

Stony Brook Regional Sewerage Authority
Princeton, New Jersey
Years Ended November 30, 2012 and 2011
Financial Statements and Additional Information
with
Independent Auditor's Reports
and
Comments And Recommendations

Stony Brook Regional Sewerage Authority
Princeton, New Jersey

Financial Statements

Years Ended November 30, 2012 and 2011

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the statements of net position of the Stony Brook Regional Sewerage Authority ("Authority"), as of and for the years ended November 30, 2012 and 2011, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of November 30, 2012 and 2011, and the changes in its net position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 7, 2013 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages three through eight be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. In addition, the schedules of changes in unrestricted and restricted cash and cash equivalents and the schedule of amounts refundable to or receivable from individual members are presented for purposes of additional analysis and are not a required part of the financial statements. We have applied certain limited procedures to this supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Authority taken as a whole. The budgetary comparison information on pages 38 through 39, required by the Government Accounting Standards Board and the accompanying schedules of expenditures of federal and state awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and New Jersey OMB Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, are presented for purposes of additional analysis and are not a required part of the financial statements. The budgetary comparison information and the schedules of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Hutchins, Meyer & DiLieto, PA

March 7, 2013
Toms River, New Jersey

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's analysis of the Authority's financial condition and activities for the year ending November 30, 2012. Management's Discussion and Analysis serves as an introduction to the financial statements and should be read in conjunction with the financial statements and the accompanying notes.

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, Meyer & DiLieto, PA is included in this report.

Financial Highlights

Total assets and deferred outflows of resources at year-end net of accumulated depreciation and amortization totaled \$70.99 million and exceeded liabilities in the amount of \$30.40 million. Net position totals \$40.59 million versus \$40.15 million for the prior year. The increase from the prior year net position was the result of GAAP basis net income of \$437,801. Working capital balances are adequate to meet the operational needs of the Authority including small capital projects provided in the budget.

Budgetary revenues totaled \$14,755,747 which is a decrease of \$144,499 or 1.0% less than the prior year. Retained Earnings of \$158,443 included in Revenues was not needed and was returned to retained earnings for future use.

Budgetary expenditures totaled \$14,521,546 which is \$353,012 under budget. A significant portion of this saving came from lower than anticipated electricity and chemical costs. Other savings came from lower ash and sludge hauling costs.

The amount spent in 2012 for construction and equipment totaled \$5,147,640. The construction in progress accounts increased from \$4,049,902 at November 30, 2011 to \$8,724,710 at November 30, 2012, an increase of \$4,674,808.

On August 9, 2012, the Authority issued \$7,000,000 in Revenue Refunding Bonds with an average interest rate of 3.03 percent to advance-refund \$6,695,000 of outstanding 2004 Series Revenue Bonds with an average interest rate of 4.84 percent. The gross debt service savings totaled \$503,412 after payment of all issuance costs.

The draft discharge permits for the Pennington WWTP and the Hopewell WWTP have been received, commented upon by SBRSA staff and our consultants and those comments have been submitted to NJDEP. The Pennington WWTP upgrade and expansion study cannot begin until issues with the new discharge limits have been resolved between SBRSA and New Jersey Department of Environmental Protection (NJDEP).

The River Road Headworks Project was awarded to Tomar Construction in March 2011. Construction of the project is continuing and is expected to be substantially complete by the end of April 2013. 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.

Our plan is to primarily fund large capital projects over the next three to four years by the proceeds of the 2004 bond issue and unrestricted retained earnings. Some of the capital projects identified are the result of NJDEP mandates for phosphorous removal and new permit discharge limits. Other projects include the expansion of the Pennington Wastewater Treatment Plant, installation of comminutors at our three pumping stations, replacement/repair of our sludge pumping equipment and modifications to our ash handling system as a result of new EPA sewage sludge incinerator regulations.

The small capital projects completed in 2012 were the Fly Ash Slurry Pump Rehabilitation Project and the MCC E 2A Replacement Project. The projects that were awarded and started in 2012 and will be completed in 2013 are the SBRSA Facilities Painting Project and Sludge Thickener No. 1 Improvements Project.

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 Position, a Statement of Revenues, Expenses and Changes to Net position; a Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position 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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in net position is one indicator of whether the financial position of the Authority is improving or deteriorating.

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

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

The Notes to the Financial Statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. Supplementary information 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.

CONDENSED FINANCIAL STATEMENTS

CONDENSED STATEMENT OF NET ASSETS

	November 30,		Variance	
	2012	2011	Dollars	Percentage
Assets:				
Current Assets	\$ 26,054,064	\$ 31,022,879	\$ (4,968,815)	-16.02%
Property, Plant and Equipment - Net	44,117,894	42,103,719	2,014,175	4.78%
Deferred Outflows Of Resources	820,732	0	820,732	100.00%
Total Assets and Deferred Outflows	<u>\$ 70,992,690</u>	<u>\$ 73,126,598</u>	<u>\$ (2,133,908)</u>	<u>-2.92%</u>
Liabilities:				
Current Liabilities	\$ 4,981,951	\$ 6,028,234	\$ (1,046,283)	-17.36%
Non-Current Liabilities	25,422,722	26,948,148	(1,525,426)	-5.66%
Total Liabilities	<u>30,404,673</u>	<u>32,976,382</u>	<u>(2,571,709)</u>	<u>-7.80%</u>
Net Assets:				
Restricted or Invested in Capital Assets	\$ 32,858,786	\$ 32,082,507	\$ 776,279	2.42%
Unrestricted	7,729,231	8,067,709	(338,478)	-4.20%
Total Net Assets	<u>40,588,017</u>	<u>40,150,216</u>	<u>437,801</u>	<u>1.09%</u>
Total Liabilities and Net Assets	<u>\$ 70,992,690</u>	<u>\$ 73,126,598</u>	<u>\$ (2,133,908)</u>	<u>-2.92%</u>

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

	November 30,		Variance	
	2012	2011	Dollars	Percentage
Operating Revenues:				
Service Charges	\$ 12,136,115	\$ 12,136,115	\$ 0	0.00%
Septage, Sludge and Leachate	2,533,158	2,668,803	(135,645)	-5.08%
Other	58,209	52,512	5,697	10.85%
Total Operating Revenues	<u>14,727,482</u>	<u>14,857,430</u>	<u>(129,948)</u>	<u>-0.87%</u>
Operating Expenses:				
Operations and Maintenance	11,009,064	10,652,328	356,736	3.35%
Depreciation	3,133,465	3,265,167	(131,702)	-4.03%
Total Operating Expenses	<u>14,142,529</u>	<u>13,917,495</u>	<u>225,034</u>	<u>1.62%</u>
Operating Income	<u>584,953</u>	<u>939,935</u>	<u>(354,982)</u>	<u>-37.77%</u>
Non-Operating Revenues/(Expenses)	<u>(147,152)</u>	<u>(338,135)</u>	<u>190,983</u>	<u>-56.48%</u>
Change in Net Assets	437,801	601,800	(163,999)	-27.25%
Net Assets - Beginning of Year, as Previously Reported	<u>40,150,216</u>	<u>39,759,600</u>	<u>390,616</u>	<u>0.98%</u>
Prior Period Adjustment	-	(211,184)	211,184	-100.00%
Net Assets - Beginning of Year, as Restated	<u>40,150,216</u>	<u>39,548,416</u>	<u>601,800</u>	<u>1.52%</u>
Net Assets - End of Year	<u>\$ 40,588,017</u>	<u>\$ 40,150,216</u>	<u>\$ 437,801</u>	<u>1.09%</u>

OTHER SELECTED INFORMATION

	Year		Variance	
	<u>2012</u>	<u>2011</u>	<u>Amount</u>	<u>Percentage</u>
Ratio of Operating Revenue To:				
Operating Expenses	1.04	1.07	(0.026)	-2.5%
Operating Expenses Net of Depreciation	1.34	1.39	(0.057)	-4.1%
Total Assets	0.21	0.20	0.005	2.4%
Total Net Assets	0.36	0.37	(0.005)	-1.4%
Debt Related Ratios				
Equity To Long-Term Debt	1.62	1.52	0.099	6.5%
Current Ratio	5.23	5.15	0.083	1.6%
Debt Service Coverage	5.55	5.60	(0.049)	-0.9%
Other				
Employees at year-end	45	45	0	0.0%
Annual flow in million gallons	3,321.5	4,089.3	(768)	-18.8%
Cost per million gallons	\$ 3,654	\$ 2,968	686	23.1%

Stony Brook Regional Sewerage Authority
Princeton, New Jersey

Comparative Statements of Net Position

November 30, 2012 and 2011

Assets	2012	2011	Liabilities and Net Position	2012	2011
Unrestricted Assets:			Current Liabilities:		
Current Assets:			Payable From Unrestricted Assets:		
Cash - Held By Authority	\$ 709,646	\$ 700,301	Accounts Payable and Accrued Expenses	\$ 831,462	\$ 959,930
Cash Equivalents - Held By:					
Authority	37,124	37,105	Payable From Restricted Assets:		
Trustee	7,703,988	8,466,248	Construction Accounts Payable	465,540	442,323
Accrued Interest Receivable	11,708	21,668	Debt Payable - Current	2,489,573	2,373,997
Accounts Receivable	411,492	341,709	Unearned Principal Forgiveness	999,069	1,925,714
Prepaid Expenses	52,939	84,576	Interest Payable	162,118	292,081
			Contractor Hauler Deposits	34,189	34,189
Total Unrestricted Current Assets	<u>8,926,897</u>	<u>9,651,607</u>			
Restricted Current Assets:			Total Current Liabilities Payable From	<u>4,150,489</u>	<u>5,068,304</u>
Current Assets:			Restricted Assets		
Cash Equivalents - Held By Trustee	10,351,092	10,354,332	Total Current Liabilities	<u>4,981,951</u>	<u>6,028,234</u>
NJ/EIT / DEP Funds Receivable	6,776,075	11,016,940			
Total Restricted Current Assets	<u>17,127,167</u>	<u>21,371,272</u>	Long-Term Liabilities:		
Total Current Assets	<u>26,054,064</u>	<u>31,022,879</u>	Accrued Compensated Absences	366,204	399,717
			Debt Payable, Net of Current	25,056,518	26,548,431
Property, Plant and Equipment	118,977,334	113,829,694	Total Long-Term Liabilities	<u>25,422,722</u>	<u>26,948,148</u>
Less Accumulated Depreciation	<u>(74,859,440)</u>	<u>(71,725,975)</u>	Total Liabilities	<u>30,404,673</u>	<u>32,976,382</u>
Net Property, Plant and Equipment	<u>44,117,894</u>	<u>42,103,719</u>	Net Position:		
Total Assets	<u>70,171,958</u>	<u>73,126,598</u>	Net Investment in Capital Assets	23,347,878	24,198,231
			Restricted	9,510,908	7,884,276
Deferred Outflows of Resources:			Unrestricted	<u>7,729,231</u>	<u>8,067,709</u>
Deferred Loss on Advanced Refunding	820,732	-	Total Net Position	<u>40,588,017</u>	<u>40,150,216</u>
Total Assets and			Total Liabilities		
Deferred Outflows of Resources	<u>\$ 70,992,690</u>	<u>\$ 73,126,598</u>	and Net Position	<u>\$ 70,992,690</u>	<u>\$ 73,126,598</u>

Stony Brook Regional Sewerage Authority
Princeton, New Jersey

Comparative Statements of Revenues, Expenses and
Changes in Net Position

For the Years Ended November 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Operating Revenues:		
Participants' Service Charges	\$ 12,136,115	\$ 12,136,115
Septage, Sludge and Leachate	2,533,158	2,668,803
Other	58,209	52,512
	<hr/>	<hr/>
Total Operating Revenues	14,727,482	14,857,430
	<hr/>	<hr/>
Operating Expenses Exclusive of Depreciation	11,009,064	10,652,328
	<hr/>	<hr/>
Operating Income Before Depreciation	3,718,418	4,205,102
	<hr/>	<hr/>
Depreciation	3,133,465	3,265,167
	<hr/>	<hr/>
Operating Income	584,953	939,935
	<hr/>	<hr/>
Non-Operating Revenues/(Expenses):		
Interest Earned on Investments	43,191	64,173
Interest Expense - Debt Service	(964,398)	(973,380)
Bond Issue Costs	(114,934)	(41,449)
Amortization of Bond Premium	64,935	38,234
Amortization of Deferred Loss- Advanced Refunding	(102,591)	-
Principal Forgiveness	926,645	574,287
	<hr/>	<hr/>
Total Non-Operating Revenues/(Expenses)	(147,152)	(338,135)
	<hr/>	<hr/>
Net Income/(Loss)	437,801	601,800
	<hr/>	<hr/>
Net Position - Beginning of Year, as Previously Reported	40,150,216	39,759,600
	<hr/>	<hr/>
Prior Period Adjustment	-	(211,184)
	<hr/>	<hr/>
Net Position - Beginning of Year, as Restated	40,150,216	39,548,416
	<hr/>	<hr/>
Net Position - End of Year	<u>\$ 40,588,017</u>	<u>\$ 40,150,216</u>

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

Stony Brook Regional Sewerage Authority
Princeton, New Jersey

Comparative Statements of Cash Flows

For the Years Ended November 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts From Customers and Users	\$ 12,136,115	\$ 12,084,993
Receipts for Septage, Sludge and Leachate	2,463,375	2,668,803
Other Operating Receipts	58,209	52,512
Payments To Suppliers of Goods and Services	(6,119,872)	(5,722,963)
Payments To Employees for Services	<u>(5,019,536)</u>	<u>(4,798,148)</u>
Net Cash Provided By Operating Activities	<u>3,518,291</u>	<u>4,285,197</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition of Capital Assets	(5,147,640)	(2,602,669)
Unearned Revenue	-	1,925,714
NJEIT/DEP loan funds received	4,240,865	-
Proceeds from Capital Debt	47,555	479,213
Principal Payments on Long-Term Debt	(2,373,997)	(2,038,322)
Interest Paid on Bonds	<u>(1,094,361)</u>	<u>(1,010,799)</u>
Net Cash Used By Capital and Related Financing Activities	<u>(4,327,578)</u>	<u>(3,246,863)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Received	<u>53,151</u>	<u>75,689</u>
Net Cash Provided By Investing Activities	<u>53,151</u>	<u>75,689</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	(756,136)	1,114,023
Cash and Cash Equivalents - Beginning of Year	<u>19,557,986</u>	<u>18,443,963</u>
Cash and Cash Equivalents - End of Year	<u>\$ 18,801,850</u>	<u>\$ 19,557,986</u>
CASH AND CASH EQUIVALENTS PER FINANCIAL STATEMENTS:		
Unrestricted Cash - Held By Authority	\$ 709,646	\$ 700,301
Unrestricted Cash Equivalents - Held By:		
Authority	37,124	37,105
Trustee	7,703,988	8,466,248
Restricted Cash Equivalents - Held By Trustee	<u>10,351,092</u>	<u>10,354,332</u>
	<u>\$ 18,801,850</u>	<u>\$ 19,557,986</u>
Reconciliation of Operating Income To Net Cash Provided By Operating Activities:		
Operating Income	\$ 584,953	\$ 939,935
Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided By Operating Activities:		
Depreciation	3,133,465	3,265,167
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(69,783)	(51,122)
Prepaid Expenses	31,637	(61,119)
Accounts Payable and Accrued Expenses - Unrestricted Assets	(128,468)	1,884
Accrued Compensated Absences	(33,513)	190,452
Net Cash Provided By Operating Activities	<u>\$ 3,518,291</u>	<u>\$ 4,285,197</u>

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 1: GENERAL

The Stony Brook Regional Sewerage Authority (“Authority”) was created to 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 organization 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.

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.

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 wastewater 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, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Where applicable, certain prior-year amounts have been reclassified to conform to current-year presentation.

Deferred Outflows and Inflows of Resources and Net Position

During the 2012 fiscal year, the Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets

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

<u>ACCOUNT</u>	<u>AMOUNT</u>	<u>USE FOR WHICH RESTRICTED</u>
Revenue	All revenue except grants-in-aid and interest on investments.	Authorized operating expenses and, as of the first day of each month, transfers to the various accounts described below.
Bond Service	Amount needed to pay matured principal and interest plus principal and interest due on or before the following December 1st.	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.

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Assets (continued)

<u>ACCOUNT</u>	<u>AMOUNT</u>	<u>USE FOR WHICH RESTRICTED</u>
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 1st.	Principal and interest on bonds due on various dates through 2012.
Construction	Proceeds from bonds and grants-in-aid for construction projects.	Construction costs.

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.

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. At November 30, 2012 and 2011, the Authority had no investments.

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, 2012 and 2011

Note 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 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, 2012 and 2011 are as follows:

	<u>Balance,</u> <u>November 30, 2012</u>	<u>Balance,</u> <u>November 30, 2011</u>
Land	\$ 911,690	\$ 911,690
Treatment Plant	84,079,146	84,044,989
Pumping Stations	10,453,799	10,453,799
Collection System	11,150,036	11,150,036
Office Furniture and Equipment	2,911,333	2,586,731
Automotive Equipment	746,620	632,547
Construction in Progress	<u>8,724,710</u>	<u>4,049,902</u>
	118,977,334	113,829,694
Less: Accumulated Depreciation	<u>74,859,440</u>	<u>71,725,975</u>
Net Property, Plant and Equipment	<u>\$ 44,117,894</u>	<u>\$ 42,103,719</u>

Debt Issue Costs and Prior Period Adjustment

All Debt Issue Costs related to current and prior bond issues have been expensed in accordance with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* and prior periods have been restated accordingly.

Unamortized Bond Premium

Deferred Bond Premiums are being amortized over the life of the bond issue based on the effective interest method.

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 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 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, P.O. Box 295, Trenton, New Jersey 08625-0295.

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 6.5% to 7% of base salary effective July 1, 2012. In addition the employees percentage contribution will increase an additional 1% prorated over the next seven years which started 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 made their annual required contributions in its entirety as follows:

<u>PERS</u>		
2012	\$	339,886
2011		336,275
2010		252,721

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.

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Budgetary Procedures (Continued)

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.

Compensated Absences

The Authority provides compensated absences benefits to its employees. As of November 30, 2012 and 2011, the vested amounts were \$511,431 and \$526,484, respectively. These amounts are comprised of a long-term liability of \$366,204 and \$399,717, respectively, and \$145,227 and \$126,767, respectively, which are included in current liabilities as accounts payable and accrued expenses.

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 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 to be 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 deposit these amounts with the Federal Reserve Bank for all deposits not covered by FDIC.

Bank balances at November 30, 2012 and 2011 are insured up to \$250,000 in the aggregate by the FDIC for each bank. At November 30, 2012 and 2011, the book value of the Authority's deposits were \$18,801,850 and \$19,557,986, 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 and 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, 2012 and 2011, the Authority's bank balances of \$18,801,776 and \$19,614,206, respectively, were insured and collateralized as follows:

	<u>2012</u>	<u>2011</u>
Insured/Collateralized	\$ 18,801,776	\$ 18,921,727
Uninsured and Uncollateralized	<u>0</u>	<u>692,479</u>
	<u>\$ 18,801,776</u>	<u>\$ 19,614,206</u>

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 3: CASH AND CASH EQUIVALENTS (CONTINUED)

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, 2012 and 2011, the Authority had \$717,028 and \$2,194,900, respectively on deposit with the New Jersey Cash Management Fund.

Note 4: INVESTMENTS

At year-end, the Authority had no investments.

Note 5: ACCOUNTS RECEIVABLE

Accounts Receivable at November 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Accounts Receivable – Sludge	\$ <u>411,492</u>	\$ <u>341,709</u>

Note 6: PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment consists of:

	<u>Balance</u> <u>11/30/2011</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>11/30/2012</u>
Land	\$ 911,690	\$ -	\$ -	\$ 911,690
Treatment Plant	84,044,989	34,157	-	84,079,146
Pumping Stations	10,453,799	-	-	10,453,799
Collection System	11,150,036	-	-	11,150,036
Office Furniture & Equipment	2,586,731	324,602	-	2,911,333
Automotive Equipment	632,547	114,073	-	746,620
Construction in Progress	<u>4,049,902</u>	<u>4,674,808</u>	-	<u>8,724,710</u>
	113,829,694	5,147,640	-	118,977,334
Less: Accumulated Depreciation	<u>71,725,975</u>	<u>3,133,465</u>	-	<u>74,859,440</u>
Net Property, Plant and Equipment	<u>\$ 42,103,719</u>	<u>\$ 2,014,175</u>	<u>\$ -</u>	<u>\$ 44,117,894</u>

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 7: LONG-TERM DEBT

Debt payable consisted of the following at November 30:

	<u>2012</u>	<u>2011</u>
1993 Series B Revenue Refunding Bonds	\$ 1,200,000	\$ 2,335,000
2002 Series Refunding Bonds	1,825,000	2,135,000
2004 Series Revenue Bonds	890,000	7,785,000
2007 NJEIT Financing	4,731,715	5,000,155
2009 NJEIT/ARRA Financing	1,451,125	1,493,250
2010 NJEIT Financing	9,170,080	9,588,511
2012 Series Revenue Refunding Bonds	<u>7,000,000</u>	<u>-</u>
	26,267,920	28,336,916
Less Current Portion	(2,489,573)	(2,373,997)
Unamortized Bond Premiums/Discounts	<u>1,278,171</u>	<u>585,512</u>
Long-Term Debt	<u>\$ 25,056,518</u>	<u>\$ 26,548,431</u>

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>

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 7: LONG-TERM DEBT (CONTINUED)

1993 Refunding Bonds (Continued)

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.

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

The Bonds are due as follows:

<u>Due Date</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>
December 1, 2012	\$ 1,200,000	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>
2012	\$ 1,200,000

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 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:		
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>\$ 1,825,000</u>	

2004 Revenue Bonds

In 2004, the Authority issued \$8,865,000 of Revenue Bonds for the purpose of funding various projects and plant improvements. \$6,695,000 of the outstanding bonds were refunded at a lower rate on August 9, 2012. See note on 2012 Refunding Bonds.

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 7: LONG-TERM DEBT (CONTINUED)

2004 Refunding Bonds (Continued)

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

<u>Due Date</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>
December 1:		
2012	\$ 210,000	4.10%
2013	220,000	4.10%
2014	225,000	4.10%
2015	<u>235,000</u>	4.10%
	<u>\$ 890,000</u>	

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.

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 7: LONG-TERM DEBT (CONTINUED)

2007 New Jersey Environmental Infrastructure Trust Fund Loan (Continued)

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:		
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>\$ 2,525,000</u>	

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 7: LONG-TERM DEBT (CONTINUED)

2007 New Jersey Environmental Infrastructure Trust Fund Loan (Continued)

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

<u>Due Date</u>	<u>Principal Amount</u>
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>\$ 2,206,715</u>

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.

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 7: LONG-TERM DEBT (CONTINUED)

2009 New Jersey Environmental Infrastructure Trust Fund Loan (Continued)

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

<u>Due Date</u>	<u>Principal Amount</u>
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	42,125
	<u>\$ 716,125</u>

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 7: LONG-TERM DEBT (CONTINUED)

2009 New Jersey Environmental Infrastructure Trust Fund Loan (Continued)

The Series 2009 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:		
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>	

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 Fund Loan principal amortization reflects the principal forgiveness on a pro-rata basis over the life of the loan.

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 7: LONG-TERM DEBT (CONTINUED)

2010 New Jersey Environmental Infrastructure Trust Fund Loan (Continued)

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

<u>Due Date</u>	<u>Principal Amount</u>
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>\$ 3,155,080</u>

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 7: LONG-TERM DEBT (CONTINUED)

2010 New Jersey Environmental Infrastructure Trust Fund Loan (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 Amount</u>	<u>Rate of Interest</u>
August 1:		
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>\$ 6,015,000</u>	

2012 Refunding Bonds

On August 9, 2012, the Authority issued \$7,000,000 in Revenue Refunding Bonds with an average interest rate of 3.03 percent to advance-refund \$6,695,000 of outstanding 2004 Series Revenue Bonds with an average interest rate of 4.84 percent. The gross debt service savings totaled \$503,412 after payment of all issuance costs. On a present value basis the debt service savings was \$317,965 or 4.75 percent of the refunded bonds. The refunding resulted in a net carrying amount difference of \$923,322 which is being amortized over a 27 month period and corresponds to the final maturity of the old bonds final payment on December 1, 2015.

The Series 2012 Refunding Bonds are due in the amounts and at interest rates shown in the table below:

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 7: LONG-TERM DEBT (CONTINUED)

2012 Refunding Bonds (Continued)

<u>Due Date</u>	<u>Principal Amount</u>	<u>Rate of Interest</u>
December 1:		
2013	\$ 25,000	3.00%
2014	25,000	3.00%
2015	25,000	3.00%
2016	270,000	3.00%
2017	280,000	3.00%
2018	285,000	4.00%
2019	305,000	4.00%
2020	315,000	4.00%
2021	325,000	4.00%
2022	340,000	4.00%
2023	355,000	4.00%
2024	370,000	4.00%
2025	385,000	4.00%
2026	400,000	4.00%
2027	415,000	4.00%
2028	430,000	4.00%
2029	450,000	4.00%
2030	470,000	4.00%
2031	490,000	4.00%
2032	510,000	4.00%
2033	<u>530,000</u>	4.00%
	<u>\$ 7,000,000</u>	

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 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 and loans outstanding:

12-Month Period Ending November 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,745,000	\$ 162,118	\$ 1,907,118
2013	1,334,573	790,669	2,125,242
2014	1,401,835	774,798	2,176,633
2015	1,447,148	729,072	2,176,220
2016	1,489,338	679,438	2,168,776
2017	1,123,086	634,538	1,757,624
2018-2022	6,125,959	2,667,687	8,793,646
2023-2027	7,116,730	1,657,687	8,774,417
2028-2032	3,954,250	545,450	4,499,700
2033	<u>530,000</u>	<u>21,200</u>	<u>551,200</u>
	<u>\$ 26,267,919</u>	<u>\$ 8,662,657</u>	<u>\$ 34,930,576</u>

Note 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.

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

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 8: RISK MANAGEMENT (CONTINUED)

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

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

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

Note 9: AMOUNTS REQUIRED BY BOND RESOLUTION

The following cash and investment accounts were required by the bond resolutions as of November 30, 2012 and 2011:

	<u>November 30, 2012</u>		
	<u>Amount Required</u>	<u>Balance On Hand</u>	<u>Excess or (Deficiency)</u>
Bond Service Account	\$ 1,907,118	\$ 1,907,849	\$ 731
Bond Reserve Account	2,158,570	2,254,352	95,782
Renewal and Replacement Account	600,000	600,000	-
General Account	-	7,700,650	7,700,650
	<u>\$ 4,665,688</u>	<u>\$ 12,462,851</u>	<u>\$ 7,797,163</u>
	<u>November 30, 2011</u>		
	<u>Amount Required</u>	<u>Balance On Hand</u>	<u>Excess or (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	-	8,462,914	8,462,914
	<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, 2012 and 2011

Note 10: NET POSITION

Net Position consists of investment in capital assets and unrestricted and restricted balances as required by the bond resolution as follows:

	Balance, November 30, 2012	Balance, November 30, 2011
Net Position:		
Net Investment in Capital Assets	\$ 23,347,878	\$ 24,198,231
Restricted:		
Bond Service	1,907,849	1,937,081
Bond Reserve	2,254,352	2,247,906
Renewal and Replacement	600,000	600,000
Capital Projects	<u>4,748,707</u>	<u>3,099,289</u>
Total Restricted	<u>9,510,908</u>	<u>7,884,276</u>
Unrestricted:		
Designated for Emergencies	1,000,000	1,000,000
Designated for Future Capital Projects	6,600,000	6,600,000
Undesignated	<u>129,231</u>	<u>467,709</u>
Total Unrestricted	<u>7,729,231</u>	<u>8,067,709</u>
Total Net Position	<u>\$ 40,588,017</u>	<u>\$ 40,150,216</u>

Note 11: LITIGATION, CLAIMS AND CONTINGENT LIABILITIES

In the ordinary conduct of its business, the Authority may be a party to litigation. At November 30, 2012, 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.

Note 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 not the property or rights of the Authority.

Stony Brook Regional Sewerage Authority

Notes to the Financial Statements

November 30, 2012 and 2011

Note 13: PRIOR PERIOD ADJUSTMENT

During the current fiscal year, the Authority elected to early implement GASB Statement No 65, *Items Previously Reported as Assets and Liabilities*, as encouraged by the Government Accounting Standards Board. Accounting changes adopted to conform to the provisions of GASB No. 65 are to be applied retroactively by restating all prior periods presented. As a result, an adjustment of \$211,184 was made to the December 1, 2010 opening balance of net position, which reflects the unamortized debt issuance costs as of that date. In addition, the prior period financial statements have been restated from those previously issued by increasing bond issue cost expense and simultaneously decreasing net income by \$13,067 for bond issue costs incurred during fiscal year 2011.

Note 14: SUBSEQUENT EVENTS – DATE OF MANAGEMENT EVALUATION

Management has evaluated events occurring after November 30, 2012 for possible adjustment to or disclosure in the financial statements through March 7, 2013, the date on which the financial statements were available to be issued.

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

Stony Brook Regional Sewerage Authority
Princeton, New Jersey

Schedule of Changes in Unrestricted Cash and Cash Equivalents

For the Year Ended November 30, 2012

	Held By Authority Operating Accounts	Held By Trustee		2012 Totals	(Memo) 2011 Totals
		Revenue Account	General Account		
Sources:					
Participants' Service Charges	\$ -	\$ 12,136,115	\$ -	\$ 12,136,115	\$ 12,136,115
Participants' Service Charges - Prior Year Interest	130,049 145	1	-	130,050 23,601	382,339 29,188
Receipts From Septage, Sludge and Leachate Services	2,463,372	-	-	2,463,372	2,617,681
Miscellaneous Receipts	83,830	-	-	83,830	80,909
Transfers Within Other Unrestricted Accounts	13,857,000	(12,136,116)	(1,720,884)	-	-
Transfers From Restricted Accounts	-	4	4,241,444	4,241,448	2,280,233
Bond Refunding	-	-	93,773	93,773	-
Total Sources	16,534,395	4	2,637,789	19,172,188	17,526,465
Uses:					
Operations/Capital Expenditures	16,525,031	-	-	16,525,031	13,406,511
Transfers To Restricted Accounts	-	-	3,400,053	3,400,053	3,049,110
Total Uses	16,525,031	-	3,400,053	19,925,085	16,455,622
Increase/(Decrease)	9,364	4	(762,264)	(752,896)	1,070,844
Balance, Beginning of Year	737,406	3,334	8,462,914	9,203,654	8,132,810
Balance, End of Year	746,770	3,338	7,700,650	8,450,758	9,203,654
Balance Comprised of:					
Cash	709,646	-	-	709,646	700,301
Cash Equivalents	37,124	3,338	7,700,650	7,741,112	8,503,353
Total	746,770	3,338	7,700,650	8,450,758	9,203,654

Stony Brook Sewerage Authority
Princeton, New Jersey

Schedule of Changes in Restricted Cash and Cash Equivalents

For the Year Ended November 30, 2012

Held By Trustee

	Debt Service Account		Held By Trustee					2010 NJEIT Construction Account	2012 Totals	(Memo) 2011 Totals
	Bond Service Accounts	Bond Reserve Account	Replacement Account	2004 Construction Account	2007 NJEIT Construction Account	2009 NJEIT Construction Account				
Sources:										
Interest Received on Investments Credited To Income	\$ 731	\$ 11,538	\$ 1,546	\$ 18,583	\$ -	\$ -	\$ -	\$ 32,398	\$ 47,722	
Transfers Within Restricted Accounts	-	79,266	-	-	-	-	-	79,266	-	
Transfers From Unrestricted Accounts	3,395,076	4,977	-	-	-	-	-	3,400,053	3,049,110	
NJEIT Trust Loan	-	-	-	-	11,057	-	2,114,687	2,125,744	1,150,773	
DEP Fund Loan	-	-	-	-	1,217	-	1,238,698	1,239,915	631,984	
Principal Forgiveness	-	-	-	-	-	-	875,206	875,206	446,020	
Total Sources	3,395,808	95,781	1,546	18,583	12,274	-	4,228,591	7,752,583	5,325,609	
Uses:										
Payment of Bond Interest Charged To Expenses	971,776	89,335	-	-	-	-	-	1,061,111	993,874	
Payment of Bond Principal	2,373,997	-	-	-	-	-	-	2,373,997	2,008,323	
Transfer To Unrestricted Accounts	-	-	1,546	-	11,308	4	4,228,590	4,241,448	2,280,232	
Transfer To Restricted Accounts	79,266	-	-	-	-	-	-	79,266	-	
Total Uses	3,425,039	89,335	1,546	-	11,308	4	4,228,590	7,755,822	5,282,429	
Increase/(Decrease)	(29,232)	6,446	-	18,583	966	(4)	1	(3,240)	43,180	
Cash Equivalents, Beginning of Year	1,937,081	2,247,906	600,000	5,569,242	96	4	4	10,354,332	10,311,153	
Cash Equivalents, End of Year	\$ 1,907,849	\$ 2,254,352	\$ 600,000	\$ 5,587,825	\$ 1,062	\$ -	\$ 5	\$ 10,351,092	\$ 10,354,333	

Schedule of Operating Revenues and Costs Funded by Operating Revenues
(Budget vs. Actual)

For the Years Ended November 30, 2012 and 2011

	Original/Final 2012 Budget	2012 Actual	2011 Budget	2011 Actual
Operating Revenues:				
Participant Charges:				
Gross	\$ 12,136,115	\$ 12,136,115	\$ 12,136,115	\$ 12,136,115
Net Participant Charges	<u>12,136,115</u>	<u>12,136,115</u>	<u>12,136,115</u>	<u>12,136,115</u>
Septage, Sludge and Leachate	2,500,000	2,533,156	2,500,000	2,668,803
Interest Income	40,000	28,267	50,000	42,815
Other	40,000	58,209	35,000	52,513
Retained Earnings	<u>158,443</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Revenues	<u>\$ 14,874,558</u>	<u>\$ 14,755,747</u>	<u>\$ 14,721,115</u>	<u>\$ 14,900,246</u>
Costs Funded By Operating Revenues:				
Salaries and Wages				
Employees:				
Administrative	\$ 463,724	\$ 472,674	\$ 458,284	\$ 460,686
Operations and Maintenance	3,096,222	3,108,919	3,114,434	2,987,646
Benefits	<u>1,469,301</u>	<u>1,404,429</u>	<u>1,373,177</u>	<u># 1,355,237</u>
Total Salary and Benefits	<u>\$ 5,029,247</u>	<u>\$ 4,986,023</u>	<u>\$ 4,945,895</u>	<u>\$ 4,803,569</u>
Administrative Expenses:				
Insurance	\$ 314,250	\$ 300,352	\$ 300,470	\$ 282,532
Seminars	9,430	4,177	10,430	3,912
Meetings and Travel	11,075	4,559	12,120	5,558
Telephone	42,407	42,421	41,498	41,071
Computer Payroll Service	9,060	8,959	15,368	11,437
Office Supplies	13,014	11,831	12,764	15,046
Data Processing Supplies	20,075	19,753	20,075	11,888
Service Contracts	80,145	72,153	81,817	62,669
Dues	14,428	13,339	14,639	16,618
Magazines, Books, etc.	4,504	1,517	4,301	2,118
Postage	6,480	5,528	6,180	5,853
Advertising and Printing	3,095	2,504	3,025	1,483
Rental and Easements	13,224	13,037	13,224	13,100
Regulatory Fees and Permits	289,676	254,150	52,385	46,054
Miscellaneous	<u>13,241</u>	<u>11,039</u>	<u>14,041</u>	<u>9,564</u>
Total Administrative Expenses	<u>\$ 844,104</u>	<u>\$ 765,318</u>	<u>\$ 602,337</u>	<u>\$ 528,903</u>
Operating and Maintenance Expenses:				
Fuel Oil and Natural Gas	\$ 894,867	\$ 896,865	\$ 1,032,348	\$ 866,223
Water	51,778	42,387	47,066	44,713
Electricity	1,950,526	1,787,743	1,917,346	1,917,121
Operating Chemicals	695,324	618,012	727,587	624,502
Maintenance Tools and Supplies	252,895	242,786	215,350	243,682
Janitorial Supplies	8,600	10,347	7,350	10,917
Laboratory Chemicals and Supplies	18,698	12,264	18,698	11,905
Uniforms	20,743	19,833	19,469	20,063
Training	22,676	10,173	21,426	12,400
Safety Equipment	49,490	49,986	50,301	43,706
Outside Lab Testing	28,384	24,649	28,384	27,026
Pretreatment Supplies	300	-	300	-
Ash and Sludge Hauling	310,076	245,681	275,358	234,611
Maintenance and Repairs	351,285	434,131	286,585	394,966
Operations Supplies	81,396	88,715	78,371	98,846
Buildings and Grounds	51,409	72,560	44,600	76,442
Spare Parts	205,911	274,232	184,950	268,718
Hazardous Waste Disposal	10,200	3,550	10,000	5,994
Medical Testing	4,980	3,322	4,980	598
Contingency for Fines	20,000	12,000	20,000	18,350
Minor Operational Improvements	<u>216,885</u>	<u>76,755</u>	<u>159,985</u>	<u>54,147</u>
Total Operating and Maintenance Expenses	<u>\$ 5,246,423</u>	<u>\$ 4,925,990</u>	<u>\$ 5,150,454</u>	<u>\$ 4,974,931</u>

Schedule of Operating Revenues and Costs Funded by Operating Revenues
(Budget vs. Actual)

For the Years Ended November 30, 2012 and 2011

	Original/Final 2012 Budget	2012 Actual	2011 Budget	2011 Actual
Vehicle Maintenance:				
Gas, Oil and Tires	\$ 33,200	\$ 38,413	\$ 33,200	\$ 38,027
Parts and Service	18,200	26,379	25,200	18,223
Vehicle Registration	2,600	2,899	2,318	3,878
Total Vehicle Maintenance	<u>\$ 54,000</u>	<u>\$ 67,690</u>	<u>\$ 60,718</u>	<u>\$ 60,129</u>
Professional Services:				
Legal and Audit	\$ 91,000	\$ 59,201	\$ 86,000	\$ 69,165
Trustee Services	42,715	43,015	32,072	31,185
Consultants - Other	204,050	161,827	188,600	184,447
Total Professional Services	<u>\$ 337,765</u>	<u>\$ 264,043</u>	<u>\$ 306,672</u>	<u>\$ 284,797</u>
Total Operating Expenses	<u>\$ 11,511,539</u>	<u>\$ 11,009,064</u>	<u>\$ 11,066,076</u>	<u>\$ 10,652,328</u>
Capital Purchase Fund Contribution Equipment Recorded as Property, Plant and Equipment	\$ -	\$ -	\$ 600,000	\$ 600,000
	-	74,088	-	27,495
	<u>\$ -</u>	<u>\$ 74,088</u>	<u>\$ 600,000</u>	<u>\$ 627,495</u>
Total Operating Expenses	\$ 11,511,539	\$ 11,083,152	\$ 11,666,076	\$ 11,279,823
Debt Service Funded By Participants	<u>3,363,019</u>	<u>3,438,394</u>	<u>3,055,039</u>	<u>3,066,702</u>
Costs Funded By Operating Revenues	<u>\$ 14,874,558</u>	<u>14,521,546</u>	<u>\$ 14,721,115</u>	<u>14,346,525</u>
Excess of Revenues over Expenditures		<u>\$ 234,201</u>		<u>\$ 553,721</u>

Reconciliation of Budgetary Basis to Net Income

Budgetary Revenues Over Expenses	<u>\$ 234,201</u>
Adjustments to Budgetary Basis:	
Depreciation expense	(3,133,465)
Debt Service Funded By Participants	3,438,394
Additional Interest - Construction Funds	14,926
Interest Expense - Debt Service	(964,398)
Capital Purchase Fund Contribution	74,088
Bond Issue Costs	(114,934)
Amortization of Bond Premium	64,935
Amortization of Deferred Loss- Advanced Refunding	(102,591)
Principal Forgiveness	926,645
Total Adjustments	<u>203,600</u>
Net Income (Loss) GAAP Basis, page 10	<u>\$ 437,801</u>

Stony Brook Regional Sewerage Authority
Princeton, New Jersey
Schedule of Amounts Refundable to or Receivable from Individual Participants
For the Year Ended November 30, 2012

	Princeton Borough	Princeton Township	South Brunswick Township	West Windsor Township	Hopewell Borough	Pennington Borough	Total
Actual:							
Operating Expenses	\$ 1,611,037.96	\$ 2,032,396.16	\$ 4,404,414.93	\$ 2,576,913.74	\$ 182,690.73	\$ 275,698.26	\$ 11,083,151.78
Revenues - Septage Sludge and Leachate Receipts	(368,217.51)	(464,522.80)	(1,006,669.46)	(588,977.29)	(41,755.64)	(63,013.37)	(2,533,156.06)
Interest	(4,108.89)	(5,183.54)	(11,233.28)	(6,572.31)	(465.95)	(703.16)	(28,267.12)
Misc Revenue	(8,461.23)	(10,674.22)	(23,132.14)	(13,534.04)	(959.50)	(1,447.98)	(58,209.10)
Budget Balance To Retained Earnings	34,043.29	42,947.12	93,070.90	54,453.47	3,860.49	5,825.86	234,201.13
Debt Service Apportioned to Participants	499,802.22	630,522.77	1,366,408.74	799,451.81	56,677.27	85,531.57	3,438,394.37
Total Base Charges (Dollar Amount)	\$ 1,764,095.84	\$ 2,225,485.49	\$ 4,822,859.70	\$ 2,821,735.38	\$ 200,047.40	\$ 301,891.19	\$ 12,136,115.00
Gallons Treated (Actual)	482,806,811	609,082,303	1,319,945,020	772,267,035	54,750,000	82,623,131	3,321,474,300
Total Base Charges (Percentage)	14.536%	18.338%	39.740%	23.251%	1.648%	2.488%	100.000000%
Debt Service Adjustment - Increase (Decrease)	(169,447.13)	(113,704.90)	58,029.19	231,770.67	8,425.37	(15,073.20)	0.00
Net Participant Charges - Actual	\$ 1,594,648.71	\$ 2,111,780.59	\$ 4,880,888.89	\$ 3,053,506.05	\$ 208,472.77	\$ 286,817.99	\$ 12,136,115.00
	13%	17%	40%	25%	2%	2%	100%
Budget:							
Operating Expenses	\$ 1,901,963.06	\$ 2,134,076.06	\$ 4,398,172.15	\$ 2,600,625.20	\$ 183,432.22	\$ 293,270.31	\$ 11,511,539.00
Revenues - Septage Sludge and Leachate Receipts	(413,055.77)	(463,464.54)	(955,165.98)	(564,786.60)	(39,836.60)	(63,690.51)	(2,500,000.00)
Interest	(6,608.89)	(7,415.43)	(15,282.66)	(9,036.59)	(637.39)	(1,019.05)	(40,000.00)
Misc Revenue	(6,608.89)	(7,415.43)	(15,282.66)	(9,036.59)	(637.39)	(1,019.05)	(40,000.00)
Budget Balance From Retained Earnings	(26,178.32)	(29,373.08)	(60,535.75)	(35,794.59)	(2,524.73)	(4,036.53)	(158,443.00)
Debt Service	555,645.77	623,456.02	1,284,896.53	759,755.23	53,588.49	85,676.96	3,363,019.00
Total Base Charges (Dollar Amount)	\$ 2,005,156.95	\$ 2,249,863.59	\$ 4,636,801.65	\$ 2,741,726.06	\$ 193,384.61	\$ 309,182.14	\$ 12,136,115.00
Gallons Treated (budget)	625,084,671	701,369,158	1,445,469,707	854,701,638	60,285,433	96,383,984	3,783,294,591
Total Base Charges (Percentage)	16.522%	18.539%	38.207%	22.591%	1.593%	2.548%	100.0000%
Debt Service Adjustment - Increase (Decrease)	(169,447.13)	(113,704.90)	58,029.19	231,770.67	8,425.37	(15,073.20)	0.00
Net Participant Charges - Budget / Paid	\$ 1,835,709.82	\$ 2,136,158.69	\$ 4,694,830.84	\$ 2,973,496.73	\$ 201,809.98	\$ 294,108.94	\$ 12,136,115.00
Due (to) From Participants at November 30, 2012	\$ (241,061.12)	\$ (24,378.10)	\$ 186,058.06	\$ 80,009.32	\$ 6,662.79	\$ (7,290.95)	\$ 0.00
Allocation:							
Operation	\$ (185,217.57)	\$ (31,444.84)	\$ 104,545.84	\$ 40,312.74	\$ 3,574.01	\$ (7,145.56)	\$ (75,375.87)
Debt Service	\$ (55,843.55)	\$ 7,066.74	\$ 81,512.21	\$ 39,696.58	\$ 3,088.78	\$ (145.39)	\$ 75,375.87
Amount due (refund)	\$ (241,061.12)	\$ (24,378.10)	\$ 186,058.06	\$ 80,009.32	\$ 6,662.79	\$ (7,290.95)	\$ 0.00

Stony Brook Regional Sewerage Authority

Notes to Schedule of Amounts Refundable to or
Receivable from Individual Participants

November 30, 2012 and 2011

Note 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 participants are assessed user charges based on the current year's budgeted operating revenues and expenses allocated to the individual participants 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 participants are determined by the Authority and assessed in the year-end adjustment.

Note 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.

Note 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 participants.

Stony Brook Regional Sewerage Authority
Princeton, New Jersey

Schedule of Expenditures of Federal Awards

For the Year Ended November 30, 2012

Federal Grantor/ Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Contract Number	Federal Share	Cash Received	Years Ended November 30, 2012 Expenditures	Cumulative Expenditures
U.S. Department of Environmental Protection Pass-Through the State of New Jersey Department of Environmental Protection Capitalization Grants for Clean Water State Revolving Funds Environmental Public Wastewater Facilities Capitalization Grant	66.458	042 4860 510 042	\$ 2,650,000	\$ 4,920	\$ 4,920	\$ 2,399,064
Capitalization Grants for Clean Water State Revolving Funds Environmental Public Wastewater Facilities Capitalization Grant	66.458	042 4860 711 005	6,697,500	2,113,904	2,237,589	3,618,410
Total U.S. Environmental Protection Agency and Total Federal Awards			\$ 9,347,500	\$ 2,118,824	\$ 2,242,509	\$ 6,017,474

Stony Brook Regional Sewerage Authority
Princeton, New Jersey

Schedule of Expenditures of State Awards

For the Year Ended November 30, 2012

<u>State Grantor/Program Title</u>	<u>State Account Number</u>	<u>Grant Award Amount</u>	<u>Cash Received</u>	<u>Grant Period</u>		<u>Fiscal Year</u>	<u>Cumulative Expenditures</u>
				<u>From</u>	<u>To</u>		
<u>Department of Environmental Protection Agency:</u>							
<u>NJ Environmental Infrastructure Trust Program:</u>							
2007 NJEIT Trust Loan	042-4860-510-042	\$ 2,650,000	\$ 4,920	8/1/07	08/01/27	\$ 4,920	\$ 2,399,064
2010 NJEIT Fund Loan	042-4860-711-005	6,010,800	2,114,687	8/1/10	08/01/27	2,238,421	3,619,421
Totals		\$ 8,660,800	\$ 2,119,607			\$ 2,243,341	\$ 6,018,485

Stony Brook Regional Sewerage Authority

Notes to Schedule of Expenditures of Federal and State Awards

November 30, 2012 and 2011

Note 1: BASIS OF PRESENTATION

The accompanying Schedules of Expenditures of Federal and State Awards include the federal and state grant activity of Stony Brook Regional Sewerage Authority for the year ended November 30, 2012. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and New Jersey OMB Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*. Because each Schedule presents only a selected portion of the operations of Stony Brook Regional Sewerage Authority, it is not intended to and does not present the financial position, changes in net position, or cash flows of Stony Brook Regional Sewerage Authority. Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedules are reported on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and represent costs incurred under the New Jersey Environmental Infrastructure Trust and Fund Loan Programs.

Hutchins, Meyer & DiLieto, PA

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

The Authority Members of
Stony Brook Regional Sewerage Authority
Princeton, New Jersey

We have audited the basic financial statements of the Stony Brook Regional Sewerage Authority (the "Authority") as of and for the year ended November 30, 2012, and have issued our report thereon dated March 7, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and audit requirements as prescribed by the State of New Jersey, Department of Community Affairs, Division of Local Government Services.

Internal Control Over Financial Reporting

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

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

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

Hutchins, Meyer & DiLieto, PA
March 7, 2013
Toms River, New Jersey

Hutchins, Meyer & DiLieto, PA

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

The Authority Members of
Stony Brook Regional Sewerage Authority
Princeton, New Jersey

Compliance

We have audited Stony Brook Regional Sewerage Authority's compliance with the types of compliance requirements described in the United States Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* and New Jersey OMB Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid* that could have a direct and material effect on each of Stony Brook Regional Sewerage Authority's major federal and state programs for the year ended November 30, 2012. Stony Brook Regional Sewerage Authority's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal and state programs is the responsibility of the Stony Brook Regional Sewerage Authority's management. Our responsibility is to express an opinion on the Stony Brook Regional Sewerage Authority's compliance based on our audit.

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

In our opinion, Stony Brook Regional Sewerage Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended November 30, 2012.

Internal Control Over Compliance

Management of Stony Brook Regional Sewerage 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 Stony Brook Regional Sewerage Authority's internal control over compliance with the requirements that could have a direct and material effect on its major federal and state programs to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Stony Brook Regional Sewerage 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 or state program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and 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.

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

Hutchins, Meyer & DiLieto, PA

March 7, 2013
Toms River, New Jersey

Stony Brook Regional Sewerage Authority
Princeton, New Jersey

Schedule of Findings and Questioned Costs

Year Ended November 30, 2012

Summary of Auditor's Results

Financial Statement Section

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

Federal Awards Section

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

CFDA Number(s)

66.458

N/A

Name of Federal Program or Cluster

Environmental Public Wastewater
Facilities Capitalization Grant

NJ Environmental Infrastructure
Trust Program

- H) Dollar threshold used to distinguish between Type A and Type B programs? \$300,000
- I) Auditee qualified as low-risk auditee? X Yes No

Stony Brook Regional Sewerage Authority
Princeton, New Jersey

Summary Schedule of Prior-Year Findings and
Questioned Costs as Prepared by Management

Year Ended November 30, 2012

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
Princeton, New Jersey

Roster of Officials

November 30, 2012

Authority Members

	<u>Position</u>
Robert A. Bartolini	Chair
Gale D. Downey	Vice Chair
David H. Miller	Treasurer
Bharat Patel	Member
C. Schuyler Morehouse	Member
Harry R. Compton	Member
James McKinnon	Member

Other Officials

	<u>Position</u>
John Kantorek, PE	Secretary/Executive Director
Antonia Pchola, PE	Manager of Engineering
Stuart Neuhof, CPA	Chief Financial Officer/ Qualified Purchasing Agent
Patricia Carlino	Assistant Secretary
Diane Alexander	Attorney

Stony Brook Regional Sewerage Authority
Princeton, New Jersey

Comments and Recommendations

November 30, 2012

None noted.