842</u>	<u>\$ 4,557,852</u>	<u>\$ 6,394,859</u>	<u>\$ 5,491,753</u>
Vehicle Maintenance:				
Gas, Oil and Tires	\$ 36,400	\$ 40,807	\$ 33,400	\$ 30,723
Parts and Service	21,000	33,349	21,000	30,440
Vehicle Registration	2,318	2,121	2,389	2,722
Total Vehicle Maintenance	<u>\$ 59,718</u>	<u>\$ 76,277</u>	<u>\$ 56,789</u>	<u>\$ 63,885</u>
Professional Services:				
Legal and Audit	\$ 85,000	\$ 86,925	\$ 90,500	\$ 59,012
Trustee Services	8,200	12,177	8,200	3,125
Consultants - Other	156,800	197,762	156,720	84,912
Total Professional Services	<u>\$ 250,000</u>	<u>\$ 296,864</u>	<u>\$ 255,420</u>	<u>\$ 147,049</u>
Total Operating Expenses	<u>\$ 11,370,978</u>	<u>\$ 10,132,379</u>	<u>\$ 11,968,649</u>	<u>\$ 10,851,800</u>

STONY BROOK REGIONAL SEWERAGE AUTHORITY
PRINCETON, NEW JERSEY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES

Year ended November 30, 2010

	<u>2010 Budget</u>	<u>2010 Actual</u>	<u>2009 Budget</u>	<u>2009 Actual</u>
Capital Purchase Fund Contribution	\$ 1,300,000	\$ 1,300,000	\$ 100,000	\$ 100,000
Equipment Recorded as Property, Plant and Equipment	<u> </u>	<u>47,319</u>	<u> </u>	<u>48,600</u>
	<u>\$ 1,300,000</u>	<u>\$ 1,347,319</u>	<u>\$ 100,000</u>	<u>\$ 148,600</u>
Total Operating Expenses	\$ 12,670,978	\$ 11,479,698	\$ 12,068,649	\$ 11,000,400
Debt Service Funded By Members	<u>2,652,172</u>	<u>2,651,470</u>	<u>3,842,910</u>	<u>3,842,910</u>
Costs Funded By Operating Revenues	<u>\$ 15,323,150</u>	<u>14,131,168</u>	<u>\$ 15,911,559</u>	<u>14,843,310</u>
Excess of Revenues over Expenditures		<u>\$ 1,073,085</u>		<u>\$ 926,392</u>

STONY BROOK REGIONAL SEWERAGE AUTHORITY
PRINCETON, NEW JERSEY

SCHEDULE OF AMOUNTS REFUNDABLE TO OR RECEIVABLE FROM INDIVIDUAL MEMBERS

For The Year Ended November 30, 2010

	Princeton Borough	Princeton Township	South Brunswick Township	West Windsor Township	Hopewell Borough	Pennington Borough	Total
Actual:							
Operating Expenses	\$ 1,528,581	\$ 2,084,149	\$ 3,809,861	\$ 2,328,161	\$ 166,454	\$ 262,491	\$ 10,179,697
Capital Purchase Fund Contribution	195,208	266,157	486,539	297,318	21,257	33,521	1,300,000
Revenues - Septage Sludge and Leachate Receipts	(423,715)	(577,716)	(1,056,075)	(645,355)	(46,140)	(72,761)	(2,821,762)
Interest	(7,608)	(10,373)	(18,962)	(11,587)	(828)	(1,306)	(50,664)
Miscellaneous Revenue	(5,507)	(7,509)	(13,726)	(8,388)	(600)	(946)	(36,676)
Budget Balance To Retained Earnings	161,134	219,699	401,614	245,421	17,547	27,670	1,073,085
Debt Service Apportioned to Members	398,144	542,851	992,341	606,408	43,356	68,370	2,651,470
Total Base Charges (Dollar Amount)	1,846,237	2,517,258	4,601,592	2,811,978	201,046	317,039	12,295,150
Gallons Treated (Actual)	547,604,288	746,632,852	1,364,857,628	834,048,530	59,631,117	94,035,796	3,646,810,211
Total Base Charges (Percentage)	15.016%	20.474%	37.426%	22.871%	1.635%	2.579%	100.000%
Debt Service Adjustment - Increase/(Decrease)	(89,664)	(165,757)	65,275	201,674	(1,070)	(10,458)	-
Budget:							
Operating Expenses	1,964,352	2,089,959	4,346,529	2,491,356	179,680	299,103	11,370,979
Capital Purchase Fund Contribution	224,577	238,937	496,922	284,827	20,542	34,195	1,300,000
Revenues - Septage Sludge and Leachate Receipts	(488,541)	(519,780)	(1,080,996)	(619,608)	(44,687)	(74,388)	(2,828,000)
Interest	(27,640)	(29,408)	(61,160)	(35,056)	(2,528)	(4,209)	(160,001)
Miscellaneous Revenue	(6,910)	(7,352)	(15,290)	(8,764)	(632)	(1,052)	(40,000)
Debt Service	458,166	487,463	1,013,786	581,085	41,909	69,763	2,652,172
Total Base Charges (Dollar Amount)	2,124,004	2,259,819	4,699,791	2,693,840	194,284	323,412	12,295,150
Gallons Treated (budget)	659,996,375	702,198,779	1,460,376,307	837,062,662	60,370,144	100,494,503	3,820,498,770
Total Base Charges (Percentage)	17.275%	18.380%	38.225%	21.910%	1.580%	2.630%	100.000%
Debt Service Adjustment - Increase/(Decrease)	(89,664)	(165,757)	65,275	201,674	(1,070)	(10,458)	0
Net Member Charges - Budget/Paid	2,034,340	2,094,062	4,765,066	2,895,514	193,214	312,954	12,295,150
Due (To)/From Members at November 30, 2010	\$ (277,767)	\$ 257,439	\$ (98,199)	\$ 118,138	\$ 6,762	\$ (6,373)	\$ 0
Allocation:							
Operation	\$ (217,745)	\$ 202,051	\$ (76,754)	\$ 92,815	\$ 5,315	\$ (4,980)	\$ 702
Debt Service	(60,022)	55,388	(21,445)	25,323	1,447	(1,393)	(702)
Amount Due/(Refund)	\$ (277,767)	\$ 257,439	\$ (98,199)	\$ 118,138	\$ 6,762	\$ (6,373)	\$ 0

STONY BROOK REGIONAL SEWERAGE AUTHORITY
PRINCETON, NEW JERSEY

NOTES TO SCHEDULE OF AMOUNTS REFUNDABLE TO OR
RECEIVABLE FROM INDIVIDUAL MEMBERS

NOVEMBER 30, 2010

1. Basis of Presentation

Six of the seven member municipalities entered into an amended service contract dated November 1, 1977, with Stony Brook Regional Sewerage Authority ("Authority") for the treatment and disposal of sewage in return for the Authority constructing, operating, and maintaining the system. At the beginning of each year, the members are assessed user charges based on the current year's budgeted operating revenues and expenses allocated to the individual members by the Authority's projection based on the average of five prior years of flow. This allocation is then adjusted for actual flow received through year-end, and any additional charges or refunds necessary to or from the members are determined by the Authority and assessed in the year-end adjustment.

2. Meter Certification and Calibration

The Authority's staff services and calibrates the billing meters monthly. On a quarterly basis, the Authority utilizes the services of W. G. Malden Inc. to certify the flow meters at each of the metering stations. As a result of the monthly calibration and quarterly certification, adjustments to the meter data are made by the Authority's engineering staff. A monthly flow report is sent to all of the member communities showing the adjusted flows and describing any adjustments which were made.

3. Allocation Percentage

Allocation percentages are developed using actual flows measured by the meters installed at the member municipalities' meter stations. These flows are then adjusted for non-metered flow during meter breakdowns and any reallocations of flows experienced from having one member's meter station registering flows from another community. These percentages are then used to allocate actual revenues and expenditures to determine the amount refundable to or receivable from the individual members.

ADDITIONAL INFORMATION RELATING TO
FEDERAL FINANCIAL AWARDS

STONY BROOK SEWERAGE AUTHORITY
PRINCETON, NEW JERSEY

SCHEDULE OF FEDERAL FINANCIAL AWARDS

The Year Ended November 30, 2010

<u>Federal Grantor/ Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Contract Number</u>	<u>Federal Share</u>	<u>November 30, 2010 Expenditures</u>	<u>Cumulative Expenditures</u>
<u>U.S. Department of Environmental Protection Agency</u>					
Capitalization Grants for Clean Water State Revolving Funds: 2009 NJEIT/ARRA-Principal Forgiveness	66.458	S340400-05	\$ 1,656,915.00	\$ 1,656,915.00	\$ 1,656,915.00
Total U.S. Environmental Protection Agency			1,656,915.00	1,656,915.00	1,656,915.00
Total Federal Financial Awards			\$ 1,656,915.00	\$ 1,656,915.00	\$ 1,656,915.00

NOTES TO SCHEDULE OF FEDERAL FINANCIAL AWARDS

STONY BROOK REGIONAL SEWERAGE AUTHORITY
PRINCETON, NEW JERSEY

NOTES TO SCHEDULE OF FEDERAL FINANCIAL AWARDS

For the year ended November 30, 2010

NOTE 1. GENERAL

The accompanying Schedule of Federal Financial Awards presents the activity of all Federal Financial Awards programs of the Stony Brook Regional Sewerage Authority ("Authority"). The Authority is defined in Note 1 of the Authority's basic financial statements. All assistance received directly from federal agencies, as well as Federal Financial Awards passed through other government agencies, is included on the Schedule of Federal Financial Awards.

NOTE 2. BASIS OF ACCOUNTING

The accompanying Schedule of Federal Financial Awards is presented in accordance with accounting principles generally accepted in the United States of America ("GAAP").

NOTE 3. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

The basic financial statements present the Authority on a GAAP basis. The Schedule of Federal Financial Awards is in agreement with the basic financial statements.

NOTE 4. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying Schedule agree with the amounts reported in the related federal financial reports.

INTERNAL CONTROL/COMPLIANCE SECTION

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

Certified Public Accountants • Business & Financial Advisors

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

The Board Members
Stony Brook Regional Sewerage Authority
Princeton, New Jersey 08540

We have audited the basic financial statements of the Stony Brook Regional Sewerage Authority ("Authority") as of and for the year ended November 30, 2010, and have issued our report thereon dated February 18, 2011. 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 Division of Local Government Services, Department of Community Affairs, State of New Jersey.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority's financial statements that is more than inconsequential will not be prevented or detected by the Authority's internal control.

The Board Members
Stony Brook Regional Sewerage Authority
Princeton, New Jersey 08540
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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority's internal control.

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

Compliance and Other Matters

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

This report is intended for the information of the management of the Authority, the Division of Local Government Services, Department of Community Affairs, State of New Jersey as well as other 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.

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

February 18, 2011

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

Certified Public Accountants • Business & Financial Advisors

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

The Board Members
Stony Brook Regional Sewerage Authority
Princeton, New Jersey 08540

Compliance

We have audited the compliance of the Stony Brook Regional Sewerage Authority ("Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement and the New Jersey Compliance Manual State Grants Compliance Supplement and New Jersey OMB Circular 04-04 that are applicable to each of its major federal and state programs for the year ended November 30, 2010. The Authority's major federal program is 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 its major federal program 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 the Division of Local Government Services, Department of Community Affairs, State of New Jersey ("Division"); OMB Circular A-133, Audits of State, Local Governments, and Nonprofit Organizations, and state OMB Circular 04-04, Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid. Those standards, OMB Circular A-133 and state OMB 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 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 Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended November 30, 2010.

Internal Control over Compliance

The management of the 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 the Authority's internal control over compliance with the 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 and State OMB Circular 04-04.

A control deficiency in the Authority's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal or state program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority's ability to administer a federal or state program such that there is more than a remote likelihood that non-compliance with a type of compliance requirement of a federal or state program that is more than inconsequential will not be prevented or detected by the Authority's internal control.

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

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.

The Board Members
Stony Brook Regional Sewerage Authority
Princeton, New Jersey 08540
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This report is intended solely for the information and use of the Stony Brook Regional Sewerage Authority's management, and Board members, others within the organization, the Division, and federal 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.

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

February 18, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STONY BROOK REGIONAL SEWERAGE AUTHORITY
PRINCETON, NEW JERSEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended November 30, 2010

Part 1 - Summary of Auditor's Results

Financial Statement Section

- A) Type of auditor's report issued: Unqualified
- B) Internal control over financial reporting:
- 1) Material weakness(es) identified? Yes X No
- 2) Significant deficiencies identified that are not considered to be material weaknesses? Yes X No
- C) Noncompliance material to financial statements noted? Yes X No

Federal Awards Section

- D) Internal control over compliance:
- 1) Material weakness(es) identified? Yes X No
- 2) Significant deficiencies identified that are not considered to be material weaknesses? Yes X No
- E) Type of auditor's report issued on compliance for major programs? Unqualified
- F) Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (Section .510(a))? Yes X No

G) Identification of major programs:

CFDA Number(s)

66.458

Name of Federal Program or Cluster

NJEIT/ARRA Principal Forgiveness

- H) Dollar threshold used to distinguish between Type A and Type B programs? \$300,000.00
- I) Auditee qualified as low-risk auditee? X Yes No

STONY BROOK REGIONAL SEWERAGE AUTHORITY
PRINCETON, NEW JERSEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)

Year ended November 30, 2010

Part 2 - Schedule of Financial Statement Findings

This Section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with Chapter 5.18 of Government Auditing Standards.

None noted.

STONY BROOK REGIONAL SEWERAGE AUTHORITY
PRINCETON, NEW JERSEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)

Year ended November 30, 2010

Part 3 - Schedule of Federal and State Award Findings and Questioned Costs

This Section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal and state programs, as required by OMB Circular A-133 and New Jersey OMB Circular 04-04.

None noted.

STATUS OF PRIOR YEARS' FINDINGS AND QUESTIONED COSTS

STONY BROOK REGIONAL SEWERAGE AUTHORITY
PRINCETON, NEW JERSEY

SUMMARY SCHEDULE OF PRIOR-YEAR FINDINGS
AND QUESTIONED COSTS AS PREPARED BY MANAGEMENT

Year ended November 30, 2010

This section identifies the status of prior-year findings related to the financial statements and federal and state awards that are required to be reported in accordance with Chapter 6.12 of Government Auditing Standards, U.S. OMB Circular A-133 (Section .315 (a)(b) and New Jersey OMB Circular 04-04.

Not applicable.

STONY BROOK REGIONAL SEWERAGE AUTHORITY

ROSTER OF OFFICIALS

NOVEMBER 30, 2010

Authority Members

Robert A. Bartolini	Chair
Gale D. Downey	Vice Chair
David H. Miller	Treasurer
Bharat Patel	Member
C. Schuyler Moorehouse	Member
Charles T. Watson, Jr.	Member
James McKinnon	Member

Position

Other Officials

John Kantorek, PE	Secretary/Executive Director
Antonia Pchola, PE	Manager of Engineering
Stuart Neuhof, CPA	Chief Financial Officer
Patricia Carlino	Assistant Secretary
Diane Alexander	Attorney

Position

COMMENTS AND RECOMMENDATIONS

STONY BROOK REGIONAL SEWERAGE AUTHORITY

FINDINGS AND RECOMMENDATIONS

NOVEMBER 30, 2010

None noted.