

EWING-LAWRENCE SEWERAGE AUTHORITY

Financial Statements
and
Supplementary Information

December 31, 2011

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, 2011 and 2010, 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, 2011 and 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our reports dated July 30, 2012 and July 12, 2011, respectively, 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.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 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 who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required 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 conducted for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State of New Jersey's OMB Circular Letter 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates 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 basic 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 basic financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. 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.


Certified Public Accountant

July 30, 2012

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, 2011 and 2010. 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 2011 and 2010.

FINANCIAL HIGHLIGHTS

Loss from operations for the Authority was \$650,714 and \$1,099,985 for the years ended December 31, 2011 and 2010, respectively. The Authority's net assets were \$35,498,699 and \$37,094,233 at the close of 2011 and 2010, respectively, which represents a decrease of approximately 4.3% in 2011.

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 \$8,377,364 and \$9,069,122 at December 31, 2011 and 2010, 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 2011 of \$3,013,523 and in 2010 of \$750,537 related primarily to expenditures for the main pumping station and the Jacob's Creek project, respectively.

Net property and equipment balances were \$39,240,387 and \$38,129,545 at December 31, 2011 and 2010, respectively, and comprise the largest portion of the Authority's assets.

The Authority had \$3,330,000 and \$4,345,000 in current and non-current revenue bonds payable outstanding as of December 31, 2011 and 2010, 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, 2011 and 2010, financial statements of the Authority:

Net Assets

	December 31.	
	2011	2010
Current and other assets	\$ 13,473,271	\$ 16,526,586
Capital assets	<u>39,240,387</u>	<u>38,129,545</u>
Total assets	<u>52,713,658</u>	<u>54,656,131</u>
Current liabilities, net of revenue bonds payable	4,248,648	4,044,354
Revenue bonds payable	3,152,270	4,114,168
Long-term portion of loan payable	8,451,977	8,589,018
Accrued post-employment benefits other than pensions	<u>1,362,064</u>	<u>814,358</u>
Total liabilities	<u>17,214,959</u>	<u>17,561,898</u>
Net assets		
Restricted		
Investment in capital assets, net of related debt	32,583,447	32,935,401
Other restricted	2,971,788	4,769,609
Deficit	<u>(56,536)</u>	<u>(610,777)</u>
Total net assets	<u>\$ 35,498,699</u>	<u>\$ 37,094,233</u>

Changes in Net Assets

	Year Ended December 31.	
	2011	2010
Operating revenues	\$ 11,761,422	\$ 11,604,167
Operating expenses, excluding depreciation	(10,509,455)	(10,817,460)
Depreciation	<u>(1,902,681)</u>	<u>(1,886,692)</u>
Loss from operations	(650,714)	(1,099,985)
Non-operating revenues	1,146	942
Non-operating expenses	<u>(945,966)</u>	<u>(799,607)</u>
Net loss	(1,595,534)	(1,898,650)
Net assets, beginning of year	<u>37,094,233</u>	<u>38,992,883</u>
Net assets, end of year	<u>\$ 35,498,699</u>	<u>\$ 37,094,233</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Cash Flows

	<u>Year Ended December 31.</u>	
	<u>2011</u>	<u>2010</u>
Net cash provided by operating activities	\$ 1,503,882	\$ 860,487
Net cash used in investing activities	(3,012,377)	(749,596)
Net cash provided by (used in) financing activities	<u>816,737</u>	<u>(1,360,434)</u>
Net decrease in cash and cash equivalents	<u>\$ (691,758)</u>	<u>\$ (1,249,543)</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

	<u>December 31.</u>	
	<u>2011</u>	<u>2010</u>
ASSETS		
Current Assets - Unrestricted		
Cash and cash equivalents	\$ 5,405,576	\$ 4,299,513
Contributions receivable	-	150,000
Interest receivable	4,232	2,895
Other receivables	<u>6,138</u>	<u>4,141</u>
Total Unrestricted	<u>5,415,946</u>	<u>4,456,549</u>
Current Assets - Restricted		
Debt service reserve account		
Cash and cash equivalents - debt service reserve account	<u>1,917,986</u>	<u>1,917,478</u>
Total debt service reserve account	1,917,986	1,917,478
Cash and cash equivalents - succeeding year budget	1,053,802	2,852,131
Funds held by Trustee	<u>5,016,443</u>	<u>7,208,148</u>
Total Restricted Assets	<u>7,988,231</u>	<u>11,977,757</u>
Total Current Assets	<u>13,404,177</u>	<u>16,434,306</u>
Property and Equipment	<u>39,240,387</u>	<u>38,129,545</u>
Other Assets		
Unamortized debt issuance costs	<u>69,094</u>	<u>92,280</u>
Total Assets	<u>\$52,713,658</u>	<u>\$54,656,131</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

BALANCE SHEETS (CONTINUED)

	December 31,	
	2011	2010
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable - operations	\$ 560,845	\$ 370,241
Developers' performance bonds	258,045	258,045
Accrued post-employment benefits other than pensions- current portion	977,940	1,054,958
Loan payable - current portion	137,041	131,645
Revenue bonds payable - current portion	1,065,000	1,015,000
Accrued interest payable	82,814	28,295
Accrued liability for compensated absences	1,403,570	1,378,520
Engineering fee deposits	686,392	684,682
Other liabilities	<u>142,001</u>	<u>137,968</u>
Total Current Liabilities	<u>5,313,648</u>	<u>5,059,354</u>
Non-Current Liabilities		
Non-current portion of accrued post-employment benefits other than pensions	1,362,064	814,358
Non-current portion of loan payable	8,451,977	8,589,018
Non-current portion of revenue bonds payable	<u>2,087,270</u>	<u>3,099,168</u>
Total Non-Current Liabilities	<u>11,901,311</u>	<u>12,502,544</u>
Total Liabilities	<u>17,214,959</u>	<u>17,561,898</u>
Net Assets (Deficit)		
Restricted		
Investment in capital assets, net of related debt	32,583,447	32,935,401
Future debt service	1,917,986	1,917,478
Succeeding year budget	1,053,802	2,852,131
Deficit	<u>(56,536)</u>	<u>(610,777)</u>
Total Net Assets	<u>35,498,699</u>	<u>37,094,233</u>
Total Liabilities and Net Assets	<u>\$52,713,658</u>	<u>\$54,656,131</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	<u>Year Ended December 31,</u>	
	<u>2011</u>	<u>2010</u>
Operating revenues		
Service agreements	\$ 11,634,229	\$ 11,207,837
Connection fees	49,802	295,627
Inspection fees	500	600
Interest	3,528	8,012
Miscellaneous	73,363	92,091
Total operating revenues	11,761,422	11,604,167
Operating expenses		
Costs of providing services	8,383,035	8,576,234
Administrative and general	1,076,037	1,190,297
County sludge facilities	1,050,383	1,050,929
Depreciation	1,902,681	1,886,692
Total operating expenses	12,412,136	12,704,152
Loss from operations	(650,714)	(1,099,985)
Non-operating revenues (expenses)		
Interest income	1,146	942
Interest expense	(282,842)	(252,129)
Amortization of loss on defeasance	(53,102)	(51,286)
Amortization of debt issuance costs	(23,187)	(23,187)
Amortization of post employment benefits other than pensions	(586,835)	(473,005)
Total non-operating expenses, net	(944,820)	(798,665)
Net loss	(1,595,534)	(1,898,650)
Net assets, beginning of year	37,094,233	38,992,883
Net assets, end of year	\$ 35,498,699	\$ 37,094,233

EWING-LAWRENCE SEWERAGE AUTHORITY

STATEMENTS OF CASH FLOWS

	Year Ended December 31.	
	2011	2010
Cash Flows from Operating Activities		
Cash received from		
Service agreements	\$11,634,229	\$11,207,837
Contributions for system improvements	150,000	450,000
Connection fees	49,802	295,627
Inspection fees	500	600
Interest income	2,191	8,517
Miscellaneous revenue	71,364	92,050
Cash used for		
Costs of providing services	(8,277,783)	(8,952,918)
Administrative and general	(1,076,038)	(1,190,297)
County sludge facilities	<u>(1,050,383)</u>	<u>(1,050,929)</u>
Net cash provided by operating activities	<u>1,503,882</u>	<u>860,487</u>
 Cash Flows from Investing Activities		
Interest income	1,146	942
Purchases of property and equipment	<u>(3,013,523)</u>	<u>(750,538)</u>
Net cash used in investing activities	<u>(3,012,377)</u>	<u>(749,596)</u>
 Cash Flows from Financing Activities		
Repayments of loans	(131,645)	(125,787)
Proceeds from loans	2,191,705	-
Repayments of bond principal	(1,015,000)	(980,000)
Bond interest	<u>(228,323)</u>	<u>(254,647)</u>
Net cash provided by (used in) financing activities	<u>816,737</u>	<u>(1,360,434)</u>
Net decrease in cash and cash equivalents	(691,758)	(1,249,543)
Cash and cash equivalents, beginning of year	<u>9,069,122</u>	<u>10,318,665</u>
Cash and cash equivalents, end of year	<u>\$ 8,377,364</u>	<u>\$ 9,069,122</u>
 The following is a summary of the Authority's cash and cash equivalents		
Cash on hand	\$ 300	\$ 300
Checking accounts	153,319	158,386
Bank trust accounts	<u>8,223,745</u>	<u>8,910,436</u>
	<u>\$ 8,377,364</u>	<u>\$ 9,069,122</u>

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

	<u>Year Ended December 31.</u>	
	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Loss from operations	\$ (650,714)	\$ (1,099,985)
Adjustments		
Depreciation	1,902,681	1,886,692
Accrual for normal cost of other post-employment benefits	(116,148)	113,591
Changes in assets and liabilities		
Contributions receivable	150,000	450,000
Interest receivable	(1,337)	505
Other receivables	(1,997)	(41)
Accounts payable - operations	190,604	(193,394)
Accrued liability for compensated absences	25,050	79,400
Engineering fee deposits	1,710	(371,834)
Other liabilities	<u>4,033</u>	<u>(4,447)</u>
Net cash provided by operating activities	<u>\$ 1,503,882</u>	<u>\$ 860,487</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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, 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, 2011 and 2010, amounted to \$267,532 and \$244,345, 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 for both the years ended December 31, 2011 and 2010.

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, 2011 and 2010, was \$8,793,292 and \$9,164,797, 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:

	2011		2010	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Bank of New York	\$ 6,145,087	\$ 6,145,088	\$ 6,881,796	\$ 6,881,796
TD Bank	251,995	639,541	208,676	271,311
PNC	124,371	124,371	124,162	124,162
Wells Fargo (Wachovia)	1,855,611	1,884,292	1,854,188	1,887,528
Cash on hand	300	-	300	-
Total	\$ 8,377,364	\$ 8,793,292	\$ 9,069,122	\$ 9,164,797

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

B. CASH AND CASH 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:

	<u>December 31.</u>	
	<u>2011</u>	<u>2010</u>
Land	\$ 461,112	\$ 461,112
Land improvements	2,171,499	2,171,499
Buildings and building improvements	23,079,619	23,079,619
Machinery and equipment	49,021,416	48,481,655
Construction in progress	3,559,638	1,085,876
Subtotal	<u>78,293,284</u>	<u>75,279,761</u>
Accumulated depreciation	<u>39,052,897</u>	<u>37,150,216</u>
Total	<u><u>\$39,240,387</u></u>	<u><u>\$38,129,545</u></u>

Capital asset activities were as follows:

	<u>Year Ended December 31, 2011</u>			
	<u>Beginning</u>		<u>Reductions/</u>	<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
Non-Depreciable Assets				
Land	\$ 461,112	\$ -	\$ -	\$ 461,112
Construction in progress	1,085,876	2,473,762	-	3,559,638
Depreciable Assets				
Land improvements	2,171,499	-	-	2,171,499
Building and building improvements	23,079,619	-	-	23,079,619
Machinery and equipment	<u>48,481,655</u>	<u>539,761</u>	-	<u>49,021,416</u>
Total at Historical Cost	75,279,761	3,013,523	-	78,293,284
Less Accumulated Depreciation	<u>37,150,216</u>	<u>1,902,681</u>	-	<u>39,052,897</u>
Total Capital Assets	<u><u>\$38,129,545</u></u>	<u><u>\$ 1,110,842</u></u>	<u><u>\$ -</u></u>	<u><u>\$39,240,387</u></u>

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

C. PROPERTY AND EQUIPMENT (CONTINUED)

	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	<u>48,439,581</u>	<u>42,074</u>	<u>-</u>	<u>48,481,655</u>
Total at Historical Cost	74,529,223	750,538	-	75,279,761
Less Accumulated Depreciation	<u>35,263,524</u>	<u>1,886,692</u>	<u>-</u>	<u>37,150,216</u>
Total Capital Assets	<u>\$39,265,699</u>	<u>\$ (1,136,154)</u>	<u>\$ -</u>	<u>\$38,129,545</u>

Depreciation expense was as follows:

	Year Ended December 31,	
	2011	2010
Land improvements	\$ 42,667	\$ 42,667
Building and building improvements	558,366	479,955
Machinery and equipment	<u>1,301,648</u>	<u>1,364,070</u>
Total Depreciation Expense	<u>\$ 1,902,681</u>	<u>\$ 1,886,692</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	2011			
		Beginning Balance	Additions	Reductions	Ending Balance
1998 Serial Revenue Bonds, 3.65%-5.00%	2011-2014	\$ 1,495,000	\$ -	\$ 350,000	\$ 1,145,000
2002 Serial Revenue Bonds, 3.00%-4.40%	2011-2014	<u>2,850,000</u>	<u>-</u>	<u>665,000</u>	<u>2,185,000</u>
Subtotal Bonds Payable		4,345,000	-	1,015,000	3,330,000
Less deferred loss on defeasance		<u>(230,832)</u>	<u>-</u>	<u>(53,102)</u>	<u>(177,730)</u>
Total		4,114,168	-	961,898	3,152,270
Less current portion		<u>1,015,000</u>	<u>50,000</u>	<u>-</u>	<u>1,065,000</u>
Net long-term portion		<u>\$ 3,099,168</u>	<u>\$ (50,000)</u>	<u>\$ 961,898</u>	<u>\$ 2,087,270</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

D. BONDS AND LOAN PAYABLE (CONTINUED)

Bonds Payable	Maturity Dates	2010			Ending Balance
		Beginning Balance	Additions	Reductions	
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>

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

	Principal	Interest	Total
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>\$ 3,330,000</u>	<u>\$ 306,220</u>	<u>\$ 3,636,220</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 and 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, 2011, are as follows:

2012	\$ 710,000
2013	755,000
2014	805,000
	<u>\$ 2,270,000</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 \$177,730 and \$230,832 at December 31, 2011 and 2010, respectively, is included in the financial statements as a reduction of revenue bonds payable. Amortization expense amounted to \$53,102 and \$51,286 for the years ended December 31, 2011 and 2010, 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, 2011 and 2010, the Authority maintained a loan balance of \$8,589,018 and \$8,720,663, respectively, through the New Jersey Environmental Infrastructure Trust financing program. The amount available through the program at December 31, 2011 and 2010, was \$5,016,443 and \$7,208,148, 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
2012	\$ 137,041	\$ 280,125	\$ 417,166
2013	427,318	276,875	704,193
2014	438,452	265,375	703,827
2015	448,641	254,075	702,716
2016	465,067	242,275	707,342
2017 to 2021	2,434,147	1,003,875	3,438,022
2022 to 2026	2,342,417	591,363	2,933,780
2027 to 2030	1,895,935	178,250	2,074,185
Total	\$ 8,589,018	\$ 3,092,213	\$11,681,231

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 2011 and 2010 were \$414,359 and \$328,815, 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, 2011, 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 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 2011 and 2010 were \$977,940 and \$1,054,958, respectively, assuming a 30-year amortization of the actuarial accrued liability.
- During 2011 and 2010, the Authority paid \$507,251 and \$468,362 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 \$14,461,190 as of December 31, 2011. The Authority's next required actuarial valuation will be calculated as of December 31, 2014.
- The actuarial valuation date was December 31, 2011.

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 2012 to 4.70% in years 2021 and later.
 - Dental ranged from 4.00% in 2012 to 3.00% in years 2021 and later.
 - Vision ranged from 3.00% in 2012 to 3.00% in years 2021 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, 2011 and 2010.

H. AMOUNTS REQUIRED BY BOND RESOLUTION

The following debt service reserve cash and investment amounts are required by the resolution of the Authority adopted October 13, 1961, entitled "Resolution Authorizing and Providing for the Issuance of Sewer Revenue Bonds of the Ewing-Lawrence Sewerage Authority":

	<u>December 31.</u>	
	<u>2011</u>	<u>2010</u>
Cash and investment balance	\$ 1,917,986	\$ 1,917,478
Debt service reserve required balance	<u>1,917,423</u>	<u>1,917,423</u>
Excess	<u>\$ 563</u>	<u>\$ 55</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, 2011 and 2010, the total outstanding bonds of MCIA in connection with the regional sludge facilities amounted to \$11,156,764 and \$13,619,390, 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 2011 and 2010 amounted to \$1,050,383 and \$1,050,929, 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. The bonds will mature in 2015.

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 2012 through 2016 approximate \$32.6 million.

L. SUBSEQUENT EVENTS

Management has evaluated events that occurred after December 31, 2011, but before July 30, 2012, the date the financial statements were available to be issued. Management has determined the following event requires disclosure:

The Authority entered into a financing agreement with the New Jersey Environmental Infrastructure Trust to finance the construction costs associated with capital improvements of the Authority. The board approved the issuance of bonds in an amount not to exceed \$2,100,000 through the New Jersey Environmental Infrastructure Trust Financing Program on February 21, 2012.

SUPPLEMENTARY INFORMATION

EWING-LAWRENCE SEWERAGE AUTHORITY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year Ended December 31, 2011
(With Comparative Totals for 2010)

	2011					2010	
	(Deficit)	Future Debt Service	Current Debt Service	Improvement Fund	Succeeding Year Budget	Investment in Property, Plant and Equipment	Total
Operating Revenues							
Service agreements	\$ 11,634,229	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,634,229
Connection fees	49,802	-	-	-	-	-	49,802
Inspection fees	500	-	-	-	-	-	500
Interest	3,528	-	-	-	-	-	3,528
Miscellaneous	73,363	-	-	-	-	-	73,363
Total operating revenues	<u>11,761,422</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,761,422</u>
Operating Expenses							
Costs of providing services	8,383,035	-	-	-	-	-	8,383,035
Administrative and general	1,076,037	-	-	-	-	-	1,076,037
County sludge facilities	1,050,383	-	-	-	-	-	1,050,383
Depreciation and amortization	-	-	-	-	-	1,902,681	1,902,681
Total operating expenses	<u>10,509,455</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,902,681</u>	<u>12,412,136</u>
Income (loss) from operations	<u>1,251,967</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,902,681)</u>	<u>(650,714)</u>
Non-operating revenues (expenses)							
Interest income	-	641	-	505	-	-	1,146
Interest expense	-	-	(282,842)	-	-	-	(282,842)
Amortization of loss on defeasance	-	-	(53,102)	-	-	-	(53,102)
Amortization of debt issuance costs	-	-	-	-	-	(23,187)	(23,187)
Amortization of post employment benefits	-	-	-	-	-	-	(586,835)
Total non-operating revenues (expenses)	<u>(586,835)</u>	<u>-</u>	<u>(335,944)</u>	<u>505</u>	<u>-</u>	<u>(23,187)</u>	<u>(944,820)</u>
Income (loss) before transfers	<u>665,132</u>	<u>641</u>	<u>(335,944)</u>	<u>505</u>	<u>-</u>	<u>(1,925,868)</u>	<u>(1,595,534)</u>
Transfers	(110,891)	(133)	335,944	(505)	(1,798,329)	1,573,914	-
Net income (loss)	<u>554,241</u>	<u>508</u>	<u>-</u>	<u>-</u>	<u>(1,798,329)</u>	<u>(351,954)</u>	<u>(1,595,534)</u>
Net assets, beginning 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>37,094,233</u>
Net assets, end of year	<u>\$ (56,536)</u>	<u>\$ 1,917,986</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,053,802</u>	<u>\$ 32,583,447</u>	<u>\$ 35,498,699</u>
							<u>\$ 37,094,233</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

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

Year Ended December 31, 2011

	<u>2011 Budget as Amended</u>	<u>2011 Actual</u>
Revenues		
Retained earnings appropriated	\$ 2,852,131	\$ 2,852,131
Service agreements	11,634,229	11,634,229
Contributions for system improvements	-	-
Connection fees	200,000	49,802
Inspection fees	3,000	500
Developer applications	10,000	12,650
Interest	70,000	3,528
Miscellaneous	<u>40,000</u>	<u>60,713</u>
Total operating revenues	<u>\$ 14,809,360</u>	<u>\$ 14,613,553</u>
Expenses		
Cost of providing services		
Labor	\$ 3,363,000	\$ 3,197,777
Employee benefits	2,036,000	1,737,716
Material and supplies	973,500	544,124
Contracted services	85,000	62,633
Repairs and maintenance	534,500	514,981
Sludge disposal	715,000	618,502
Utilities	1,599,300	1,334,268
Professional fees	100,000	92,604
Remediation	200,000	133,518
Compliance	15,000	3,055
Industrial waste water pre-treatment program		
Labor	68,500	68,477
Other	<u>205,000</u>	<u>75,380</u>
	<u>9,894,800</u>	<u>8,383,035</u>
Administrative and general		
Labor	563,000	555,423
Materials and supplies	29,000	22,947
Contracted services	357,000	197,630
Insurance	<u>408,000</u>	<u>300,037</u>
	<u>1,357,000</u>	<u>1,076,037</u>
Interest expense		
	<u>246,475</u>	<u>282,842</u>
Other costs funded by operating revenues		
Principal maturity	1,146,645	1,015,000
Capital outlays	951,000	3,013,523
Future debt service	139,312	-
County sludge facilities	1,051,000	1,050,383
Amortization of loss on defeasance	-	53,102
Amortization of debt issue costs	23,128	23,187
Amortization of post employment benefits	<u>-</u>	<u>586,835</u>
	<u>3,311,085</u>	<u>5,742,030</u>
Total costs funded by operating revenues	14,809,360	15,483,944
Excess	<u>-</u>	<u>(870,391)</u>
Total	<u>\$ 14,809,360</u>	<u>\$ 14,613,553</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

ROSTER OF OFFICIALS

Year Ended December 31, 2011

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

<u>Other Officials</u>	<u>Position</u>
S. Robert Filler	Executive Director
W. Barry Rank	Counsel
Jacobs Environmental Consulting	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.

EWING-LAWRENCE SEWERAGE AUTHORITY

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended December 31, 2011

State Funding Department Program Title	Grant Number	Grant Period	Program or Loan Amount	Current Year's Expenditures	Cumulative Expenditures
* New Jersey Environmental Infrastructure Trust Financing Program	S340391-08	9/1/2010 - completion	\$ 9,106,810	\$ 2,191,705	\$ 2,191,705

*Denotes major program.

See note to the schedule of expenditures of state awards.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTE TO SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended December 31, 2011

Note 1. Basis of Presentation

The accompanying schedule of expenditures of state awards includes the state grant activity of the Authority and is presented on the accrual basis of accounting. 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 State of New Jersey OMB Circular Letter 04-04. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

EWING-LAWRENCE SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended December 31, 2011

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unqualified*

Internal control over financial reporting:

- Material weaknesses identified? _____ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

State Awards

Internal control over major programs:

- Material weaknesses identified? _____ yes X no
- Significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: *Unqualified*

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ yes X no

Identification of major programs:

<u>State Grant/Loan Account Number</u>	<u>Name of State Program or Cluster</u>
S340391-08	New Jersey Environmental Infrastructure Trust Financing Program

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ yes X no

All Federal and State payroll tax returns were filed in a timely manner, and all required tax payments were made.

Section II - Financial Statement Findings

None

Section III - State Award Findings and Questioned Costs

None

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, 2011, and have issued our report thereon dated July 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and 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.

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.

Amesbury, PC
Certified Public Accountants

July 30, 2012

INDEPENDENT AUDITORS' 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 LETTER 04-04

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

Compliance

We have audited the compliance of of Ewing-Lawrence Sewerage Authority (the "Authority") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 Compliance Supplement that are applicable to its major state program for the year ended December 31, 2011. The Authority's major state program is identified in the "Summary of Auditors' Results" section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major state program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements prescribed by the Department of Treasury, State of New Jersey; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and New Jersey OMB's Circular Letter 04-04. Those standards, OMB Circular A-133, and the State of New Jersey Circular Letter 04-04-OMB 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 state program occurred. 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. According, we express no such opinion. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary under the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major state program for the year ended December 31, 2011.

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INDEPENDENT AUDITORS' 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 LETTER 04-04 (CONTINUED)

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to state programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major state program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance but not for the purpose of expressing an opinion on the effectiveness on internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a 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 state program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended for the information of the Authority, its board members, management, the State of New Jersey, state awarding agency and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Macomber, PC
Certified Public Accountants
July 30, 2012