

**SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**DECEMBER 31, 2010**

**INTRODUCTION**

The South Monmouth Regional Sewerage Authority, hereafter referred to as the "Authority", is pleased to present its Annual Financial Report developed in compliance with the Statement of Governmental Accounting Standard No. 34, entitled "Basic Financial Statements - Management's Discussion and Analysis - For State and Local Governments" (hereafter "GASB 34").

**Mission**

The Authority was founded for the purpose of protecting and preserving the area's vital environment for current and future generations and by so doing ensure a healthy ecology, a robust economy and a high quality of life for our citizens.

The skilled and dedicated men and women at the Authority accomplish this by effectively treating wastewater from our service areas' eight participants and then recycling safe, clean water back into the natural ecosystem.

Our philosophy is to never lose sight of those who we are committed to serve; residents, businesses, public institutions and the thousands of seasonal visitors to the many attractions located within our service region.

All of the plans, improvements and system changes are crafted in an effort to continue to meet or surpass all mandated federal and state regulations and standards, and to operate the Authority at as low of a cost to our members and ratepayers as possible.

The Authority's mission extends far beyond its geographical boundaries by virtue of its many affiliations and participation in organizations dedicated to better serving the environment as a whole. The South Monmouth Regional Sewerage Authority (SMRSA) represents itself and its membership as an organization that is operating on the cutting edge of the industry. This is evidenced through numerous research and development projects targeted at better understanding or abating negative water quality effects in the Ocean Eco-System. By taking an active role in local watershed groups and agencies operating within our Service Area, the Authority continues to demonstrate its commitment to educating the public, in particular, our youth, on the importance of protecting and preserving the earth's most valuable natural resource WATER.

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**MANAGEMENT DISCUSSION AND ANALYSIS, (CONTINUED)**  
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**Responsibility and Controls**

The Authority has prepared and is responsible for the financial statements and related information included in this report. A system of internal accounting controls is maintained to provide reasonable assurance that assets are safeguarded and that the books and records reflect only authorized transactions. Limitations exist in any system of internal controls. However, based on recognition that the cost of the system should not exceed its benefits, management believes its system of internal accounting controls maintains an appropriate cost/benefit relationship.

The Authority's system of internal accounting controls is evaluated on an ongoing basis by the Authority's internal financial staff. Independent external auditors also consider certain elements of the internal control system in order to determine their auditing procedures for the purpose of expressing an opinion on the financial statements.

The Finance Committee of the Authority's Board of Commissioners serves the role of an Audit Committee. It is composed of four members of the Board providing a broad overview of management's financial reporting and control functions. Periodically, this committee meets with management and external auditors to ensure these groups are fulfilling their obligations and to discuss auditing controls and financial reporting matters.

Management believes that its policies and procedures provide guidance and reasonable assurance that the Authority's operations are conducted in accordance with management's intentions and to a high standard of business ethics.

In management's opinion, the financial statements present fairly, in all material respects, the financial position, results of operations and cash flow of the Authority in conformity with accounting principles generally accepted in the United States of America.

**Audit Assurance**

The unqualified opinion of our independent external auditors, Ferraioli, Wielkotz, Cerullo & Cuva, P.A., is included in this report.

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

**Financial Highlights**

Management believes the Authority's financial condition is strong and the direct result of the stringent financial policies and guidelines set by the Board of Commissioners. The following are key financial highlights for 2010 and 2009:

- Total Assets decreased \$1,894,048, due mostly to an increase in depreciation of Authority Assets.
- Total Liabilities decreased by \$1,400,900, due mostly to a decrease in Debt Outstanding.
- Operating Revenues increased \$106,258, due to an increase in sewer usage charges.
- Total Operating Expenses increased \$341,582, representing a 5.74% increase.
- Net Assets at year-end were \$18,784,222, a decrease of \$493,148.

**Overview of Annual Financial Report**

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

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

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

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**Overview of Annual Financial Report, (continued)**

While the *Statement of Net Assets* provides information about the nature and amount of resources and obligations at year-end, the *Statement of Revenues, Expenses, and Changes in Net Assets* presents the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets 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 Data (Budgetary Basis)* comparing the budget to actual expenses, as well as important debt coverage data, is provided.

**Summary of Organization and Business**

The Authority, a public body corporate and politic of the State of New Jersey was created pursuant to parallel ordinances adopted by the Governing Bodies of the member municipalities of Belmar, Lake Como (formerly South Belmar), Brielle, Manasquan, Spring Lake, Spring Lake Heights, Sea Girt and Wall Township in May, 1970, and the Sewerage Authorities Law, constituting Chapter 138 of the Pamphlet Laws of 1946 of the State as amended (the "Original Act").

The Authority has the statutory power to acquire, construct, maintain and operate sewerage facilities for the relief of waters in, bordering or entering the natural drainage area within the Southern Monmouth County as determined by the Monmouth County Sewerage Advisory Board from pollution or threatened pollution and for the improvement of conditions affecting the public health.

Pursuant to the provisions of the Act, the Authority consists of one Commissioner from each member municipality. The Governing Body of their respective community appoints each Commissioner for a term of five years. The Authority is administered by an Executive Director appointed by the Commissioners and is directly responsible to them. The Authority has 21 full-time employees and one part-time employee who are organized into the following departments: Finance and Administration, Operations, Systems and Mechanical.

The Authority currently has Service Agreements with eight member municipalities for the treatment of wastewater emanating from each municipality.

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**Summary of Organization and Business, (continued)**

The System consists of eleven pump stations, a series of force mains, and a treatment plant.

The treatment of wastewaters discharged by the member municipalities begins at each of the eleven Pumping Stations owned by the Authority typically in the form of Screening and Comminuting, coupled with Odor and Corrosion Control. Historically the Authority has deployed the use of Sodium Hypochlorite (a fast acting oxidizer) to prevent the emission of odors both at individual pumping stations and the Treatment Plant proper. The addition of this product also served to provide pipeline corrosion control by preventing the production of anaerobes within the pipeline. This system of preliminary treatment has been in place since the early 1980's, however in recent years the cost of administrating the program began an upward and ever increasing spiral that paralleled the pricing of crude oil. Early budget projections for the 2009 fiscal year had Sodium Hypochlorite's annual cost at nearly \$700,000.00, saddling the system users with a fiscal burden that future budgets' would be hard pressed to bear, particularly in light of the global and national states of economy. During calendar year 2008, staff became aware of a new and emerging product available almost exclusively along the western coastline of the United States called Thioguard Magnesium Hydroxide, that was undergoing trial runs and performance evaluations at several major treatment facilities in both California and Oregon. Interested in the potential savings a product such as Thioguard could bring to the Authority, staff began to develop a relationship with Premier Chemicals Inc. and by March 2009 had arranged for the first east coast Pilot Program utilizing the product for odor control and pipeline corrosion. By May of 2009, a temporary system for dosing the Thioguard into the Authority's infrastructure was put in place and the pilot program was started. By July, staff was convinced that Thioguard had a place in the Authority's Pretreatment Program as significant savings were being realized, and the product was much more "system friendly" than Sodium Hypochlorite. Notwithstanding the effect of reductions in expenditures to be realized in future budgets, the use of Thioguard would also remove all of the associated threats created to staff by occupational exposure to Sodium Hypochlorite. The pilot program was a complete success and in fact continued beyond its originally scheduled sixty day performance period and was extended into a full scale program that remained in place throughout the entire calendar year of 2009. Overall the use of the product has netted the Authority with cumulative chemical line item savings of approximately \$512,000 representing an overall savings of 33% over the past two years.

The Authority's regional treatment facility provides for both primary and secondary treatment, effluent disinfection and sludge management processes. The primary treatment process consists of influent pumping, screening to remove large objects, aerated grit chambers for grit removal, and primary settling to remove suspended and organic matter. The secondary treatment process is composed of two High Rate Trickling Filters incorporating the use of synthetic cross-flow media wherein the biological oxidation of suspended dissolved and colloidal pollutants takes place and the bio-solids being produced there-from are subsequently settled out and removed in the secondary sedimentation process. Disinfection of the treatment plants effluent is achieved through the application of Sodium Hypochlorite with residual chlorine byproducts being ultimately oxidized in the Aeration Pond resulting in annualized daily average chlorine produced oxidant levels at less than 0.01 milligrams per liter.

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Summary of Organization and Business, (continued)

For the most part, the facility discharges by gravity its effluent into the Atlantic Ocean through a wye diffuser approximately one mile offshore. During extreme wet weather seasons (or as daily flows begin to increase) the plant is equipped with an effluent pumping station for the purposes of assuring discharge capabilities.

The treatment of wastewater and sewage creates another dilemma; that of the disposal of the by-products of this process. For an Authority, this problem may create the single most complex and costly process of the whole wastewater treatment process. Wastewater treatment plants generate sludge as a by-product of the physical, chemical and biological processes used in the treatment of sewage. Generally, this sludge must be subject to some form of treatment in order to alter its character. It may then be disposed of without creating health problems or further hindrance. This treatment has many objectives. The first, is to reduce the volume of excess material by eliminating the liquid portion of the sludge. The second goal is to decompose the highly putrescible organic matter into relatively stable or inert organic and inorganic compounds; thus allowing water to separate more easily, and lastly the production of Methane gases. By using anaerobic digestion in the treatment of wastewater sludge, the overall cost of sewage treatment is reduced.

Although many sludge stabilization methods exist, anaerobic digestion is unique for it has the ability to produce a net energy gain in the form of methane gas. In 2006, the Authority (as reported in previous Management Discussion and Analysis) completed the cleaning and renovation of its Anaerobic Digestion complex; upon completion of that process the reactor was seeded and once mature, placed back into operation. The success of that project has been measured in terms of increased system handling capabilities but moreover in the maximized production of methane gases.

The Authority has no power to levy or to collect taxes. Operation and maintenance costs are funded from service fees and other charges. The acquisition and construction of capital assets are funded through Operating Revenues, General Fund, Federal and State Grants, Wastewater Revenue Bonds and New Jersey Environmental Infrastructure Trust Financing Program Loans.

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MANAGEMENT DISCUSSION AND ANALYSIS, (CONTINUED)  
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General Trends and Significant Events

TRENDS

Inflow and Infiltration

The SMRSA is limited in its overall treatment capacity by restrictions applied within its' NJPDES permit (discharge permit). Quantitative limits are established by the NJDEP for annualized daily average flows at nine million one hundred thousand gallons per day (9.1 MGD) and for instantaneous maximum flows at a factor of 2.0 over the design flow of 9.1 MGD and or at any level wherein loss of treatment efficiencies is experienced. Throughout the latter half of the 1990's several seasonal wet weather events stressed the treatment facility to its quantitative and qualitative limits as defined in its NJDPES permit.

As a reaction to this trend (and in an effort to abate regulatory actions), the SMRSA solicited the support of its member municipalities and sponsored a program wherein the SMRSA would be the lead agency in implementing a comprehensive plan to abate the inflow and infiltration of extraneous waters into the local municipal systems.

The project required amending each of the existing service agreements to provide a mechanism wherein the SMRSA could perform work on local systems and bill the respective municipality directly for those services in addition to the previously established system to bill for the bulk treatment of wastewaters. An Inflow and Infiltration Abatement Construction Project was planned and designed in 2004 with construction of repairs being underway in 2005. Long term financing of the project was arranged for by the SMRSA utilizing the low rate long term New Jersey Environmental Infrastructure Trust and Fund Bonding. As of December 31, 2006, the NJDEP found the project complete and construction and environmental restoration acceptable. The total cost of the project was approximately \$5,690,000 representing an approximate \$500,000 favorable variance to the original budgeted amount of \$6,200,000. The overall success of such programs is best illustrated by plotting long term trending conditions.

Current data being generated in the short term has revealed significant reductions in average daily or baseline flows when compared from a point in time prior to the projects implementation to those of today. In 1998, total annual plant flow was 2,430 million gallons of flow, compared to 2010 annual flow of 2,255 million gallons of flow; representing an approximate 7.2% decrease. It must be stressed in the past 7 years, a total of 777 new users have connected to the system with a total projected rate of flow at 246,561 gpd. On April 22, 2010, the NJEIT applied the remaining \$ 294,848 to defease its proportionate share of the outstanding bonds, which were adjusted as credits against the 2004A bond issue. Accordingly, the SMRSA revised its amortization schedules for the repayment of this debt service to the participating communities.

Notwithstanding the above evaluation of baseline flows, new data being generated clearly demonstrates reductions in peak flows as a result of significant wet weather type events. As a result, the systems ability to recover from short term instantaneous peak flows has been dramatically improved upon.

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General Trends and Significant Events, (continued)

TRENDS, (continued)

The system's ability to continue to favorably respond to Inflow and Infiltration will clearly be dependant on the levels of maintenance performed and the continued funding of future capital improvement programs at the local level. It's sustainability is key in controlling future sewer use rates of the Authority.

Rising Cost of Energy

In 1993, the SMRSA began a comprehensive effort to reduce it's power usage through conservation and applying state of the art demand side management and technology. At the time its annual treatment plant electric bill was \$380,101.00 with an estimated usage of 5,722,000 kilowatts.

By 2009, SMRSA had reduced its usage to 2,702,000 kilowatts at a cost of \$429,296.00.

Clearly, the program has been very effective in that the SMRSA has reduced its electrical usage by nearly 53% yet it's cost for energy used continued to increase. The underlying problem exists with JCP&L and its ever increasing rate structure.

As a reaction to this Trend in 2005 the SMRSA was the first Authority in the country to convert methane to electricity utilizing Micro-turbine technology. Although the Authority's utilization of Micro-Turbine technology can be labeled a success, the technology is riddled with considerable shortcomings that ultimately lead to turbine failures and long term system down times. By 2008 the system had produced adequate levels of power to offset its capitalized installation and maintenance cost to date and a conscious decision to discontinue its long term use was arrived at. To that end the Authority in 2008 authorized the design and implementation of a full scale Co-Generation facility which ultimately consisted of two Internal Combustion Engines retrofitted to burn methane gas that would be utilized to power two 140 kw/hr generators and to reclaim and utilize heat produced during the generation process to heat the anaerobic digester reactor and the facilities Administration Complex during the winter months. It should be noted that the design provides for the build out of a third engine in the future should conditions warrant it. A system wide life cycle analysis of the project revealed a pay back period of less than nine years when the most conservative of power and heat production values were applied. Projections reflect that on an annual basis SMRSA will be reducing dependency on third party generated electricity by an order of magnitude of 40%. Final (net) project costs were \$1,875,372.00 with conservatively a 7 to 9 year return on investment.

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**General Trends and Significant Events, (continued)**

**TRENDS, (continued)**

During the later half of 2009 construction of the facility began and in January of 2010 the system had been commissioned and became fully operational by mid-April 2010. The table below summarizes the actual system performance over its first full year of operation.

Clearly, through the increased use of waste methane gas generated at the facility, wherein it is generating more onsite heat and power and flaring less waste gas to the atmosphere the Authority has emphasized it's commitment to sustainability and environmental stewardship.

<u>Date</u>	<u>Date Range</u>	<u>Total KW Demand</u>	<u>POWER PURCHASED from JCP&amp;L KW</u>	<u>POWER GENERATED by SMRSA KW</u>	<u>OFFSET OF 3<sup>RD</sup> DEPENDENCY</u>	<u>KW RATE</u>	<u>MONTHLY Cost Savings</u>
Apr-10	4/8-5/6	236,602	85,822	150,780	67.73%	0.17	\$25,633
May-10	5/7-6/4	228,824	103,875	124,949	54.60%	0.18	\$22,491
Jun-10	6/5-7/6	230,748	96,337	134,411	58.25%	0.18	\$24,194
Jul-10	7/7-8/4	236,027	92,930	143,097	60.63%	0.18	\$25,757
Aug-10	8/5-9/2	236,316	97,798	138,518	58.62%	0.18	\$24,933
Sep-10	9/3-10/1	215,444	99,693	115,751	53.73%	0.17	\$19,678
Oct-10	10/2-11/2	220,878	114,375	106,503	48.22%	0.17	\$18,106
Nov-10	11/3-12/2	210,149	102,679	107,470	51.14%	0.17	\$18,270
Dec-10	12/3-1/3	235,934	121,612	114,322	48.46%	0.16	\$18,292
Jan-11	1/4-2/1	228,978	115,086	113,892	49.74%	0.17	\$19,362
Feb-11	2/2-3/2	215,255	112,482	102,773	47.74%	0.16	\$16,444
Mar-11	3/3-4/1	228,911	106,226	122,685	53.60%	0.16	\$19,630
<b>Annual Totals</b>		<b>2,724,066</b>	<b>1,248,915</b>	<b>1,475,151</b>	<b>57.04%</b>	<b>0.1708</b>	<b>\$252,790</b>

**SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY**  
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**General Trends and Significant Events, (continued)**

**TRENDS, (continued)**

By examining the data above, the reader can see that on average the Authority has reduced its dependency on 3<sup>rd</sup> party energy providers by approximately 57% with an annual cost savings of \$252,788. The system is performing better than expected and is currently operating at less than 60% of its rated capacity in terms of electrical energy production.

The Authority Staff is currently investigating the potential for additional or "add-on" sludge treatment applications that may cost effectively yield greater methane production and consequently greater cost savings.

**Stormwater Pollution & Prevention Permit**

In 2004, the SMRSA was issued for the first time a general Stormwater Pollution Prevention Permit (SPPP) by the NJDEP. Said permit regulates the general operational activities at the Treatment Plant site and sets standards for the operation of existing stormwater structures as well as the design of new structures. In 2004 the SMRSA evaluated its existing facilities in terms of overall integrity and potential off-site impacts, which ultimately concluded in the incorporation of a Stormwater Pollution Prevention Plan into the general SMRSA standard operating procedures.

On an annual basis, the SMRSA reviews and updates (as appropriate) the plan for best management practices, overall site conditions, material handling, good housekeeping and inspections to abate the possibility of exposing source material to surface and/or ground waters. In addition, the SMRSA remains in full compliance with the regulations.

As the SMRSA collection system has continued to age, the general maintenance and care of several major equipment components has been deemed to be no longer cost effective. As such, a series of Capital Improvements are scheduled over the next several years to restore the entire collection system integrity state of the art. Funds have been set aside for these projects in the Capital Improvement Plan. As each of these projects begins to develop, each will be subject to a Vulnerability Analysis against both man-made and natural disasters. Although the 'Homeland Security Presidential Directive 7' does not specifically establish a timeline for vulnerability assessments for our capacity of wastewater facilities, the Authority's commissioners, management and staff remain unanimous in requiring a plan and programs to either mitigate and/or respond to recovery from a crisis. SMRSA's Asset Management, Vulnerability Assessment/Mitigation Programs and Emergency Response Preparedness has set the standard for others to follow, which is further evident in the "events" section of this discussion and analysis.

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General Trends and Significant Events, (continued)

TRENDS, (continued)

Supervisory Control and Data Acquisition System

During 2010, system wide electronic and communication systems were updated to include, but not be limited to, the development of a full scale SCADA system. The cost of this project was funded through Authority appropriations which had no effect on service fees or user charges.

EVENTS

Beginning in January of 2007, the SMRSA amended its policy on scheduling its Sewer Use Rate and Connection Fee hearings such that they are now scheduled as early as possible in each fiscal year; thereby providing the member municipalities adequate time to make timely first quarter user fee payments in accordance with the provisions of the Service Agreements and limiting the possibility of late payments.

In 2004, the SMRSA and each of its member municipalities adopted new Service Agreement Amendments (Amendment #4) wherein language was included to allow for the work to be performed and payments made to the SMRSA with respect to the I & I Program discussed earlier in this document.

In 2007, the SMRSA was issued a new five year NJPDES permit to operate its treatment facility by the New Jersey Department of Environmental Protection. A number of new reporting requirements are contained therein including but not limited to effluent reporting on ammonia, mercury, PCB's and dissolved oxygen. Meeting these new requirements has resulted in an increased financial burden on the Authority when considering the costs associated with laboratory analysis. However, the greater concern is that the possibility will exist where in the near future permit limits may be imposed based upon the results of upcoming analysis. Should permit limits become an issue, the SMRSA will undoubtedly be confronted with an increased capital burden beyond that which is expressed herein. The SMRSA management team plays a key role in being proactive through their involvement and membership in industry organizations that support and promote sound science and water quality based reforms to the current rules and regulations governing water pollution control.

In 2009, the SMRSA entered into an inter local agreement with the Borough of Sea Girt wherein the SMRSA, at the request of the Borough, incorporated certain needed repairs to the Sea Girt collection system adjoining the SMRSA pump station rehabilitation project to which Sea Girt fully reimbursed the SMRSA. This project is another outward visible sign reflecting the good work and cooperation of two local governments. It is scheduled to be completed and placed into operation in or around June 2011.

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**FINANCIAL ANALYSIS**

The following comparative condensed financial statements serve as the key financial data and indicators for management, monitoring and planning.

The Authority's financial condition remained strong at year-end with adequate liquid assets, reliable facilities and systems to meet demand, and a reasonable level of unrestricted net assets. The current financial condition, technical support staff capabilities, and operating and modernization plans to meet anticipated customer needs are well balanced and under control.

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total Unrestricted Current Assets	\$6,742,640	\$6,907,982	\$6,635,648
Total Restricted Assets	3,054,524	3,988,428	6,047,575
Net Capital Assets	28,899,892	29,682,063	29,155,797
Other Assets	<u>169,336</u>	<u>181,967</u>	<u>194,454</u>
	<u>\$38,866,392</u>	<u>\$40,760,440</u>	<u>\$42,033,474</u>
<b>Total Assets</b>			
Total Current Liabilities Payable from Current Assets	3,494,346	3,519,350	3,383,455
Total Current Liabilities Payable from Restricted Assets	1,448,816	1,483,860	1,498,479
Total Non-Current Liabilities	<u>15,139,008</u>	<u>16,479,860</u>	<u>17,609,987</u>
Total Liabilities	<u>20,082,170</u>	<u>21,483,070</u>	<u>22,491,921</u>
Total Net Assets Invested in Capital Assets, Net of Related Debt	13,057,859	13,104,313	11,102,303
Total Restricted Net Assets	2,776,078	3,409,434	5,441,846
Total Unrestricted Net Assets	<u>2,950,285</u>	<u>2,763,623</u>	<u>2,997,404</u>
Total Net Assets	<u>18,784,222</u>	<u>19,277,370</u>	<u>19,541,553</u>
Total Liabilities and Net Assets	<u>\$38,866,392</u>	<u>\$40,760,440</u>	<u>\$42,033,474</u>

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**Results of Operations**

The following data summarized the Statement of Revenues, Expenses and Changes in Net Assets:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating Revenues	\$6,281,382	\$6,175,124	\$5,848,757
Operating Expenses	4,745,021	4,432,757	4,466,193
Depreciation	<u>1,545,921</u>	<u>1,516,603</u>	<u>1,418,259</u>
Total Operating Expenses	<u>6,290,942</u>	<u>5,949,360</u>	<u>5,884,452</u>
Operating Income	<u>(9,560)</u>	<u>225,764</u>	<u>(35,695)</u>
Non-Operating Revenues/(Expenses):			
Interest Income	37,112	120,120	291,183
Increase in Unemployment Reserve	2,114	2,849	1,129
Increase in Asset Management	110,486	50,000	-0-
Cancelled Accounts Payable	-0-	-0-	50,000
Bond Interest Expense	(625,777)	(655,847)	(699,551)
Amortization of Debt Issue Costs	(22,380)	(21,756)	(20,988)
Amortization of Premium on Bond	<u>14,857</u>	<u>14,687</u>	<u>14,347</u>
Total Non-Operating Expenses	<u>(483,588)</u>	<u>(489,947)</u>	<u>(363,880)</u>
Change in Net Assets	<u>(493,148)</u>	<u>(264,183)</u>	<u>(399,575)</u>
Net Assets, January 1	<u>19,277,370</u>	<u>19,541,553</u>	<u>19,941,128</u>
Net Assets, December 31	<u>\$18,784,222</u>	<u>\$19,277,370</u>	<u>\$19,541,553</u>

There were no significant budget-to-actual variances.

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**Statement of Cash Flows**

The following data summarizes the Statement of Cash Flows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Net Cash Provided by Operating Activities	\$1,647,307	\$2,024,897	\$1,588,156
Net Cash Provided by Capital and Related Financing Activities	(2,496,241)	(3,864,830)	(2,884,369)
Net Cash Provided by Investing Activities	<u>37,112</u>	<u>120,120</u>	<u>291,183</u>
Net Increase/(Decrease) in Cash and Cash Equivalents	<u>(811,822)</u>	<u>(1,719,813)</u>	<u>(1,005,030)</u>
Balance, Beginning of Year	<u>10,559,652</u>	<u>12,279,465</u>	<u>13,284,495</u>
Balance, End of Year	<u>\$9,747,830</u>	<u>\$10,559,652</u>	<u>\$12,279,465</u>

**SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY**  
**MANAGEMENT DISCUSSION AND ANALYSIS, (CONTINUED)**  
**DECEMBER 31, 2010**

**Rates, Billing and Collection Process for 2010/2009**

The rate of charge per million gallons of sewage treated, known as the Bulk Rate, is set by the Authority on an annual basis in accordance with the Municipal and County Utilities Authorities Law and the Bond Resolution. The rates per million gallons for 2010 and 2009 were \$2,640.89 and \$2,677.78, respectively. The fiscal years of 2010 and 2009 total User Charges billed to the member municipalities were \$5,778,615 and \$5,577,611, respectively, representing an approximate increase in total billing of 3.6%.

Member municipalities are required to pay annual charges to the Authority in equal quarterly installments. These Annual Charge payments are based on the previous calendar years actual wastewater flows and the current bulk rate. The amount of annual charge is stated in a certificate delivered to each municipality January of each year. The participants are required to make annual charge payments on or before the 15th day of January, April, July, and October.

Pursuant to the service contracts, the participants are required to pay interest at the rate established under RS 40:14A-21 on any annual charge payment or part thereof due to the Authority that shall remain unpaid for 15 days following its due date.

**Accounting for Rate Stabilization Fund/Asset Management Plan**

Long before the current economic down turn, management, in October 2006 informed the Commissioners of declining revenue from both connection fee and interest income sources and stated that it foresaw this trend to continue into the foreseeable future. As a result of this discussion, the Authority approved a management plan - rate stabilization policy whereas the Authority would designate the entire balance contained in the Rate Stabilization Fund. The 2006 plan/policy states that of the available 2006 balance, between 40 and 60% would be designated to protect the Authority and its ratepayers against an unforeseen and/or catastrophic event, 30% would be assigned to 'green energy projects' and the remaining balance be used for future rate stabilization. To be prudent, the Authority currently does NOT budget any income from misc. sources (i.e. interest, connection fee, review fees etc.).

Additionally, the Authority continues to implement and refine its asset management program. This program includes creating a working document which will detail all components of the Authority's operational assets. When completed, the program document will contain valuable at-a-glance information enabling the Authority to make prudent and informed decisions regarding repair and replacement. Funding to support this on going program is included in the Authority's cash management program.

**SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY**  
**MANAGEMENT DISCUSSION AND ANALYSIS, (CONTINUED)**  
**DECEMBER 31, 2010**

**Capital Improvement Program and Debt Administration**

The SMRSA Capital Improvement Program has been prepared in consultation with, and reviewed by the Authority's attorney, engineer, commissioners, and staff.

The Capital Project financing and purchases have been developed from specific reports. The Project Financing Plan does not include full lifecycle costs. Improved Asset Management planning is being developed to incorporate same.

Recognizing the need to maintain and upgrade the integrity of its infrastructure, beginning in July of 2010 the SMRSA began communicating with the Monmouth County Improvement Authority (MCIA) for the purpose of refinancing its current debt (2004A Series) and applying the savings to the issuance of a 2010 nine million dollar issue.

Despite the Authority being very proactive in terms of refinancing and issuance, economic conditions created a glut in the marketplace for such instruments. Because there was no economic advantage and at the advice of all engaged professionals, a decision to postpone the refinancing portion but move forward with the new issue was made.

The uses of the new funds included, but were not limited to, repair and maintenance of the outfall pipeline, the rehabilitation of the Pennsylvania Ave pump station, trickling filter and force main upgrades.

The Authority settled the transaction on January 24, 2011 and through its bond counsel and underwriter continues to monitor market conditions so as to refinance the 2004 Issue.

**SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY**  
**MANAGEMENT DISCUSSION AND ANALYSIS, (CONTINUED)**  
**DECEMBER 31, 2010**

**Proposed Five Year Capital Improvement Plan for the Period 2011-2016**

<u>Projects</u>	<u>Estimated Total Cost</u>	<u>Funding Sources</u>			
		<u>Unrestricted Net Assets</u>	<u>Renewal and Replacement Reserve</u>	<u>Debt Authorization</u>	<u>Other Sources</u>
Outfall Maintenance and Repair	\$3,000,000	\$		\$3,000,000	
Sea Girt Pump Station Rehabilitation	2,168,467	1,168,467		1,000,000	
Spring Lake Pump Station Rehabilitation	2,800,000			2,800,000	
Repair/Replace Sewer Equipment	1,750,000			1,750,000	
Force Main Upgrade	500,000			500,000	
Settling Tank Repairs	400,000			400,000	
Green Energy Upgrade	250,000			250,000	
Green Energy/Ice	67,930			67,930	
Trickling Filter Upgrade	300,000			300,000	
	<u>\$11,236,397</u>	<u>\$1,168,467</u>		<u>\$10,067,930</u>	

**SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY**  
**MANAGEMENT DISCUSSION AND ANALYSIS, (CONTINUED)**  
**DECEMBER 31, 2010**

**FINAL COMMENTS**

The Authority has adopted appropriate strategic operating, finance and capital improvement plans that insure the Authority will continue to provide the residents of our member municipalities with an exemplary level of service while maintaining reasonable and stable rates, with 21 dedicated full-time employees and 1 part-time employee. SMRSA provides extraordinary service to the residents of our eight-member municipalities 24 hours a day, 7 days per week, 365 days a year.

In 2001, USEPA awarded the SMRSA the Region 2 the O & M Excellence Award in the Medium Secondary Treatment category which was endorsed by the NJDEP.

In 2002, the Monmouth County Water Resources Association, (a County Environmental Organization), awarded SMRSA the Joseph C. Irwin Good Citizen Award for Exemplary Effort Demonstrating Civic Responsibility and Good Citizenship for its environmental efforts.

Recognizing the importance and value of employee health/safety and the significant component of workers compensation to its overall insurance expense, the Authority continues to stress employee safety and implemented numerous innovative practices and policies. As a result, in 2010, the SMRSA earned an award for achievement in the prevention of occupational injuries by the State of New Jersey - Department of Workforce Development and was publicly recognized for the fourth consecutive year at the Governor's Annual Occupational Safety & Health Awards program.

In 2009 and in recognition of SMRSA's efforts of adhering to strict comprehensive health and safety programs, the Authority was notified of its acceptance into the New Jersey Safety and Health Achievement Recognition Program (SHARP). Receiving the award was a confirmation from the regulatory community that SMRSA is a proactive health and safety employer taking all appropriate actions necessary to insure the continued safety and health of staff. The SMRSA received public acknowledgment from several officials, including Governor Jon S. Corzine. The SMRSA was also recognized by the Commissioners of Labor and Workforce Development and Health and Senior Services at an awards ceremony and received a plaque acknowledging the SHARP status.

The SMRSA is the first authority in the State of New Jersey to be accepted into the program, and while this does not diminish its desire or responsibility from providing a safe and healthy work environment, it does exempt it from general programmed inspections for the calendar year 2010.

The New Jersey Division of Workforce Development is in the process of reviewing the Authority's safety records and history for 2010. The SMRSA fully expects to receive a second consecutive SHARP award for 2011.

**SOUTH MONMOUTH REGIONAL SEWERAGE AUTHORITY**  
**MANAGEMENT DISCUSSION AND ANALYSIS, (CONTINUED)**  
**DECEMBER 31, 2010**

**FINAL COMMENTS, (continued)**

By holding the distinction of being the first public utility to receive this award, the Authority in the spring of 2009, was the recipient of a *Forward Thinking – WAVE Award* by the Association of Environmental Authorities (AEA) in recognition of the SHARP designation.

In the spring of 2009, the SMRSA was the recipient of a *Forward Thinking – WAVE Award* by the Association of Environmental Authorities (AEA) for the hire of a hearing impaired individual. Additionally, in an effort to foster it's relationship with the disadvantaged, SMRSA has been instrumental with reaching out to other employers to consider hiring such individuals.

During the past year, much attention has been focused on the transparency of local authorities and commissions in disclosing operational and financial information to the public. It must be noted that since 2007, the SMRSA has maintained its own website, [www.SMRSA.org](http://www.SMRSA.org). The Authority is proud of its web presence and current site information complies with proposed requirements endorsed by a Senate Committee.