

EWING-LAWRENCE SEWERAGE AUTHORITY

Financial Statements
and
Supplementary Information

December 31, 2010

EWING-LAWRENCE SEWERAGE AUTHORITY

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INDEPENDENT AUDITORS' REPORT

The Honorable Chairperson and Board Members of
Ewing-Lawrence Sewerage Authority

We have audited the accompanying balance sheets of Ewing-Lawrence Sewerage Authority (the "Authority") as of December 31, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. 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 December 31, 2010 and 2009, and the respective changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

In accordance with *Government Auditing Standards*, we have also issued our reports dated July 12, 2011 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of these reports 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. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The schedule of revenues, expenses and changes in net assets on page 22, the schedule of operating revenues and costs funded by operating revenues compared to budget on page 23, and the roster of officials on page 24 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Mercaderes, PC
Certified Public Accountants

July 12, 2011

EWING-LAWRENCE SEWERAGE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

As financial management of the Ewing-Lawrence Sewerage Authority (the "Authority"), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the Authority for the years ended December 31, 2010 and 2009. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements taken as a whole. A comparative analysis of the financial statements data has been presented for 2010 and 2009.

FINANCIAL HIGHLIGHTS

(Loss) income from operations for the Authority was \$(1,099,985) and \$273,599 for the years ended December 31, 2010 and 2009, respectively. The Authority's net assets were \$37,094,233 and \$38,992,883 at the close of 2010 and 2009, respectively, which represents a decrease of approximately 4.9% in 2010.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's financial statements, which are comprised of the basic financial statements and the notes to the financial statements. This report also contains other supplementary information, including a schedule of revenues, expenses and changes in net assets.

Basic financial statements. The basic financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to that employed by private-sector businesses.

The balance sheet presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as useful indicators of whether the financial position of the Authority is improving or deteriorating. Net assets increase when revenues exceed expenses. Increases to assets without corresponding increases to liabilities also result in increased net assets, which indicate an improved financial position.

The statements of revenues, expenses and changes in net assets present information showing how net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying events occur, regardless of timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will not result in cash flows until future fiscal periods.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain supplementary information concerning operating revenues, expenses and net assets, as well as comparisons to budget.

EWING-LAWRENCE SEWERAGE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL ANALYSIS OF THE AUTHORITY

Cash balances were \$9,069,122 and \$10,318,665 at December 31, 2010 and 2009, respectively, and comprise the largest portion of the Authority's current assets and consist of unrestricted and restricted portions.

The increase in gross capital assets in 2010 of \$750,538 and in 2009 of \$1,321,163 related primarily to expenditures for the main pumping station and the Jacob's Creek project, respectively.

Net property and equipment balances were \$38,129,545 and \$39,265,699 at December 31, 2010 and 2009, respectively, and comprise the largest portion of the Authority's assets.

The Authority had \$4,345,000 and \$5,325,000 in current and non-current revenue bonds payable outstanding as of December 31, 2010 and 2009, respectively, relating to the acquisition, construction and improvement of sewer systems in Ewing and Lawrence Townships.

The following tables contain condensed financial information derived from the December 31, 2010 and 2009, financial statements of the Authority:

Net Assets

	December 31,	
	2010	2009
Current and other assets	\$ 16,526,586	\$ 11,383,078
Capital assets	38,129,545	39,265,699
Total assets	54,656,131	50,648,777
Current liabilities, net of revenue bonds payable	2,989,396	3,476,333
Revenue bonds payable	4,114,168	5,042,880
Long-term portion of loan payable	8,589,018	1,853,961
Accrued post-employment benefits other than pensions	1,869,316	1,282,720
Total liabilities	17,561,898	11,655,894
Net assets		
Restricted		
Investment in capital assets, net of related debt	32,935,401	32,698,796
Other restricted	4,769,609	6,294,087
Deficit	(610,777)	-
Total net assets	\$ 37,094,233	\$ 38,992,883

Changes in Net Assets

	Year Ended December 31,	
	2010	2009
Operating revenues	\$ 11,604,167	\$ 12,594,393
Operating expenses, excluding depreciation	(10,817,460)	(10,397,747)
Depreciation	(1,886,692)	(1,923,047)
(Loss) income from operations	(1,099,985)	273,599
Non-operating revenues	942	6,771
Non-operating expenses	(799,607)	(863,914)
Net loss	(1,898,650)	(583,544)
Net assets, beginning of year	38,992,883	39,576,427
Net assets, end of year	\$ 37,094,233	\$ 38,992,883

EWING-LAWRENCE SEWERAGE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Cash Flows

	<u>Year Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Net cash provided by operating activities	\$ 860,487	\$ 2,345,295
Net cash used in investing activities	(749,596)	(1,460,291)
Net cash used in financing activities	<u>(1,360,434)</u>	<u>(1,383,123)</u>
Net decrease in cash and cash equivalents	<u>\$ (1,249,543)</u>	<u>\$ (498,119)</u>

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide taxpayers and our creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the revenues that it receives. If you have questions about this report or need additional information, contact the Authority's financial management at 600 Whitehead Road, Lawrenceville, New Jersey, 08648 or (609) 587-4061.

EWING-LAWRENCE SEWERAGE AUTHORITY

BALANCE SHEETS

	December 31.	
	2010	2009
ASSETS		
Current Assets - Unrestricted		
Cash and cash equivalents	\$ 4,299,513	\$ 4,024,578
Contributions receivable	150,000	600,000
Interest receivable	2,895	3,400
Other receivables	4,141	4,100
Total Unrestricted	4,456,549	4,632,078
Current Assets - Restricted		
Debt service reserve account		
Cash and cash equivalents - debt service reserve account	1,917,478	1,623,140
Total debt service reserve account	1,917,478	1,623,140
Cash and cash equivalents - improvement fund	-	1,744,317
Cash and cash equivalents - succeeding year budget	2,852,131	2,926,630
Funds held by Trustee	7,208,148	341,446
Total Restricted Assets	11,977,757	6,635,533
Total Current Assets	16,434,306	11,267,611
Property and Equipment	38,129,545	39,265,699
Other Assets		
Unamortized debt issuance costs	92,280	115,467
Total Assets	\$54,656,131	\$50,648,777

EWING-LAWRENCE SEWERAGE AUTHORITY

BALANCE SHEETS (CONTINUED)

	December 31,	
	2010	2009
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable - operations	\$ 370,241	\$ 563,635
Developers' performance bonds	258,045	258,045
Loan payable - current portion	131,645	125,786
Revenue bonds payable - current portion	1,015,000	980,000
Accrued interest payable	28,295	30,816
Accrued liability for compensated absences	1,378,520	1,299,120
Engineering fee deposits	684,682	1,056,516
Other liabilities	137,968	142,415
Total Current Liabilities	4,004,396	4,456,333
Non-Current Liabilities		
Accrued post-employment benefits other than pensions	1,869,316	1,282,720
Long-term portion of loan payable	8,589,018	1,853,961
Long-term portion of revenue bonds payable	3,099,168	4,062,880
Total Non-Current Liabilities	13,557,502	7,199,561
Total Liabilities	17,561,898	11,655,894
Net Assets (Deficit)		
Restricted		
Investment in capital assets, net of related debt	32,935,401	32,698,796
Future debt service	1,917,478	1,623,140
Succeeding year budget	2,852,131	2,926,630
Improvement fund	-	1,744,317
Deficit	(610,777)	-
Total Net Assets	37,094,233	38,992,883
Total Liabilities and Net Assets	\$54,656,131	\$50,648,777

EWING-LAWRENCE SEWERAGE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	Year Ended December 31,	
	2010	2009
Operating revenues		
Service agreements	\$ 11,207,837	\$ 10,839,960
Other developer contributions	-	750,000
Connection fees	295,627	908,673
Inspection fees	600	750
Interest	8,012	14,103
Miscellaneous	92,091	80,907
Total operating revenues	11,604,167	12,594,393
Operating expenses		
Costs of providing services	8,576,234	8,196,959
Administrative and general	1,190,297	1,164,027
County sludge facilities	1,050,929	1,036,761
Depreciation	1,886,692	1,923,047
Total operating expenses	12,704,152	12,320,794
(Loss) income from operations	(1,099,985)	273,599
Non-operating revenues (expenses)		
Interest income	942	6,771
Interest expense	(252,129)	(318,820)
Amortization of loss on defeasance	(51,286)	(48,902)
Amortization of debt issuance costs	(23,187)	(23,187)
Amortization of post employment benefits other than pensions	(473,005)	(473,005)
Total non-operating expenses, net	(798,665)	(857,143)
Net loss	(1,898,650)	(583,544)
Net assets, beginning of year	38,992,883	39,576,427
Net assets, end of year	\$ 37,094,233	\$ 38,992,883

EWING-LAWRENCE SEWERAGE AUTHORITY

STATEMENTS OF CASH FLOWS

	<u>Year Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
Cash received from		
Service agreements	\$11,207,837	\$10,839,960
Contributions for system improvements	450,000	150,000
Connection fees	295,627	908,673
Inspection fees	600	750
Interest income	8,517	12,403
Miscellaneous revenue	92,050	79,638
Cash used for		
Costs of providing services	(8,952,918)	(7,445,341)
Administrative and general	(1,190,297)	(1,164,027)
County sludge facilities	<u>(1,050,929)</u>	<u>(1,036,761)</u>
Net cash provided by operating activities	<u>860,487</u>	<u>2,345,295</u>
 Cash Flows from Investing Activities		
Interest income	942	6,771
Purchases of property and equipment	<u>(750,538)</u>	<u>(1,467,062)</u>
Net cash used in investing activities	<u>(749,596)</u>	<u>(1,460,291)</u>
 Cash Flows from Financing Activities		
Repayments of loans	(125,787)	(126,969)
Repayments of bond principal	(980,000)	(935,000)
Bond interest	<u>(254,647)</u>	<u>(321,154)</u>
Net cash used in financing activities	<u>(1,360,434)</u>	<u>(1,383,123)</u>
 Net decrease in cash and cash equivalents	(1,249,543)	(498,119)
Cash and cash equivalents, beginning of year	<u>10,318,665</u>	<u>10,816,784</u>
Cash and cash equivalents, end of year	<u>\$ 9,069,122</u>	<u>\$10,318,665</u>
 The following is a summary of the Authority's cash and cash equivalents		
Cash on hand	\$ 300	\$ 300
Checking accounts	158,386	162,637
Bank trust accounts	<u>8,910,436</u>	<u>10,155,728</u>
	<u>\$ 9,069,122</u>	<u>\$10,318,665</u>

EWING-LAWRENCE SEWERAGE AUTHORITY
STATEMENTS OF CASH FLOWS (CONTINUED)

	<u>Year Ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Cash Flows from Operating Activities		
(Loss) income from operations	\$ (1,099,985)	\$ 273,599
Adjustments		
Depreciation	1,886,692	1,923,047
Accrual for normal cost of other post-employment benefits	113,591	155,380
Changes in assets and liabilities		
Contributions receivable	450,000	(600,000)
Interest receivable	505	(1,700)
Other receivables	(41)	(1,269)
Accounts payable - operations	(193,394)	232,472
Developers' performance bonds	-	(14,752)
Accrued liability for compensated absences	79,400	73,443
Engineering fee deposits	(371,834)	302,193
Other liabilities	<u>(4,447)</u>	<u>2,882</u>
Net cash provided by operating activities	<u>\$ 860,487</u>	<u>\$ 2,345,295</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Authority

Ewing-Lawrence Sewerage Authority (the "Authority"), located in Lawrenceville, New Jersey, was created to construct and operate a wastewater collection and treatment system to service the Townships of Ewing and Lawrence, New Jersey (the "Townships"). The Authority entered into a contract with the Townships, dated October 18, 1951, as amended on October 9, 1961, obligating each Township to guarantee its proportionate share of service charges to operate the system, debt service costs, and an amount to be set aside for renewals, replacements and extensions to the system.

Basis of Accounting

The financial statements of the Authority have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America applicable to governmental proprietary type funds.

In its accounting and financial reporting, the Authority follows the pronouncements of the Governmental Accounting Standards Board ("GASB") and other entities that promulgate accounting principles. Per GASB Statement 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, priority is established as to which source of accounting principles to utilize in determining proper accounting treatment. The hierarchy is as follows: GASB Statements and Interpretations; GASB Technical Bulletins; American Institute of Certified Public Accountants ("AICPA") Industry Audit and Accounting Guides and AICPA Statements of Position, if applicable, and cleared by GASB; AICPA Practice Bulletins, if applicable, and cleared by GASB; Implementation Guides published by the GASB; AICPA pronouncements that are not specially applicable to state and governmental entities; Financial Accounting Standards Board ("FASB") Statements and Interpretations; and Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee of Accounting Procedure.

Cash and Cash Equivalents

Cash equivalents include certificates of deposit and highly liquid debt instruments with original maturities of ninety days or less.

At December 31, 2010 and 2009, bank trust accounts consisted of repurchase agreements of a bank approved under the New Jersey Governmental Unit Deposit Protection Act and are collateralized by U.S. Government Agency securities on deposit at the Federal Reserve Bank of New York.

All other deposits at December 31, 2010 and 2009, were covered by the Federal Deposit Insurance Corporation (the "FDIC") or by the New Jersey Governmental Unit Deposit Protection Act.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions for System Improvements and Developer Contributions

Developer contributions for system improvements and other developer contributions are recorded as operating revenues in the periods when earned under terms of developer agreements. Developer-financed construction is recorded in the period in which applicable costs are incurred and is recorded at fair market value at the time of the contribution.

Revenues

The primary source of revenues is from service charges. Service charges are recognized as revenue upon billing the budgeted agreed upon amounts to the Townships of Ewing and Lawrence. The Townships pay the Authority their shares of the operating costs and debt service. No fees are collected from the residents by the Authority.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Investments

The Authority follows Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under Statement No. 31, investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value, with gains and losses included in the statements of revenues, expenses and changes in net assets. The 1961 Bond Resolution limits the Authority's investments to obligations of, or guaranteed by, the Federal government and bank certificates of deposit. As of December 31, 2010 and 2009, the Authority's investments consisted of cash equivalents.

Property and Equipment

Land and land improvements, buildings and building improvements, and machinery and equipment over \$2,000 are capitalized and recorded at cost. System construction costs are charged to construction in progress until such time as given segments of the system are completed and placed in operation. Depreciation and amortization is provided over the estimated useful lives of the assets using the straight-line method. The estimated useful lives are as follows:

Land improvements	50 years
Building and building improvements	7-50 years
Machinery and equipment	3-75 years

Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and Investment Accounts

In accordance with the 2002 Bond Resolution, the Authority has established the following cash and investment accounts for deposit, in the priority order listed, of all revenues received by the Authority.

<u>Account</u>	<u>Amount</u>	<u>Use for Which Restricted</u>
Revenue	Deposit of all revenue received by the Authority. Balance to equal amount required for one quarter's operating expenses.	Transfers to various funds described below and also includes succeeding year budget amount.
Debt service reserve	Amount needed to equal the greatest amount of debt service due in any year.	Transfers to meet minimum bond and debt service levels.
Improvement fund	Amount transferred from the revenue fund.	Amounts required for payments of principal and interest on bonds and for improvements to the system.

Income Taxes

As a public body, the Authority is exempt from both federal and state taxes under existing statute.

Funds Held by Trustee

The net proceeds from the Series 2004 and 2010B New Jersey Environmental Infrastructure Trust loans were placed with the Bank of New York. These funds are being held by the trustee and will be released to the Authority upon requisitions for the payment of expenditures on the projects for which the loans were authorized.

Unamortized Debt Issuance Costs and Original Issue Discount

Costs related to the issuance of bonds have been capitalized.

Deferred debt issuance costs incurred with the various debt issuances are being amortized over the lives of the respective issuances using the straight-line method. Accumulated amortization as of December 31, 2010 and 2009, amounted to \$244,345 and \$221,158, respectively. The original issue discounts on the 2002 and 1998 revenue bonds are being amortized over the life of the bonds. Amortization expense was \$23,187 and \$23,187 for the years ended December 31, 2010 and 2009, respectively.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Post-Employment Benefits Other Than Pensions ("OPEB")

The Authority follows GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions." This statement requires that employers recognize annual OPEB cost equal to the annual required contribution and recognize the unfunded accrued actuarial liability over an amortization period of thirty years.

B. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of various accounts held by financial institutions in New Jersey that are insured by the FDIC or the New Jersey Governmental Unit Deposit Protection Act. New Jersey statutes permit the deposit of public funds in institutions located in New Jersey which are insured by the FDIC or by any other agencies of the United States that insure deposits.

The Authority's bank balances at December 31, 2010 and 2009, was \$9,164,797 and \$10,449,505, respectively, all of which was covered by federal depository insurance or the New Jersey Governmental Unit Deposit Protection Act.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the counter party, the Authority will not be able to recover the value of its cash and equivalents that are in the possession of an outside party. Cash and cash equivalents are substantially restricted under the terms of the Authority's bond resolutions for the payment of bond principal and interest expense and the extension of project loans. The bond resolutions limit investments to direct obligations of the United States of America or other obligations in which payments of principal and interest are unconditionally guaranteed by the United States of America.

The amounts deposited in these accounts at December 31, are as follows:

	2010		2009	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Bank of New York	\$ 6,881,796	\$ 6,881,796	\$ 7,813,085	\$ 7,813,085
TD Bank	208,676	271,311	162,850	256,312
PNC	124,162	124,162	123,875	123,875
Wells Fargo (Wachovia)	1,854,188	1,887,528	2,218,555	2,256,233
Cash on hand	300	-	300	-
Total	\$ 9,069,122	\$ 9,164,797	\$10,318,665	\$10,449,505

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

B. CASH AND EQUIVALENTS (CONTINUED)

Since the Authority's cash and cash equivalents are all government securities or are protected under the New Jersey Governmental Unit Deposit Protection Act, they are not subject to custodial credit risk.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Because the Authority maintains only cash and cash equivalents, it is not subject to interest rate risk if interest rates fluctuate.

C. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	December 31,	
	2010	2009
Land	\$ 461,112	\$ 461,112
Land improvements	2,171,499	2,171,499
Buildings and building improvements	23,079,619	23,066,719
Machinery and equipment	48,481,655	48,439,581
Construction in progress	1,085,876	390,312
Subtotal	75,279,761	74,529,223
Accumulated depreciation	37,150,216	35,263,524
Total	\$38,129,545	\$39,265,699

Capital asset activities were as follows:

	Year Ended December 31, 2010			
	Beginning Balance	Additions	Reductions/ Retirements	Ending Balance
Non-Depreciable Assets				
Land	\$ 461,112	\$ -	\$ -	\$ 461,112
Construction in progress	390,312	695,564	-	1,085,876
Depreciable Assets				
Land improvements	2,171,499	-	-	2,171,499
Building and building improvements	23,066,719	12,900	-	23,079,619
Machinery and equipment	48,439,581	42,074	-	48,481,655
Total at Historical Cost	74,529,223	750,538	-	75,279,761
Less Accumulated Depreciation	35,263,524	1,886,692	-	37,150,216
Total Capital Assets	\$39,265,699	\$(1,136,154)	\$ -	\$38,129,545

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

C. PROPERTY AND EQUIPMENT (CONTINUED)

	Year Ended December 31, 2009			
	Beginning Balance	Additions	Reductions/ Retirements	Ending Balance
Non-Depreciable Assets				
Land	\$ 461,112	\$ -	\$ -	\$ 461,112
Construction in progress	154,768	375,304	139,760	390,312
Depreciable Assets				
Land improvements	2,171,499	-	-	2,171,499
Building and building improvements	22,289,183	777,536	-	23,066,719
Machinery and equipment	48,131,499	453,977	145,895	48,439,581
Total at Historical Cost	73,208,061	1,606,817	285,655	74,529,223
Less Accumulated Depreciation	33,486,372	1,923,047	145,895	35,263,524
Total Capital Assets	<u>\$39,721,689</u>	<u>\$ (316,230)</u>	<u>\$ 139,760</u>	<u>\$39,265,699</u>

Depreciation expense was as follows:

	Year Ended December 31,	
	2010	2009
Land improvements	\$ 42,667	\$ 42,667
Building and building improvements	479,955	481,338
Machinery and equipment	1,364,070	1,399,042
Total Depreciation Expense	<u>\$ 1,886,692</u>	<u>\$ 1,923,047</u>

D. BONDS AND LOANS PAYABLE

Bond resolutions have been adopted by the Authority for the purpose of acquiring, constructing and making improvements to the sewer systems in the Townships of Ewing and Lawrence. The following is a summary of revenue bonds outstanding at December 31:

Bonds Payable	Maturity Dates	2010			
		Beginning Balance	Additions	Reductions	Ending Balance
1998 Serial Revenue Bonds, 3.65%-5.00%	2010-2014	\$ 1,830,000	\$ -	\$ 335,000	\$ 1,495,000
2002 Serial Revenue Bonds, 3.00%-4.40%	2010-2014	3,495,000	-	645,000	2,850,000
Subtotal Bonds Payable		5,325,000	-	980,000	4,345,000
Less deferred loss on defeasance		(282,120)	-	(51,288)	(230,832)
Total		5,042,880	-	928,712	4,114,168
Less current portion		980,000	35,000	-	1,015,000
Net long-term portion		<u>\$ 4,062,880</u>	<u>\$ (35,000)</u>	<u>\$ 928,712</u>	<u>\$ 3,099,168</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

D. BONDS AND LOAN PAYABLE (CONTINUED)

Bonds Payable	Maturity Dates	2009			Ending Balance
		Beginning Balance	Additions	Reductions	
1998 Serial Revenue Bonds, 3.65%-5.00%	2009-2014	\$ 2,155,000	\$ -	\$ 325,000	\$ 1,830,000
2002 Serial Revenue Bonds, 3.00%-4.40%	2009-2014	4,105,000	-	610,000	3,495,000
Subtotal Bonds Payable		6,260,000	-	935,000	5,325,000
Less deferred loss on defeasance		(331,020)	-	(48,900)	(282,120)
Total		5,928,980	-	886,100	5,042,880
Less current portion		935,000	45,000	-	980,000
Net long-term portion		<u>\$ 4,993,980</u>	<u>\$ (45,000)</u>	<u>\$ 886,100</u>	<u>\$ 4,062,880</u>

Annual debt service requirements to maturity for bonds outstanding are as follows:

	Principal	Interest	Total
2011	\$ 1,015,000	\$ 192,850	\$ 1,207,850
2012	1,065,000	149,800	1,214,800
2013	1,110,000	103,230	1,213,230
2014	1,155,000	53,190	1,208,190
	<u>\$ 4,345,000</u>	<u>\$ 499,070</u>	<u>\$ 4,844,070</u>

Refunding Bond Issues

The proceeds from the 2002 advance refunding of previously issued 1991 obligations were used to currently refund the outstanding bond issues or to deposit, in an irrevocable escrow fund held by the escrow agent, an amount that, when combined with interest earnings thereon, will be at least equal to the sum of the outstanding principal amount of the bonds, the interest to accrue, to redeem the bonds outstanding on such date. Accordingly, the escrow fund and the liability for defeased bonds are not included in the Authority's financial statements.

These transactions defeased the outstanding bond issues with a resultant reduction in annual debt services during the term of the issues. Refunded 1991 bonds outstanding at December 31, 2010, are as follows:

2011	\$ 665,000
2012	710,000
2013	755,000
2014	805,000
	<u>\$ 2,935,000</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

D. BONDS AND LOAN PAYABLE (CONTINUED)

As a result of refundings in 2002 and 1998, the Authority recorded losses on defeasance of \$428,593 and \$268,347, respectively, representing the differences between the new debt issued and the carrying amount of the debt refunded. The loss on defeasance has been deferred and is being amortized over the life of the new debt. For financial statement purposes, the Authority follows Governmental Accounting Standards Board Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt reported by Proprietary Activities*. The unamortized deferred loss on defeasance amounting to \$230,832 and \$282,120 at December 31, 2010 and 2009, respectively, is included in the financial statements as a reduction of revenue bonds payable. Amortization expense amounted to \$51,286 and \$48,902 for the years ended December 31, 2010 and 2009, respectively.

All revenues generated by the Authority are pledged to secure payment of principal and interest on the bonds.

Loan Payable

As of December 31, 2010 and 2009, the Authority maintained a loan balance of \$8,720,663 and \$1,979,747, respectively, through the New Jersey Environmental Infrastructure Trust financing program. The amount available through the program at December 31, 2010 and 2009, was \$7,208,148 and \$341,446, respectively, and is recorded as funds held by Trustee on the balance sheet. The total maturities, including interest, for the loan for the years ending December 31 are as follows:

	Principal	Interest	Total
2011	\$ 131,645	\$ 53,625	\$ 185,270
2012	137,041	50,625	187,666
2013	427,318	276,875	704,193
2014	438,452	265,375	703,827
2015	448,641	254,075	702,716
2016 to 2020	2,437,731	1,075,875	3,513,606
2021 to 2025	2,372,418	676,888	3,049,306
2026 to 2030	2,327,417	263,000	2,590,417
Total	\$ 8,720,663	\$ 2,916,338	\$11,637,001

E. PENSION PLAN

The Authority participates in the Public Employees' Retirement System of New Jersey, which is a part of the Division of Pensions, Department of the Treasury, State of New Jersey. The system is funded annually based on the projected benefit method with aggregate level normal cost and frozen initial unfunded accrued liability. The system, which covers public employees throughout the state, does not maintain separate records for each reporting unit, and accordingly, the actuarial data for the employees of the Authority who are members of the system is not available. The Authority's pension expenses for 2010 and 2009 were \$328,815 and \$284,507, respectively.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

F. GASB STATEMENT 45 FOR ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Authority follows the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* ("OPEB"). The Authority had an actuarial valuation performed to calculate the cost and liabilities attributable to post-employment benefits other than pensions in accordance with that pronouncement. The required disclosure information from the plan document and the December 31, 2008, actuarial valuation is as follows:

Plan Description

- The Authority currently maintains an unfunded single-employer post-employment benefits plan (the "Plan") other than for pensions.
- The Plan provides eligible retirees with prescription drug, vision and dental coverage after termination or retirement.
- The Plan does not issue stand-alone financial statements and is not included in the report of another entity.

Funding Policy

- It is the Authority's policy at this time to fund the Plan on a pay as you go basis.

Other Required Disclosures

- The annual required contribution and OPEB cost for 2010 and 2009 was \$1,054,958, assuming a 30-year amortization of the actuarial accrued liability.
- During 2010 and 2009, the Authority paid \$468,362 and \$426,576 to the Plan, respectively, which represents the amount of benefits paid during the year.
- The unfunded actuarial and accrued liability, which includes retirees and active employees, totaled \$13,776,830 as of December 31, 2008. The Authority's next required actuarial valuation will be calculated as of December 31, 2011.
- The actuarial valuation date was December 31, 2008.

Actuarial Assumptions and Methods

- An assumed discount rate of 3% was used for purposes of developing the liabilities and annual required contribution on the basis that the Plan would not be funded.
- Health care cost trend rates were as follows:
 - Prescription ranged from 9.00% in 2009 to 4.70% in years 2018 and later.
 - Dental ranged from 4.00% in 2009 to 3.00% in years 2018 and later.
 - Vision ranged from 3.00% in 2009 to 3.00% in years 2018 and later.
- These actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

F. GASB STATEMENT 45 FOR ACCOUNTING AND FINANCIAL REPORTING BY EMPLOYERS FOR POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

- These calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation.
- The actuarial cost method used was the entry age method.
- The unfunded actuarial accrued liability was amortized as a level percentage of payroll using projected salary increases of 3.00%.

G. DEFERRED COMPENSATION

The Authority has a deferred compensation plan whereby eligible participating employees may choose to contribute amounts determined by plan and Internal Revenue Code guidelines. All employer contributions are made at the sole discretion of the Authority. There were no contributions made by the Authority for the years ended December 31, 2010 and 2009.

H. AMOUNTS REQUIRED BY BOND RESOLUTION

The following debt service reserve cash and investment amounts are required by the 2002 bond resolution:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
Cash balance	\$ 1,917,478	\$ 1,623,140
Debt service reserve required balance	<u>1,215,673</u>	<u>1,215,673</u>
Excess	<u>\$ 701,805</u>	<u>\$ 407,467</u>

I. COMMITMENTS AND CONTINGENCIES

The Authority entered into a regional sludge management project service agreement with Mercer County Improvement Authority ("MCIA") and is a participant in such agreement with the Township of Hamilton and the City of Trenton.

Pursuant to such agreement, MCIA is the lead agency and is responsible for the design, financing, construction and operation of the regional sludge management facilities.

The Authority is obligated to pay for its share of the cost of sludge treatment service provided by the regional sludge management facilities. The agreement provides that the annual charges to be paid by the participants will be sufficient to pay for the operating costs, capital expansions, improvements and debt service on MCIA obligations relating to the regional facilities.

The agreement also provides that, in the event the regional facilities are not placed in operation, all costs incurred by MCIA for regional facilities shall be apportioned among the participants on a basis as described in the agreement.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

I. COMMITMENTS AND CONTINGENCIES (CONTINUED)

During 1993, construction of the regional sludge facilities was completed. The project was declared a failure by the Federal Environmental Protection Agency and MCIA was released from further obligation.

As of December 31, 2010 and 2009, the total outstanding bonds of MCIA in connection with the regional sludge facilities amounted to \$13,619,390 and \$15,966,379, respectively.

The Authority's proportionate share of the debt service relating to the outstanding bonds of MCIA and other expenses for the regional sludge facility for 2010 and 2009 amounted to \$1,050,929 and \$1,036,761, respectively. In each subsequent year, the Authority will be required to pay its share of debt service and other expenses relating to the regional sludge facilities.

J. CONCENTRATION OF LABOR FORCE

Approximately 67% of the labor force is covered by a collective bargaining agreement with Construction and General Labor Union Local 172. The contract expired December 31, 2010. Prior to year end, the Authority and the Construction and General Labor Union Local 172 entered into a new labor agreement. The new agreement expires December 31, 2014.

K. CAPITAL PROGRAM

Expected capital program expenditures budgeted from 2011 through 2015 approximate \$25.6 million.

L. SUBSEQUENT EVENTS

Management has evaluated subsequent events that occurred after the balance sheet date but before July 12, 2011, the date the financial statements were available to be issued. No items were determined by management to require disclosure.

SUPPLEMENTARY INFORMATION

EWING-LAWRENCE SEWERAGE AUTHORITY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended December 31, 2010
(With Comparative Totals for 2009)

	2010					2009	
	Unreserved (Deficit)	Future Debt Service	Current Debt Service	Improvement Fund	Succeeding Year Budget	Investment in Property, Plant and Equipment	Total
Operating Revenues	\$ 11,207,837	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,207,837
Service agreements	-	-	-	-	-	-	\$ 10,839,960
Contributions for system improvements	-	-	-	-	-	-	750,000
Connection fees	295,627	-	-	-	-	-	908,673
Inspection fees	600	-	-	-	-	-	600
Interest	8,012	-	-	-	-	-	8,012
Miscellaneous	92,091	-	-	-	-	-	92,091
Total operating revenues	<u>11,604,167</u>	-	-	-	-	-	<u>11,604,167</u>
Operating Expenses							
Costs of providing services	8,576,234	-	-	-	-	-	8,576,234
Administrative and general	1,190,297	-	-	-	-	-	1,190,297
County sludge facilities	1,050,929	-	-	-	-	-	1,050,929
Depreciation and amortization	-	-	-	-	-	1,886,692	1,886,692
Total operating expenses	<u>10,817,460</u>	-	-	-	-	<u>1,886,692</u>	<u>12,704,152</u>
Income (loss) from operations	<u>786,707</u>	-	-	-	-	<u>(1,886,692)</u>	<u>(1,099,985)</u>
Non-operating revenues (expenses)							
Interest income	-	330	-	612	-	-	942
Interest expense	-	-	(252,129)	-	-	-	(252,129)
Amortization of loss on defeasance	-	-	(51,286)	-	-	-	(51,286)
Amortization of debt issuance costs	-	-	-	-	-	(23,187)	(23,187)
Amortization of post employment benefits	-	-	-	-	-	-	-
Total non-operating revenues (expenses)	<u>(473,005)</u>	-	-	-	-	-	<u>(473,005)</u>
Income (loss) before transfers	<u>(473,005)</u>	330	(303,415)	612	-	(23,187)	<u>(798,665)</u>
Transfers	<u>313,702</u>	330	(303,415)	612	-	(1,909,879)	<u>(1,898,650)</u>
	<u>(924,479)</u>	294,008	303,415	(1,744,929)	(74,499)	2,146,484	-
Net income (loss)	<u>(610,777)</u>	294,338	-	(1,744,317)	(74,499)	236,605	<u>(1,898,650)</u>
Net assets, beginning of year	-	1,623,140	-	1,744,317	2,926,630	32,698,796	39,992,883
Net assets, end of year	<u>\$ (610,777)</u>	<u>\$ 1,917,478</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,852,131</u>	<u>\$ 32,935,401</u>	<u>\$ 38,992,883</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

SCHEDULE OF OPERATING REVENUES AND COSTS FUNDED BY OPERATING REVENUES COMPARED TO BUDGET

Year Ended December 31, 2010

	2010 Budget as Amended	2010 Actual
Revenues		
Retained earnings appropriated	\$ 2,926,630	\$ 2,926,630
Service agreements	11,207,837	11,207,837
Contributions for system improvements	-	-
Connection fees	600,000	295,627
Inspection fees	5,000	600
Developer applications	20,000	16,350
Interest	150,000	8,012
Miscellaneous	30,000	75,741
Total operating revenues	\$ 14,939,467	\$ 14,530,797
Expenses		
Cost of providing services		
Labor	\$ 3,364,000	\$ 3,248,268
Employee benefits	1,862,000	1,841,311
Material and supplies	965,000	578,013
Contracted services	85,000	62,075
Repairs and maintenance	551,500	483,660
Sludge disposal	660,000	621,155
Utilities	1,662,350	1,289,497
Professional fees	100,000	68,608
Remediation	200,000	162,544
Compliance	15,000	791
Industrial waste water pre-treatment program		
Labor	68,000	67,162
Other	305,000	153,150
	9,837,850	8,576,234
Administrative and general		
Labor	623,000	618,128
Materials and supplies	26,500	23,549
Contracted services	296,500	189,032
Insurance	389,000	359,588
	1,335,000	1,190,297
Interest expense		
	292,048	252,129
Other costs funded by operating revenues		
Principal maturity	1,105,786	980,000
Capital outlays	1,178,000	750,538
Future debt service	139,783	-
County sludge facilities	1,051,000	1,050,929
Amortization of loss on defeasance	-	51,286
Amortization of debt issue costs	-	23,187
Amortization of post employment benefits	-	473,005
	3,474,569	3,328,945
Total costs funded by operating revenues	14,939,467	13,347,605
Excess	-	1,183,192
Total	\$ 14,939,467	\$ 14,530,797

EWING-LAWRENCE SEWERAGE AUTHORITY

ROSTER OF OFFICIALS

Year Ended December 31, 2010

<u>Board Members</u>	<u>Position</u>
Charles Geter	Assistant Secretary
Anne Zamonski	Treasurer
Joseph Cermele	Secretary
Raymond J. DiFrancesco	Chair
Harold Vereen	Assistant Treasurer
Pasquale "Pat" Colavita	Vice Chair

<u>Other Officials</u>	<u>Position</u>
S. Robert Filler	Executive Director
W. Barry Rank	Counsel
Arcadis - BBL	Engineers

All employees of the Ewing-Lawrence Sewerage Authority are covered by a Public Employee's Blanket Bond, which is included in the Commercial Protection Policy issued by Zurich Insurance and provides "Employee Dishonesty Coverage" in the amount of \$500,000.

INDEPENDENT AUDITORS' 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*

To the Honorable Chairperson and Board Members of
Ewing-Lawrence Sewerage Authority

We have audited the financial statements of Ewing-Lawrence Sewerage Authority (the "Authority") as of and for the year ended December 31, 2010, and have issued our report thereon dated July 12, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements prescribed by the State of New Jersey, Department of Environmental Protection.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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.

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OVER 45 YEARS OF SERVICE TO THE COMMUNITY

INDEPENDENT AUDITORS' 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* (CONTINUED)

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, grants and 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 solely for the information and use of the finance committee, management, and others within the Authority and the State of New Jersey, and is not intended to be and should not be used by anyone other than these specified parties.

Mercaderes, PC
Certified Public Accountants

July 12, 2011