

STONY BROOK REGIONAL SEWERAGE AUTHORITY  
PRINCETON, NEW JERSEY

YEARS ENDED NOVEMBER 30, 2011 AND 2010

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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PRINCETON, NEW JERSEY

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FINANCIAL SECTION

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## INDEPENDENT AUDITOR'S REPORT

The Board of 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, 2011 and 2010, 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, 2011 and 2010, and the changes in its net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Board of Members  
Stony Brook Regional Sewerage Authority  
Princeton, New Jersey 08540  
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In accordance with Government Auditing Standards, we have also issued our report dated January 26, 2012 on our consideration of the Authority's internal control over financial reporting and on 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 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.

January 26, 2012

## 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 \$73.35 million and exceeded liabilities in the amount of \$32.97 million. Net assets total \$40.37 million versus \$39.76 million for the prior year. The increase from the prior year net assets was the result of net income of \$614,867. Working capital balances are adequate to meet the operational needs of the Authority including small capital projects provided in the budget.

Revenues totaled \$14,900,246 which is a decrease of \$304,007 or 2.0% less than the prior year. Revenues were over budget by \$179,131 or 0.8%. This increase in revenue was largely due to additional sludge cake deliveries.

Expenditures totaled \$14,346,525 which is \$374,590 under budget. A significant portion of this saving came from lower natural gas consumption. In addition we were able to purchase natural gas at lower commodity prices. Other savings came from lower chemical costs and savings in overtime.

The amount spent in 2011 for construction and equipment totaled \$2,602,669. The construction in progress accounts increased from \$2,054,032 at November 30, 2010 to \$4,049,902 at November 30, 2011, an increase of \$1,995,870.

The draft discharge permits for the Pennington WWTP and the Hopewell WWTP have been received, commented upon by SBRSA staff and our consultants and comments submitted to NJDEP. A public hearing relative to the permits was held by NJDEP in November 2011. 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 was awarded to Tomar Construction in March 2011. The project is scheduled to be completed in September 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 for the building. This project was funded under the 2010 New Jersey Environmental Infrastructure Financing Program.

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 projects completed in 2011 were the replacement of the Princeton Pumping Station roof, the removal and replacement of the carbon media in the odor control unit for the Sludge Cake Receiving Facility, and the Millstone Pump Station Sewage Pump Rebuild Project. Small capital projects that were started and/or awarded in 2011 include the Fly Ash Slurry Pump Rehabilitation Project and the Outdoor Motor Control Center Replacement Project. It is expected that these two projects will be completed in early to mid-2012.

### **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 following items: 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 includes the comparison of the budget to actual revenues and 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            |               |
|--|----------------------|----------------------|---------------------|---------------|
|  | 2011                 | 2010                 | Dollars             | Percentage    |
| <b>Assets:</b>                           |                      |                      |                     |               |
| Current Assets                           | \$ 31,022,880        | \$ 26,157,460        | \$ 4,865,420        | 18.60%        |
| Property, Plant and Equipment - Net      | 42,103,719           | 42,766,217           | (662,498)           | -1.55%        |
| Other Assets                             | 224,251              | 211,184              | 13,067              | 6.19%         |
| <b>Total Assets</b>                      | <b>\$ 73,350,850</b> | <b>\$ 69,134,861</b> | <b>\$ 4,215,989</b> | <b>6.10%</b>  |
| <b>Liabilities:</b>                      |                      |                      |                     |               |
| Current Liabilities                      | \$ 6,028,235         | \$ 6,117,349         | \$ (89,114)         | -1.46%        |
| Non-Current Liabilities                  | 26,948,148           | 23,257,912           | 3,690,236           | 15.87%        |
| <b>Total Liabilities</b>                 | <b>32,976,383</b>    | <b>29,375,261</b>    | <b>3,601,122</b>    | <b>12.26%</b> |
| <b>Net Assets:</b>                       |                      |                      |                     |               |
| Restricted or Invested in Capital Assets | \$ 32,082,508        | \$ 32,631,904        | \$ (549,396)        | -1.68%        |
| Unrestricted                             | 8,291,959            | 7,127,696            | 1,164,263           | 16.33%        |
| <b>Total Net Assets</b>                  | <b>40,374,467</b>    | <b>39,759,600</b>    | <b>614,867</b>      | <b>1.55%</b>  |
| <b>Total Liabilities and Net Assets</b>  | <b>\$ 73,350,850</b> | <b>\$ 69,134,861</b> | <b>\$ 4,215,989</b> | <b>6.10%</b>  |

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

|  | November 30,         |                      | Variance           |                 |
|--|----------------------|----------------------|--------------------|-----------------|
|  | 2011                 | 2010                 | Dollars            | Percentage      |
| <b>Operating Revenues:</b>               |                      |                      |                    |                 |
| Service Charges                          | \$ 12,136,115        | \$ 12,295,150        | \$ (159,035)       | -1.29%          |
| Septage, Sludge and Leachate             | 2,668,803            | 2,821,763            | (152,960)          | -5.42%          |
| Other                                    | 52,513               | 36,676               | 15,837             | 43.18%          |
| <b>Total Operating Revenues</b>          | <b>14,857,431</b>    | <b>15,153,589</b>    | <b>(296,158)</b>   | <b>-1.95%</b>   |
| <b>Operating Expenses:</b>               |                      |                      |                    |                 |
| Operations and Maintenance               | 10,652,328           | 10,132,379           | 519,949            | 5.13%           |
| Depreciation                             | 3,265,167            | 3,082,250            | 182,917            | 5.93%           |
| <b>Total Operating Expenses</b>          | <b>13,917,495</b>    | <b>13,214,629</b>    | <b>702,866</b>     | <b>5.32%</b>    |
| <b>Operating Income</b>                  | <b>939,936</b>       | <b>1,938,960</b>     | <b>(999,024)</b>   | <b>-51.52%</b>  |
| <b>Non-Operating Revenues/(Expenses)</b> | <b>(325,069)</b>     | <b>1,103,558</b>     | <b>(1,428,627)</b> | <b>-129.46%</b> |
| <b>Change in Net Assets</b>              | <b>614,867</b>       | <b>3,042,518</b>     | <b>(2,427,651)</b> | <b>-79.79%</b>  |
| <b>Net Assets - Beginning of Year</b>    | <b>39,759,600</b>    | <b>36,717,082</b>    | <b>3,042,518</b>   | <b>8.29%</b>    |
| <b>Net Assets - End of Year</b>          | <b>\$ 40,374,467</b> | <b>\$ 39,759,600</b> | <b>\$ 614,867</b>  | <b>1.55%</b>    |

**OTHER SELECTED INFORMATION**

|  | <u>Year</u> |             | <u>Variance</u> |                   |
|--|-------------|-------------|-----------------|-------------------|
|  | <u>2011</u> | <u>2010</u> | <u>Amount</u>   | <u>Percentage</u> |
| <b>Ratio of Operating Revenue To:</b>  |             |             |                 |                   |
| Operating Expenses                     | 1.07        | 1.15        | (0.079)         | -6.9%             |
| Operating Expenses Net of Depreciation | 1.39        | 1.50        | (0.101)         | -6.7%             |
| Total Assets                           | 0.20        | 0.22        | (0.017)         | -7.6%             |
| Total Net Assets                       | 0.37        | 0.38        | (0.013)         | -3.4%             |
| <b>Debt Related Ratios</b>             |             |             |                 |                   |
| Equity To Long-Term Debt               | 1.52        | 1.74        | (0.218)         | -12.5%            |
| Current Ratio                          | 5.15        | 4.28        | 0.870           | 20.4%             |
| Debt Service Coverage                  | 5.60        | 5.72        | (0.112)         | -2.0%             |
| <b>Other</b>                           |             |             |                 |                   |
| Employees at year-end                  | 45          | 45          | 0               | 0.0%              |
| Annual flow in million gallons         | 4,089.3     | 3,646.8     | 443             | 12.1%             |
| Cost per million gallons               | \$ 2,968    | \$ 3,371    | (404)           | -12.0%            |

## BASIC FINANCIAL STATEMENTS

STONY BROOK REGIONAL SEWERAGE AUTHORITY  
PRINCETON, NEW JERSEY

STATEMENT OF NET ASSETS

November 30, 2011 and 2010

| <u>Assets</u>                      | <u>2011</u>          | <u>2010</u>          | <u>Liabilities and Net Assets</u>      | <u>2011</u>          | <u>2010</u>          |
|------------------------------------|----------------------|----------------------|--|----------------------|----------------------|
| Unrestricted Assets:               |                      |                      |  |                      |                      |
| Current Assets:                    |                      |                      | Current Liabilities:                   |                      |                      |
| Cash - Held By Authority           | \$ 700,301           | \$ 813,217           | Payable From Unrestricted Assets:      | \$ 959,930           | \$ 958,046           |
| Cash Equivalents - Held By:        |                      |                      | Accounts Payable and Accrued Expenses  |                      |                      |
| Authority                          | 37,105               | 37,058               | Total Current Liabilities Payable      | 959,930              | 958,046              |
| Trustee                            | 8,466,248            | 7,282,535            |  |                      |                      |
| Accrued Interest Receivable        | 21,668               | 33,184               | Payable From Restricted Assets:        |                      |                      |
| Accounts Receivable                | 341,709              | 290,587              | Construction Accounts Payable          | 442,323              | 257,292              |
| Prepaid Expenses                   | 84,576               | 23,457               | Long-Term Bonds Payable -              |                      |                      |
|                                    |                      |                      | Due Within One Year                    | 2,373,997            | 2,038,322            |
| Total Unrestricted Current Assets  | <u>9,651,607</u>     | <u>8,480,038</u>     | Deferred Revenue                       | 1,925,714            | 2,500,000            |
|                                    |                      |                      | Interest Payable                       | 292,081              | 329,500              |
|                                    |                      |                      | Contractor Hauler Deposits             | 34,189               | 34,189               |
|                                    |                      |                      | Total Current Liabilities Payable From | <u>5,068,304</u>     | <u>5,159,303</u>     |
|                                    |                      |                      | Restricted Assets                      |                      |                      |
| Restricted Assets:                 |                      |                      | Total Current Liabilities              | 6,028,234            | 6,117,349            |
| Current Assets:                    |                      |                      | Long-Term Liabilities:                 |                      |                      |
| Cash Equivalents - Held By Trustee | 10,354,332           | 10,311,153           | Accrued Compensated Absences           | 399,717              | 394,296              |
| NJET/ARRA Funds Receivable         | 11,016,940           | 7,366,269            | Bonds Payable                          | 26,548,431           | 22,863,616           |
| Total Restricted Current Assets    | <u>21,371,272</u>    | <u>17,677,422</u>    | Total Long-Term Liabilities            | 26,948,148           | 23,257,912           |
| Total Current Assets               | <u>31,022,879</u>    | <u>26,157,460</u>    | Total Liabilities                      | 32,976,382           | 29,375,261           |
|                                    |                      |                      | Net Assets:                            |                      |                      |
|                                    |                      |                      | Invested in Capital Assets,            |                      |                      |
| Non Current Assets:                |                      |                      | Net of Related Liabilities             | 13,181,291           | 17,864,279           |
| Unamortized Debt Issue Costs       | 224,251              | 211,184              | Restricted                             | 18,901,216           | 14,767,625           |
| Property, Plant and Equipment      | 113,829,694          | 111,227,025          | Unrestricted                           | 8,291,960            | 7,127,696            |
| Less Accumulated Depreciation      | <u>(71,725,975)</u>  | <u>(68,460,808)</u>  | Total Net Assets                       | 40,374,467           | 39,759,600           |
| Net Capital Assets                 | <u>42,103,719</u>    | <u>42,766,217</u>    | Total Liabilities and Net Assets       | <u>\$ 73,350,849</u> | <u>\$ 69,134,861</u> |
| Total Assets                       | <u>\$ 73,350,849</u> | <u>\$ 69,134,861</u> |  |                      |                      |

STONY BROOK REGIONAL SEWERAGE AUTHORITY  
PRINCETON, NEW JERSEY

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS

Years ended November 30, 2011 and 2010

|  | <u>2011</u>          | <u>2010</u>          |
|--|----------------------|----------------------|
| Operating Revenues:  |                      |                      |
| Members' Service Charges                                     | \$ 12,136,115        | \$ 12,295,150        |
| Septage, Sludge and Leachate                                 | 2,668,803            | 2,821,763            |
| Other  | <u>52,512</u>        | <u>36,676</u>        |
| Total Operating Revenues                                     | <u>14,857,430</u>    | <u>15,153,589</u>    |
| Operating Expenses Exclusive<br>of Interest and Depreciation | <u>10,652,328</u>    | <u>10,132,379</u>    |
| Operating Income Before Interest<br>and Depreciation         | <u>4,205,102</u>     | <u>5,021,210</u>     |
| Depreciation   | <u>3,265,167</u>     | <u>3,082,250</u>     |
| Operating Income   | <u>939,935</u>       | <u>1,938,960</u>     |
| Non-Operating Revenues/(Expenses):                           |                      |                      |
| Interest Earned on Investments                               | 64,173               | 87,297               |
| Interest Expense - Debt Service                              | (973,380)            | (812,449)            |
| Amortization of Bond Issue Costs                             | (28,382)             | (28,204)             |
| Amortization of Bond Premium                                 | 38,234               |                      |
| New Jersey Smart Start Incentive                             |                      | 200,000              |
| ARRA Principal Forgiveness                                   | <u>574,287</u>       | <u>1,656,914</u>     |
| Total Non-Operating Revenues/(Expenses)                      | <u>(325,068)</u>     | <u>1,103,558</u>     |
| Net Income/(Loss)  | 614,867              | 3,042,518            |
| Net Assets - Beginning of Year                               | <u>39,759,600</u>    | <u>36,717,082</u>    |
| Net Assets - End of Year                                     | <u>\$ 40,374,467</u> | <u>\$ 39,759,600</u> |

STONY BROOK REGIONAL SEWERAGE AUTHORITY  
PRINCETON, NEW JERSEY

COMPARATIVE STATEMENTS OF CASH FLOWS

Years ended November 30, 2011 and 2010

|   | <u>2011</u>          | <u>2010</u>          |
|---|----------------------|----------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                      |                      |
| Receipts From Customers and Users   | \$ 12,084,993        | \$ 12,381,155        |
| Receipts for Septage, Sludge and Leachate   | 2,668,803            | 2,821,763            |
| Miscellaneous Receipts  | 52,512               | 36,676               |
| Payments To Suppliers   | (5,722,963)          | (5,278,497)          |
| Payments To Employees   | <u>(4,798,148)</u>   | <u>(4,715,047)</u>   |
| Net Cash Provided/(Used) By Operating Activities  | <u>4,285,197</u>     | <u>5,246,050</u>     |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                        |                      |                      |
| Acquisition of Capital Assets   | (2,602,669)          | (3,955,187)          |
| Deferred Revenue  | 1,925,714            | 2,500,000            |
| Proceeds From Capital Debt  | 479,213              | 642,491              |
| Principal Payments on Long-Term Debt  | (2,038,322)          | (3,309,020)          |
| NJ Smart Start Incentive  |                      | 200,000              |
| Interest Paid on Bonds  | <u>(1,010,799)</u>   | <u>(889,405)</u>     |
| Net Cash Provided By Investing Activities   | <u>(3,246,863)</u>   | <u>(4,811,121)</u>   |
| <b>CASH FLOWS TO/(FROM) CAPITAL AND RELATED FINANCING ACTIVITIES:</b>                   |                      |                      |
| Interest Received   | <u>75,689</u>        | <u>146,716</u>       |
| Net Cash Provided/(Used) By Capital and Related Financing Activities                    | <u>75,689</u>        | <u>146,716</u>       |
| Net Increase/(Decrease) in Cash and Cash Equivalents                                    | 1,114,023            | 581,645              |
| Cash and Cash Equivalents - Beginning of Year   | <u>18,443,963</u>    | <u>17,862,318</u>    |
| Cash and Cash Equivalents - End of Year   | <u>\$ 19,557,986</u> | <u>\$ 18,443,963</u> |
| <b>Reconciliation of Operating Income To Net Cash Provided By Operating Activities:</b> |                      |                      |
| Operating Income  | \$ 939,935           | \$ 1,938,960         |
| Depreciation  | 3,265,167            | 3,082,250            |
| <b>Changes in Operating Assets and Liabilities:</b>                                     |                      |                      |
| Accounts Receivable   | (51,122)             | 86,005               |
| Prepaid Expenses  | (61,119)             | (1,133)              |
| Accounts Payable - Unrestricted Assets  | 1,884                | 155,582              |
| Other Liabilities   | <u>190,452</u>       | <u>(15,614)</u>      |
|   | <u>\$ 4,285,197</u>  | <u>\$ 5,246,050</u>  |



NOTES TO FINANCIAL STATEMENTS

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2011 AND 2010

(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, 2011 AND 2010

(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, 2011 AND 2010

(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<br/>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 <sup>st</sup> .                                  | 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 <sup>st</sup> . | 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, 2011 AND 2010

(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, 2011 AND 2010

(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, 2011 and 2010 are as follows:

|                                   | Balance,<br>November 30, 2011 | Balance,<br>November 30, 2010 |
|-----------------------------------|-------------------------------|-------------------------------|
| Land                              | \$ 911,690                    | \$ 911,690                    |
| Treatment Plant                   | 84,044,989                    | 83,750,849                    |
| Pumping Stations                  | 10,453,799                    | 10,416,589                    |
| Collection System                 | 11,150,036                    | 11,150,036                    |
| Office Furniture and Equipment    | 2,586,731                     | 2,338,777                     |
| Automotive Equipment              | 632,547                       | 605,052                       |
| Construction in Progress          | <u>4,049,902</u>              | <u>2,054,032</u>              |
|                                   | 113,829,694                   | 111,227,025                   |
| Less: Accumulated Depreciation    | <u>71,725,975</u>             | <u>68,460,808</u>             |
| Net Property, Plant and Equipment | <u>\$ 42,103,719</u>          | <u>\$ 42,766,217</u>          |

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2011 AND 2010

(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.

Unamortized Bond Premium

Deferred Bond Premiums 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 was increased from 5.5% to 6.5% of base salary effective July 1, 2011. In addition the employees percentage contribution will increase an additional 1% prorated over the next seven years starting July 1, 2012.

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> |            |
|-------------|------------|
| 2011        | \$ 336,275 |
| 2010        | 252,721    |
| 2009        | 224,576    |

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2011 AND 2010

(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, 2011 AND 2010

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

The Authority provides Compensated Absences benefits to its employees. As of November 30, 2011, the vested amount is \$526,484. This amount is comprised of a long-term liability of \$399,717 and \$126,767 is included in current liabilities for accounts payable and accrued expenses.

(3) CASH AND CASH EQUIVALENTS

The Authority considers petty cash, cash in banks, certificates of deposit and deposits with the New Jersey Cash Management Fund as Cash and Cash Equivalents.

Deposits

The Authority's deposits are insured through either the Federal Deposit Insurance Corporation ("FDIC") or New Jersey's Governmental Unit Deposit Protection Act ("GUDPA"). GUDPA requires all banks doing business in the State of New Jersey to maintain additional collateral in the amount of 5% of the average public deposits and to deposits these amounts with the Federal Reserve Bank for all deposits not covered by FDIC.

Bank balances at November 30, 2011 and 2010 are insured up to \$250,000 in the aggregate by the FDIC for each bank. At November 30, 2011 and 2010, the book value of the Authority's deposits were \$19,557,986 and 18,443,963, respectively.

Custodial Credit Risk Related to 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. Although the Authority does not have a formal policy for custodial credit risk, NJSA 17:9-41 et seq. requires that governmental units shall deposit public funds in public depositories protected from loss under the provisions of GUDPA. Under the Act, the first \$250,000 of governmental deposits in each insured depository is protected by the FDIC. Public funds owned by the Authority in excess of FDIC insured amounts are protected by GUDPA. However, GUDPA does not protect intermingled trust fund such as salary withholdings, funds that may pass to the authority relative to the happening of a future condition. Such funds are shown as uninsured and Uncollateralized in the schedule below.

At November 30, 2011 and 2010, the Authority's bank balances of \$19,614,206 and 18,454,008, respectively, were exposed to Custodial Credit Risk as follows:

|                                | <u>2011</u>          | <u>2010</u>          |
|--------------------------------|----------------------|----------------------|
| Insured                        | \$ 18,921,727        | \$ 17,946,425        |
| Uninsured and Uncollateralized | <u>692,479</u>       | <u>507,583</u>       |
|                                | <u>\$ 19,614,206</u> | <u>\$ 18,454,008</u> |

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2011 AND 2010

(3) CASH AND CASH EQUIVALENTS (CONTINUED)

Credit Risk

State law limits investments as noted above.

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, 2011, the Authority had \$2,194,900 on deposit with the New Jersey Cash Management Fund.

(4) INVESTMENTS

At year-end, the Authority had no investments.

(5) ACCOUNTS RECEIVABLE

Accounts Receivable at November 30, 2011 and 2010 consisted of the following:

|  | <u>2011</u>       | <u>2010</u>       |
|--|-------------------|-------------------|
| Accounts Receivable – Sludge Customers | <u>\$ 341,709</u> | <u>\$ 290,587</u> |

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2011 AND 2010

(6) PROPERTY PLANT AND EQUIPMENT

Property, Plant and Equipment is summarized as follows.

|                                      | Balance,<br>November 30, 2010 | Increase            | Decrease | Balance,<br>November 30, 2011 |
|--------------------------------------|-------------------------------|---------------------|----------|-------------------------------|
| Land                                 | \$ 911,690                    |                     |          | \$ 911,690                    |
| Treatment Plant                      | 83,750,849                    | \$ 294,140          |          | 84,044,989                    |
| Pumping Stations                     | 10,416,589                    | 37,210              |          | 10,453,799                    |
| Collection System                    | 11,150,036                    |                     |          | 11,150,036                    |
| Office Furniture & Equipment         | 2,338,777                     | 247,954             |          | 2,586,731                     |
| Automotive Equipment                 | 605,052                       | 27,495              |          | 632,547                       |
| Construction in Progress             | <u>2,054,032</u>              | <u>1,995,870</u>    |          | <u>4,049,902</u>              |
|                                      | 111,227,025                   | 2,602,669           |          | 113,829,694                   |
| Less: Accumulated<br>Depreciation    | <u>68,460,808</u>             | <u>3,265,167</u>    |          | <u>71,725,975</u>             |
| Net Property, Plant and<br>Equipment | <u>\$ 42,766,217</u>          | <u>\$ (662,498)</u> |          | <u>\$ 42,103,719</u>          |

(7) LONG-TERM DEBT

Bonds payable consisted of the following:

|                                       | <u>2011</u>          | <u>2010</u>          |
|---------------------------------------|----------------------|----------------------|
| 1993 Series B Revenue Refunding Bonds | \$ 2,335,000         | \$ 3,410,000         |
| 2002 Series Revenue Refunding Bonds   | 2,135,000            | 2,425,000            |
| 2004 Series Revenue Bonds             | 7,785,000            | 7,980,000            |
| 2007 NJEIT Financing                  | 5,000,155            | 5,264,063            |
| 2009 NJEIT / ARRA Financing           | 1,493,250            | 1,625,375            |
| 2010 NJEIT Financing                  | 9,588,511            | 4,197,500            |
| Unamortized Bond Premium              | <u>585,512</u>       | <u>0</u>             |
|                                       | 28,922,428           | 24,901,938           |
| Total Current Portion                 | <u>2,373,997</u>     | <u>2,038,322</u>     |
| Long-Term Debt                        | <u>\$ 26,548,431</u> | <u>\$ 22,863,616</u> |

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2011 AND 2010

(7) 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> |

In 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, 2011 AND 2010

(7) 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 remaining sinking fund installments on the dates indicated below:

| <u>Year</u> | <u>Amount</u>       |
|-------------|---------------------|
| 2011        | \$ 1,135,000        |
| 2012        | <u>1,200,000</u>    |
| Total       | <u>\$ 2,335,000</u> |

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2011 AND 2010

(7) 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:     |                         |                         |
| 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>\$ 2,135,000</u>     |                         |

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2011 AND 2010

(7) 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<br/>Amount</u> | <u>Rate of<br/>Interest</u> |
|-----------------|-----------------------------|-----------------------------|
| December 1:     |                             |                             |
| 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>\$ 7,785,000</u>         |                             |

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2011 AND 2010

(7) 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:       |                         |                         |
| 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>\$ 2,645,000</u>     |                         |



STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2011 AND 2010

(7) LONG TERM DEBT (CONTINUED)

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

| <u>Due Date</u> | <u>Principal<br/>Amount</u> |
|-----------------|-----------------------------|
| 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>\$ 2,355,155</u>         |

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2011 AND 2010

(7) 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> |
|-----------------|-------------------------|
| 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>\$ 758,250</u>       |

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2011 AND 2010

(7) 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<br/>Due Date</u> | <u>Rate of<br/>Amount</u> | <u>Rate of<br/>Interest</u> |
|-------------------------------|---------------------------|-----------------------------|
| August 1:                     |                           |                             |
| 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>\$ 735,000</u>         |                             |

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2011 AND 2010

(7) 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. 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<br/>Amount</u> |
|-----------------|-----------------------------|
| 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            | <u>167,032</u>              |
|                 | <u>\$3,368,512</u>          |

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2011 AND 2010

(7) LONG-TERM DEBT (CONTINUED)

The Series 2010 Trust Loan Agreement Bonds are due in the amounts and at interest rates shown in the table below:

| <u>Due Date</u> | <u>Principal<br/>Amount</u> | <u>Rate of<br/>Interest</u> |
|-----------------|-----------------------------|-----------------------------|
| August 1:       |                             |                             |
| 2012            | \$ 205,000                  | 5.00%                       |
| 2013            | 215,000                     | 5.00                        |
| 2014            | 225,000                     | 5.00                        |
| 2015            | 235,000                     | 5.00                        |
| 2016            | 245,000                     | 5.00                        |
| 2017            | 260,000                     | 5.00                        |
| 2018            | 275,000                     | 5.00                        |
| 2019            | 285,000                     | 5.00                        |
| 2020            | 300,000                     | 5.00                        |
| 2021            | 315,000                     | 5.00                        |
| 2022            | 330,000                     | 5.00                        |
| 2023            | 350,000                     | 5.00                        |
| 2024            | 365,000                     | 5.00                        |
| 2025            | 385,000                     | 5.00                        |
| 2026            | 405,000                     | 5.00                        |
| 2027            | 425,000                     | 5.00                        |
| 2028            | 445,000                     | 5.00                        |
| 2029            | 465,000                     | 5.00                        |
| 2030            | <u>490,000</u>              | 5.00                        |
|                 | <u>\$ 6,220,000</u>         |                             |

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2011 AND 2010

(7) 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<br>Ending<br><u>November 30</u> | <u>Principal</u>     | <u>Interest</u>      | <u>Total</u>         |
|---|----------------------|----------------------|----------------------|
| 2011  | \$ 1,645,000         | \$ 292,081           | \$ 1,937,081         |
| 2012  | 2,473,997            | 931,148              | 3,405,145            |
| 2013  | 1,309,573            | 833,984              | 2,143,557            |
| 2014  | 1,376,835            | 818,863              | 2,195,698            |
| 2015  | 1,422,148            | 773,888              | 2,196,036            |
| 2016  | 1,464,338            | 725,003              | 2,189,341            |
| 2017-2021                                       | 5,836,741            | 3,051,900            | 8,888,641            |
| 2022-2026                                       | 6,848,117            | 2,068,043            | 8,916,160            |
| 2027-2031                                       | 4,895,167            | 867,438              | 5,762,605            |
| 2032-2033                                       | <u>1,065,000</u>     | <u>80,500</u>        | <u>1,145,500</u>     |
|   | <u>\$ 28,336,916</u> | <u>\$ 10,442,848</u> | <u>\$ 38,779,764</u> |

(8) 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.

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2011 AND 2010

(8) RISK MANAGEMENT (CONTINUED)

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
- f. Public Officials and Employment Practices Liability

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.

(9) AMOUNTS REQUIRED BY BOND RESOLUTION

The following cash and investment accounts are required by the bond resolutions as of November 30, 2011:

|                                 | <u>Amount<br/>Required</u>  | <u>Balance<br/>On Hand</u> | <u>Excess or<br/>(Deficiency)</u> |
|---------------------------------|-----------------------------|----------------------------|-----------------------------------|
| Bond Service Account            | \$ 1,937,081                | \$ 1,937,081               |                                   |
| Bond Reserve Account            | 2,247,905                   | 2,247,906                  | \$ 1                              |
| Renewal and Replacement Account | 600,000                     | 600,000                    |                                   |
| General Account                 | <u>                    </u> | <u>8,462,914</u>           | <u>8,462,914</u>                  |
|                                 | <u>\$ 4,784,986</u>         | <u>\$ 13,247,901</u>       | <u>\$ 8,462,915</u>               |

STONY BROOK REGIONAL SEWERAGE AUTHORITY

NOTES TO THE FINANCIAL STATEMENTS

NOVEMBER 30, 2011 AND 2010

(10) NET ASSETS

Net Assets consist of Investment in Capital Assets and Unrestricted and restricted balances as required by the bond resolution as follows:

|   | <u>Balance,<br/>November 30, 2011</u> | <u>Balance,<br/>November 30, 2010</u> |
|---|---------------------------------------|---------------------------------------|
| Net Assets:                                   |                                       |                                       |
| Capital Assets, Net of<br>Related Liabilities | \$ 13,181,291                         | \$ 17,864,279                         |
| Restricted:                                   |                                       |                                       |
| Bond Service                                  | 1,937,081                             | 1,889,500                             |
| Bond Reserve                                  | 2,247,906                             | 2,247,906                             |
| Renewal and Replacement<br>Capital Projects   | 600,000                               | 600,000                               |
|   | <u>14,116,230</u>                     | <u>10,030,219</u>                     |
| Total Restricted                              | 18,901,216                            | 14,767,625                            |
| Unrestricted – Designated for<br>Emergencies  | 1,000,000                             | 1,000,000                             |
| Unrestricted                                  | <u>7,291,959</u>                      | <u>6,127,696</u>                      |
|   | <u>\$ 40,374,467</u>                  | <u>\$ 39,759,600</u>                  |

Change in Unrestricted Net Assets

|                                  |                     |
|----------------------------------|---------------------|
| Beginning Balance                | \$ 6,127,696        |
| Net Income                       | \$ 553,721          |
| Capital Contribution             | 600,000             |
| Current Portion – Due from NJEIT | <u>296,518</u>      |
|                                  | 1,450,239           |
| Capital Projects                 | <u>(285,976)</u>    |
| Ending Balance                   | <u>\$ 7,291,959</u> |

(11) LITIGATION, CLAIMS AND CONTINGENT LIABILITIES

In the ordinary conduct of its business, the Authority may be a party to litigation. At November 30, 2011 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, 2011 AND 2010

(12) 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, 2011

|   | Held By<br>Authority<br>Operating<br>Accounts | Held By Trustee    |                     | Memo                |                     |
|---|---|--------------------|---------------------|---------------------|---------------------|
|   |   | Revenue<br>Account | General<br>Account  | 2011<br>Totals      | 2010<br>Totals      |
| Sources:  |   |                    |                     |                     |                     |
| Members' Service Charges                            | \$ 382,339                                    | \$ 12,136,115      | \$                  | \$ 12,136,115       | \$ 12,295,150       |
| Members' Service Charges - Prior Year Interest      | 241   |                    | 28,947              | 382,339             | 228,234             |
| Receipts From Septage, Sludge and Leachate Services | 2,615,152                                     | 2,529              |                     | 2,617,681           | 2,907,767           |
| Investments Matured                                 | 80,909  |                    |                     | 80,909              | 258,827             |
| Miscellaneous Receipts                              |   |                    |                     |                     |                     |
| Transfers Within Other Unrestricted Accounts        | 10,215,000                                    | (10,915,533)       | 700,533             | 2,280,233           | 4,906,510           |
| Transfers From Restricted Accounts                  |   |                    |                     |                     |                     |
| Bond Refunding                                      |   |                    |                     |                     |                     |
| <b>Total Sources</b>                                | <b>13,293,641</b>                             | <b>1,223,111</b>   | <b>3,009,713</b>    | <b>17,526,465</b>   | <b>20,609,655</b>   |
| Uses:   |   |                    |                     |                     |                     |
| Operations/Capital Expenditures                     | 13,406,511                                    | 1,223,112          | 1,825,999           | 13,406,511          | 14,195,376          |
| Transfers To Restricted Accounts                    |   |                    |                     | 3,049,110           | 2,672,377           |
| <b>Total Uses</b>                                   | <b>13,406,511</b>                             | <b>1,223,112</b>   | <b>1,825,999</b>    | <b>16,455,622</b>   | <b>16,867,753</b>   |
| Increase/(Decrease)                                 | (112,870)                                     | 0                  | 1,183,714           | 1,070,844           | 3,741,902           |
| Balance, Beginning of Year                          | 850,276                                       | 3,334              | 7,279,200           | 8,132,810           | 4,390,908           |
| <b>Balance, End of Year</b>                         | <b>\$ 737,406</b>                             | <b>\$ 3,334</b>    | <b>\$ 8,462,914</b> | <b>\$ 9,203,654</b> | <b>\$ 8,132,810</b> |
| Balance Comprised of:                               |   |                    |                     |                     |                     |
| Cash  | \$ 700,301                                    |                    |                     | \$ 700,301          | \$ 813,218          |
| Cash Equivalents                                    | 37,105  | 3,334              | 8,462,914           | 8,503,353           | 7,319,593           |
| Investments   |   |                    |                     |                     |                     |
| <b>Total</b>  | <b>\$ 737,406</b>                             | <b>\$ 3,334</b>    | <b>\$ 8,462,914</b> | <b>\$ 9,203,655</b> | <b>\$ 8,132,810</b> |

STONY BROOK REGIONAL SEWERAGE AUTHORITY  
PRINCETON, NEW JERSEY

SCHEDULE OF CHANGES IN RESTRICTED CASH, CASH EQUIVALENTS AND INVESTMENTS

Year ended November 30, 2011

|                                      | Held By Trustee                                     |                            |                        |                                 |                                       |                                       | 2010 NJEIT<br>Construction<br>Account | 2011<br>Totals | (Memo)<br>2010<br>Totals |
|--------------------------------------|---|----------------------------|------------------------|---------------------------------|---------------------------------------|---------------------------------------|---------------------------------------|----------------|--------------------------|
|                                      | Debt Service Account<br>Bond<br>Service<br>Accounts | Bond<br>Reserve<br>Account | Replacement<br>Account | 2004<br>Construction<br>Account | 2007 NJEIT<br>Construction<br>Account | 2009 NJEIT<br>Construction<br>Account |                                       |                |                          |
| Sources:                             |   |                            |                        |                                 |                                       |                                       |                                       |                |                          |
| Interest Received on Investments     |   |                            |                        |                                 |                                       |                                       | \$ 47,722                             | \$ 133,549     |                          |
| Credited To Income                   |   |                            |                        |                                 |                                       |                                       | 3,049,110                             | 2,651,470      |                          |
| Transfers From Unrestricted Accounts |   |                            |                        |                                 |                                       |                                       | 1,150,773                             | 736,280        |                          |
| NJEIT Trust Loan                     |   |                            |                        | \$ 5,602                        | \$ 5,602                              | \$ 72,715                             | 631,984                               | 1,016,866      |                          |
| DEP Fund Loan                        |   |                            |                        | 5,602                           |                                       |                                       | 446,020                               | 1,385,607      |                          |
| ARRA Principal Forgiveness           |   |                            |                        |                                 |                                       |                                       |                                       |                |                          |
| Total Sources                        | \$ 3,049,110  | \$ 18,568                  | \$ 7,993               | \$ 21,161                       | \$ 11,204                             | \$ 72,715                             | \$ 5,325,609                          | \$ 5,923,772   |                          |
| Uses:                                |   |                            |                        |                                 |                                       |                                       |                                       |                |                          |
| Payment of Bond Interest             |   |                            |                        |                                 |                                       |                                       |                                       |                |                          |
| Charged To Expenses                  |   |                            |                        |                                 |                                       |                                       |                                       |                |                          |
| Payment of Bond Principal            | 993,874   |                            |                        |                                 |                                       |                                       | 993,874                               | 889,405        |                          |
| Transfer To Unrestricted Accounts    | 2,008,323   | 25,491                     | 7,993                  |                                 | 29,180                                | 72,714                                | 2,280,232                             | 3,309,020      |                          |
| Total Uses                           | 3,002,197   | 25,491                     | 7,993                  |                                 | 29,180                                | 72,714                                | 5,282,429                             | 4,885,603      |                          |
| Increase/(Decrease)                  | 46,913  | (6,923)                    |                        | 21,161                          | (17,976)                              | 1                                     | 43,180                                | (3,160,256)    |                          |
| Balance, Beginning of Year           | 1,890,168   | 2,254,829                  | 600,000                | 5,548,081                       | 18,072                                | 3                                     | 10,311,153                            | 13,471,408     |                          |
| Balance, End of Year                 | \$ 1,937,081  | \$ 2,247,906               | \$ 600,000             | \$ 5,569,242                    | \$ 96                                 | \$ 4                                  | \$ 10,354,332                         | \$ 10,311,153  |                          |
| Balance Comprised of:                |   |                            |                        |                                 |                                       |                                       |                                       |                |                          |
| Cash Equivalents                     | \$ 1,937,081  | \$ 2,247,906               | \$ 600,000             | \$ 5,569,242                    | \$ 96                                 | \$ 4                                  | \$ 10,354,332                         | \$ 10,311,153  |                          |
| Total                                | \$ 1,937,081  | \$ 2,247,906               | \$ 600,000             | \$ 5,569,242                    | \$ 96                                 | \$ 4                                  | \$ 10,354,332                         | \$ 10,311,153  |                          |

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES

Year ended November 30, 2011

|  | 2011<br><u>Budget</u> | 2011<br><u>Actual</u> | 2010<br><u>Budget</u> | 2010<br><u>Actual</u> |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| Operating Revenues:                      |                       |                       |                       |                       |
| Members Charges:                         |                       |                       |                       |                       |
| Gross                                    | \$ 12,136,115         | \$ 12,136,115         | \$ 12,295,150         | \$ 12,295,150         |
| Net                                      | <u>12,136,115</u>     | <u>12,136,115</u>     | <u>12,295,150</u>     | <u>12,295,150</u>     |
| Septage, Sludge and Leachate             | 2,500,000             | 2,668,803             | 2,828,000             | 2,821,763             |
| Interest Income                          | 50,000                | 42,815                | 160,000               | 50,664                |
| Other                                    | <u>35,000</u>         | <u>52,513</u>         | <u>40,000</u>         | <u>36,676</u>         |
| Total Operating Revenues                 | <u>\$ 14,721,115</u>  | <u>\$ 14,900,246</u>  | <u>\$ 15,323,150</u>  | <u>\$ 15,204,253</u>  |
| Costs Funded By Operating Revenues:      |                       |                       |                       |                       |
| Salaries and Wages                       |                       |                       |                       |                       |
| Employees:                               |                       |                       |                       |                       |
| Administrative                           | \$ 458,284            | \$ 460,686            | \$ 446,514            | \$ 450,870            |
| Operations and Maintenance               | 3,114,434             | 2,987,646             | 3,098,639             | 3,010,643             |
| Benefits                                 | <u>1,373,177</u>      | <u>1,355,237</u>      | <u>1,311,591</u>      | <u>1,230,151</u>      |
| Total Costs Funded By Operating Revenues | <u>\$ 4,945,895</u>   | <u>\$ 4,803,569</u>   | <u>\$ 4,856,744</u>   | <u>\$ 4,691,664</u>   |
| Administrative Expenses:                 |                       |                       |                       |                       |
| Insurance                                | \$ 300,470            | \$ 282,532            | \$ 296,642            | \$ 270,142            |
| Seminars                                 | 10,430                | 3,912                 | 12,485                | 6,711                 |
| Meetings and Travel                      | 12,120                | 5,558                 | 11,627                | 4,926                 |
| Telephone                                | 41,498                | 41,071                | 40,290                | 37,669                |
| Computer Payroll Service                 | 15,368                | 11,437                | 14,018                | 15,026                |
| Office Supplies                          | 12,764                | 15,046                | 14,815                | 13,147                |
| Data Processing Supplies                 | 20,075                | 11,888                | 20,075                | 14,235                |
| Service Contracts                        | 81,817                | 62,669                | 73,616                | 52,755                |
| Dues                                     | 14,639                | 16,618                | 14,564                | 12,314                |
| Magazines, Books, etc.                   | 4,301                 | 2,118                 | 4,780                 | 3,818                 |
| Postage                                  | 6,180                 | 5,853                 | 6,480                 | 6,478                 |
| Advertising and Printing                 | 3,025                 | 1,483                 | 3,025                 | 1,871                 |
| Rental and Easements                     | 13,224                | 13,100                | 12,981                | 13,048                |
| Regulatory Fees and Permits              | 52,385                | 46,054                | 71,700                | 42,735                |
| Miscellaneous                            | <u>14,041</u>         | <u>9,564</u>          | <u>13,576</u>         | <u>14,847</u>         |
| Total Administrative Expenses            | <u>\$ 602,337</u>     | <u>\$ 528,903</u>     | <u>\$ 610,674</u>     | <u>\$ 509,722</u>     |
| Operating and Maintenance Expenses:      |                       |                       |                       |                       |
| Fuel Oil and Natural Gas                 | \$ 1,032,348          | \$ 866,223            | \$ 1,300,792          | \$ 868,154            |
| Water                                    | 47,066                | 44,713                | 48,514                | 36,956                |
| Electricity                              | 1,917,346             | 1,917,121             | 1,975,951             | 1,831,652             |
| Operating Chemicals                      | 727,587               | 624,502               | 846,669               | 577,158               |
| Maintenance Tools and Supplies           | 215,350               | 243,682               | 184,440               | 200,760               |
| Janitorial Supplies                      | 7,350                 | 10,917                | 7,350                 | 12,586                |
| Laboratory Chemicals and Supplies        | 18,698                | 11,905                | 18,853                | 8,894                 |
| Uniforms                                 | 19,469                | 20,063                | 18,279                | 18,822                |
| Training                                 | 21,426                | 12,400                | 25,126                | 7,716                 |
| Safety Equipment                         | 50,301                | 43,706                | 52,580                | 38,883                |
| Outside Lab Testing                      | 28,384                | 27,026                | 27,005                | 24,770                |
| Pretreatment Supplies                    | 300                   |                       | 300                   |                       |
| Ash and Sludge Hauling                   | 275,358               | 234,611               | 357,832               | 210,100               |
| Maintenance and Repairs                  | 286,585               | 394,966               | 249,405               | 297,920               |
| Operations Supplies                      | 78,371                | 98,846                | 106,671               | 89,811                |
| Buildings and Grounds                    | 44,600                | 76,442                | 44,600                | 66,092                |
| Spare Parts                              | 184,950               | 268,718               | 174,950               | 241,233               |
| Hazardous Waste Disposal                 | 10,000                | 5,994                 | 10,000                | 3,604                 |
| Medical Testing                          | 4,980                 | 598                   | 2,690                 | 6,200                 |
| Contingency for Fines                    | 20,000                | 18,350                | 20,000                |                       |
| Minor Operational Improvements           | <u>159,985</u>        | <u>54,147</u>         | <u>121,835</u>        | <u>16,541</u>         |
| Total Operating and Maintenance Expenses | <u>\$ 5,150,454</u>   | <u>\$ 4,974,931</u>   | <u>\$ 5,593,842</u>   | <u>\$ 4,557,852</u>   |

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES

Year ended November 30, 2011

|  | 2011<br><u>Budget</u>       | 2011<br><u>Actual</u> | 2010<br><u>Budget</u>       | 2010<br><u>Actual</u> |
|--|-----------------------------|-----------------------|-----------------------------|-----------------------|
| Vehicle Maintenance:                                   |                             |                       |                             |                       |
| Gas, Oil and Tires                                     | \$ 33,200                   | \$ 38,027             | \$ 36,400                   | \$ 40,807             |
| Parts and Service                                      | 25,200                      | 18,223                | 21,000                      | 33,349                |
| Vehicle Registration                                   | <u>2,318</u>                | <u>3,878</u>          | <u>2,318</u>                | <u>2,121</u>          |
| Total Vehicle Maintenance                              | <u>\$ 60,718</u>            | <u>\$ 60,129</u>      | <u>\$ 59,718</u>            | <u>\$ 76,277</u>      |
| Professional Services:                                 |                             |                       |                             |                       |
| Legal and Audit  | \$ 86,000                   | \$ 69,165             | \$ 85,000                   | \$ 86,925             |
| Trustee Services                                       | 32,072                      | 31,185                | 8,200                       | 12,177                |
| Consultants - Other                                    | <u>188,600</u>              | <u>184,447</u>        | <u>156,800</u>              | <u>197,762</u>        |
| Total Professional Services                            | <u>\$ 306,672</u>           | <u>\$ 284,797</u>     | <u>\$ 250,000</u>           | <u>\$ 296,864</u>     |
| Total Operating Expenses                               | <u>\$ 11,066,076</u>        | <u>\$ 10,652,328</u>  | <u>\$ 11,370,978</u>        | <u>\$ 10,132,379</u>  |
| Capital Purchase Fund Contribution                     | \$ 600,000                  | \$ 600,000            | \$ 1,300,000                | \$ 1,300,000          |
| Equipment Recorded as<br>Property, Plant and Equipment | <u>                    </u> | <u>27,495</u>         | <u>                    </u> | <u>47,319</u>         |
|  | <u>\$ 600,000</u>           | <u>\$ 627,495</u>     | <u>\$ 1,300,000</u>         | <u>\$ 1,347,319</u>   |
| Total Operating Expenses                               | \$ 11,666,076               | \$ 11,279,823         | \$ 12,670,978               | \$ 11,479,698         |
| Debt Service Funded By Members                         | <u>3,055,039</u>            | <u>3,066,702</u>      | <u>2,652,172</u>            | <u>2,651,470</u>      |
| Costs Funded By Operating Revenues                     | <u>\$ 14,721,115</u>        | <u>14,346,525</u>     | <u>\$ 15,323,150</u>        | <u>14,131,168</u>     |
| Excess of Revenues over Expenditures                   |                             | <u>\$ 553,721</u>     |                             | <u>\$ 1,073,085</u>   |

STONY BROOK REGIONAL SEWERAGE AUTHORITY  
 SCHEDULE OF AMOUNTS REFUNDABLE TO OR RECEIVABLE FROM INDIVIDUAL MEMBERS  
 For The Year Ended November 30, 2011

|   | Princeton<br>Borough | Princeton<br>Township | South<br>Brunswick<br>Township | West<br>Windsor<br>Township | Hopewell<br>Borough | Pennington<br>Borough | Total         |
|---|----------------------|-----------------------|--------------------------------|-----------------------------|---------------------|-----------------------|---------------|
| <b>Actual:</b>                                  |                      |                       |                                |                             |                     |                       |               |
| Operating Expenses                              | \$ 1,786,133         | \$ 2,040,118          | \$ 4,108,378                   | \$ 2,295,591                | \$ 177,604          | \$ 272,000            | \$ 10,679,823 |
| Capital Purchase Fund Contribution              | 100,346              | 114,615               | 230,812                        | 128,968                     | 9,978               | 15,281                | 600,000       |
| Retained Earnings                               | 0                    | 0                     | 0                              | 0                           | 0                   | 0                     | 0             |
| Revenues - Septage Sludge and Leachate Receipts | (446,341)            | (509,809)             | (1,026,651)                    | (573,650)                   | (44,382)            | (67,971)              | (2,668,803)   |
| Interest  | (7,161)              | (8,179)               | (16,470)                       | (9,203)                     | (712)               | (1,090)               | (42,815)      |
| Misc Revenue                                    | (8,782)              | (10,031)              | (20,201)                       | (11,287)                    | (873)               | (1,337)               | (52,513)      |
| Budget Balance To Retained Earnings             | 92,606               | 105,775               | 213,009                        | 119,020                     | 9,208               | 14,103                | 553,721       |
| Debt Service Apportioned to Members             | 512,887              | 585,818               | 1,179,717                      | 659,177                     | 50,999              | 78,105                | 3,066,702     |
| Total Base Charges (Dollar Amount)              | 2,029,689            | 2,318,306             | 4,668,593                      | 2,608,615                   | 201,821             | 309,090               | 12,136,115    |
| Gallons Treated (Actual)                        | 683,909,291          | 781,159,692           | 1,573,095,020                  | 878,980,081                 | 68,004,268          | 104,148,709           | 4,089,297,061 |
| Total Base Charges (Percentage)                 | 16.724%              | 19.103%               | 38.469%                        | 21.495%                     | 1.663%              | 2.547%                | 100.000000%   |
| Debt Service Adjustment - Increase/(Decrease)   | (160,047)            | (165,616)             | 71,719                         | 260,402                     | 4,709               | (11,167)              | 0             |
| Net Member Charges - Actual                     | 1,869,642            | 2,152,690             | 4,740,311                      | 2,869,018                   | 206,530             | 297,923               | 12,136,115    |
| <b>Budget:</b>                                  |                      |                       |                                |                             |                     |                       |               |
| Operating Expenses                              | 1,856,621            | 2,044,918             | 4,217,111                      | 2,485,594                   | 174,281             | 287,551               | 11,066,076    |
| Capital Purchase Fund Contribution              | 100,666              | 110,875               | 228,651                        | 134,768                     | 9,449               | 15,591                | 600,000       |
| Revenues - Septage Sludge and Leachate Receipts | (419,440)            | (461,979)             | (952,711)                      | (561,535)                   | (39,373)            | (64,962)              | (2,500,000)   |
| Interest  | (8,389)              | (9,240)               | (19,054)                       | (11,231)                    | (787)               | (1,299)               | (50,000)      |
| Misc Revenue                                    | (5,872)              | (6,468)               | (13,338)                       | (7,861)                     | (551)               | (909)                 | (35,000)      |
| Budget Balance From Retained Earnings           | 0                    | 0                     | 0                              | 0                           | 0                   | 0                     | 0             |
| Debt Service                                    | 512,562              | 564,546               | 1,164,228                      | 686,204                     | 48,114              | 79,385                | 3,055,039     |
| Total Base Charges (Dollar Amount)              | 2,036,148            | 2,242,653             | 4,624,886                      | 2,725,939                   | 191,133             | 315,356               | 12,136,115    |
| Gallons Treated (Budget)                        | 631,436,824          | 695,476,590           | 1,434,239,047                  | 845,350,321                 | 59,272,894          | 97,796,015            | 3,763,571,691 |
| Total Base Charges (Percentage)                 | 16.778%              | 18.479%               | 38.108%                        | 22.461%                     | 1.575%              | 2.598%                | 100.0000%     |
| Debt Service Adjustment - Increase/(Decrease)   | (160,047)            | (165,616)             | 71,719                         | 260,402                     | 4,709               | (11,167)              | 0             |
| Net Member Charges - Budget/Paid.               | 1,876,101            | 2,077,037             | 4,696,605                      | 2,986,342                   | 195,841             | 304,189               | 12,136,115    |
| Due (To)/From Members at November 30, 2011      | (6,459)              | 75,654                | 43,707                         | (117,324)                   | 10,688              | (6,266)               | 0             |
| Allocation:                                     |                      |                       |                                |                             |                     |                       |               |
| Operation                                       | (6,784)              | 54,381                | 28,218                         | (90,297)                    | 7,804               | (4,985)               | (11,663)      |
| Debt Service                                    | 325                  | 21,272                | 15,489                         | (27,027)                    | 2,865               | (1,280)               | 11,663        |
| Amount Due/(Refund )                            | (6,459)              | 75,654                | 43,707                         | (117,324)                   | 10,688              | (6,266)               | 0             |

STONY BROOK REGIONAL SEWERAGE AUTHORITY  
PRINCETON, NEW JERSEY

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

NOVEMBER 30, 2011

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 REGIONAL SEWERAGE AUTHORITY  
PRINCETON, NEW JERSEY

SCHEDULE OF FEDERAL FINANCIAL AWARDS

The Year Ended November 30, 2011

| <u>Federal Grantor/<br/>Pass-Through Grantor/Program Title</u>  | <u>Federal CFDA<br/>Number</u> | <u>Pass-Through<br/>Contract Number</u> | <u>Grant<br/>Year</u> | <u>Federal Share</u> | <u>Cash<br/>Received</u> | <u>November 30,<br/>2011<br/>Expenditures</u> | <u>Cumulative<br/>Expenditures</u> |
|---|--------------------------------|---|-----------------------|----------------------|--------------------------|---|------------------------------------|
| U.S. Department of Environmental Protection<br>Pass-Through the State of New Jersey Department of<br>Environmental Protection<br>Capitalization Grants for Clean Water State Revolving Funds<br>Environmental Public Wastewater Facilities Capitalization Grant | 66.458                         | 042 4860 510 042                        | 2006                  | \$ 2,650,000.00      | \$ 5,602.00              | \$ 4,259.00                                   | \$ 2,396,556.00                    |
| Capitalization Grants for Clean Water State Revolving Funds<br>Environmental Public Wastewater Facilities Capitalization Grant  | 66.458                         | 042 4860 711 005                        | 2010                  | 6,697,500.00         | 1,072,402.00             | 1,221,045.00                                  | 1,221,045.00                       |
| Total U.S. Environmental Protection Agency  |                                |   |                       | 9,347,500.00         | 1,078,004.00             | 1,225,304.00                                  | 3,617,601.00                       |
| Total Federal Financial Awards  |                                |   |                       | \$ 9,347,500.00      | \$ 1,078,004.00          | \$ 1,225,304.00                               | \$ 3,617,601.00                    |

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, 2011

**NOTE 1. GENERAL**

The Stony Brook Regional Sewerage Authority, County of Mercer, New Jersey ("Authority") is the prime sponsor and recipient of various federal grant funds. The Authority has delegated the administration of grant programs and the reporting function to various departments within the Authority. Substantially all grant and program cash funds are commingled with the Authority's other funds, although each grant is accounted for separately within the Authority's financial records. The Treasurer's Office of the Authority performs accounting functions for all grants.

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 OTHER MATTERS AND ON COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of 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, 2011, and have issued our report thereon dated January 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey.

### Internal Control Over Financial Reporting

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

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

The Board of Members  
Stony Brook Regional Sewerage Authority  
Princeton, New Jersey 08540  
Page 2

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

#### Compliance and Other Matters

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

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.

January 26, 2012

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

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## REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND 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 could have a direct and material effect on each of the Authority's major federal programs for the year ended November 30, 2011. The Authority's major federal 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 its major federal 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; 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 compliance requirements referred to above that could have a direct and material effect on its major federal programs for the year ended November 30, 2011.

#### 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 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, 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 or state program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal 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 was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

The Board Members  
Stony Brook Regional Sewerage Authority  
Princeton, New Jersey 08540  
Page 3

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.*

January 26, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

STONY BROOK REGIONAL SEWERAGE AUTHORITY  
 COUNTY OF MERCER, NEW JERSEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended November 30, 2011

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:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u>                          |
|-----------------------|--|
| 66.458                | Environmental Public Wastewater<br>Facilities Capitalization Grant |
|                       |  |
|                       |  |

- 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  
COUNTY OF MERCER, NEW JERSEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)

Year ended November 30, 2011

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  
COUNTY OF MERCER, NEW JERSEY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)

Year ended November 30, 2011

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  
COUNTY OF MERCER, NEW JERSEY

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

Year ended November 30, 2011

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.

No prior-year findings.



STONY BROOK REGIONAL SEWERAGE AUTHORITY

ROSTER OF OFFICIALS

NOVEMBER 30, 2011

Authority Members

Robert A. Bartolini

Gale D. Downey

David H. Miller

Bharat Patel

C. Schuyler Morehouse

Harry R. Compton

James McKinnon

Position

Chair

Vice Chair

Treasurer

Member

Member

Member

Member

Other Officials

John Kantorek, PE

Antonia Pchola, PE

Stuart Neuhof, CPA

Patricia Carlino

Diane Alexander

Position

Secretary/Executive Director

Manager of Engineering

Chief Financial Officer

Assistant Secretary

Attorney

## COMMENTS AND RECOMMENDATIONS

STONY BROOK REGIONAL SEWERAGE AUTHORITY

FINDINGS AND RECOMMENDATIONS

NOVEMBER 30, 2011

None noted.