

EWING-LAWRENCE SEWERAGE AUTHORITY

FINANCIAL STATEMENTS

December 31, 2012

EWING-LAWRENCE SEWERAGE AUTHORITY

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Ewing-Lawrence Sewerage Authority (the "Authority") as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Auditors' Responsibility (Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages four through six 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.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of state awards is presented for purposes of additional analysis as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and State of New Jersey Circular Letter 04-04-OMB, and is not a required part of the basic financial statements. The schedule of expenditures of state awards is the responsibility of management and was derived from and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state awards 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 financial statements as a whole. The schedule of revenues, expenses and changes in net position, schedule of operating revenues and costs funded by operating revenues compared to budget, and the roster of officials are presented for purposes of additional analysis and are not a required part of the 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, except for the part marked "unaudited," has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Matters (Continued)

Other Supplementary Information (Continued)

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. The information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it. In our opinion, except for that portion marked "unaudited," the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our reports dated July 23, 2013, and July 30, 2012, for the years ended December 31, 2012 and 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 those 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 internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Amercador, PC
Certified Public Accountants

July 23, 2013

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, 2012 and 2011. 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 2012 and 2011.

FINANCIAL HIGHLIGHTS

Income (loss) from operations for the Authority was \$2,162,846 and \$(650,714) for the years ended December 31, 2012 and 2011, respectively. The Authority's net position was \$36,833,705 and \$35,498,699 at the close of 2012 and 2011, respectively, which represents an increase of approximately 3.8% in 2012.

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 position.

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

The statement of revenues, expenses and changes in net position presents information showing how net position changed during the fiscal year. All changes in net position 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 position, as well as comparisons to budget.

FINANCIAL ANALYSIS OF THE AUTHORITY

Cash balances were \$8,538,497 and \$8,377,364 at December 31, 2012 and 2011, respectively, and comprise the largest portion of the Authority's current assets and consist of unrestricted and restricted portions.

EWING-LAWRENCE SEWERAGE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

The increase in gross capital assets in 2012 of \$4,403,953 and in 2011 of \$3,013,523 related primarily to expenditures for the main pumping station and the Jacob's Creek project, respectively.

Net property and equipment balances were \$41,937,056 and \$39,240,387 at December 31, 2012 and 2011, respectively, and comprise the largest portion of the Authority's assets.

The Authority had \$2,265,000 and \$3,330,000 in revenue bonds payable outstanding as of December 31, 2012 and 2011, 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, 2012 and 2011, financial statements of the Authority:

Net Position

	<u>December 31,</u>	
	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 12,473,711	\$ 13,473,271
Capital assets	<u>41,937,056</u>	<u>39,240,387</u>
Total assets	<u>54,410,767</u>	<u>52,713,658</u>
Current liabilities, net of revenue bonds payable	4,378,409	4,248,648
Revenue bonds payable	2,144,187	3,152,270
Long-term portion of loan payable	9,248,650	8,451,977
Accrued post-employment benefits other than pensions	<u>1,805,816</u>	<u>1,362,064</u>
Total liabilities	<u>17,577,062</u>	<u>17,214,959</u>
Net Position		
Restricted		
Investment in capital assets, net of related debt	33,979,352	32,583,447
Other restricted	3,776,760	2,971,788
Deficit	<u>(922,407)</u>	<u>(56,536)</u>
Total net position	<u>\$ 36,833,705</u>	<u>\$ 35,498,699</u>

Change in Net Position

	<u>Year Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Operating revenues	\$ 14,495,131	\$ 11,761,422
Operating expenses, excluding depreciation	(10,599,992)	(10,509,455)
Depreciation	<u>(1,732,293)</u>	<u>(1,902,681)</u>
Income (loss) from operations	2,162,846	(650,714)
Non-operating revenues	678	1,146
Non-operating expenses	<u>(828,518)</u>	<u>(945,966)</u>
Change in net position	1,335,006	(1,595,534)
Net position, beginning of year	<u>35,498,699</u>	<u>37,094,233</u>
Net position, end of year	<u>\$ 36,833,705</u>	<u>\$ 35,498,699</u>

EWING-LAWRENCE SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

Cash Flows

	<u>Year Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Net cash from operating activities	\$ 3,548,665	\$ 1,503,882
Net cash from investing activities	(4,428,284)	(3,012,377)
Net cash from financing activities	<u>1,040,752</u>	<u>816,737</u>
Net change in cash and cash equivalents	<u>\$ 161,133</u>	<u>\$ (691,758)</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

STATEMENT OF NET POSITION

	December 31,	
	2012	2011
ASSETS		
Current Assets - Unrestricted		
Cash and cash equivalents	\$ 4,761,737	\$ 5,405,576
Interest receivable	4,818	4,232
Other receivables	<u>6,334</u>	<u>6,138</u>
Total Unrestricted	<u>4,772,889</u>	<u>5,415,946</u>
Current Assets - Restricted		
Debt service reserve account		
Cash and cash equivalents - debt service reserve account	<u>1,992,260</u>	<u>1,917,986</u>
Total debt service reserve account	1,992,260	1,917,986
Cash and cash equivalents - succeeding year budget	1,784,500	1,053,802
Funds held by Trustee	<u>3,878,155</u>	<u>5,016,443</u>
Total Restricted Assets	<u>7,654,915</u>	<u>7,988,231</u>
Total Current Assets	<u>12,427,804</u>	<u>13,404,177</u>
Property and Equipment, net	<u>41,937,056</u>	<u>39,240,387</u>
Other Assets		
Unamortized debt issuance costs	<u>45,907</u>	<u>69,094</u>
Total Assets	<u>\$54,410,767</u>	<u>\$52,713,658</u>

EWING-LAWRENCE SEWERAGE AUTHORITY
STATEMENT OF NET POSITION (CONTINUED)

	December 31,	
	2012	2011
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable - operations	\$ 460,844	\$ 560,845
Developers' performance bonds	258,045	258,045
Accrued post-employment benefits other than pensions- current portion	977,940	977,940
Loan payable - current portion	488,929	137,041
Revenue bonds payable - current portion	1,110,000	1,065,000
Accrued interest payable	63,293	82,814
Accrued liability for compensated absences	1,294,024	1,403,570
Engineering fee deposits	682,384	686,392
Other liabilities	<u>152,950</u>	<u>142,001</u>
Total Current Liabilities	<u>5,488,409</u>	<u>5,313,648</u>
Non-Current Liabilities		
Non-current portion of accrued post-employment benefits other than pensions	1,805,816	1,362,064
Non-current portion of loan payable	9,248,650	8,451,977
Non-current portion of revenue bonds payable	<u>1,034,187</u>	<u>2,087,270</u>
Total Non-Current Liabilities	<u>12,088,653</u>	<u>11,901,311</u>
Total Liabilities	<u>17,577,062</u>	<u>17,214,959</u>
Net Position		
Restricted		
Investment in capital assets, net of related debt	33,979,352	32,583,447
Future debt service	1,992,260	1,917,986
Succeeding year budget	1,784,500	1,053,802
Deficit	<u>(922,407)</u>	<u>(56,536)</u>
Total Net Position	<u>36,833,705</u>	<u>35,498,699</u>
Total Liabilities and Net Position	<u>\$54,410,767</u>	<u>\$52,713,658</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	<u>Year Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Operating revenues		
Service agreements	\$ 13,166,369	\$ 11,634,229
Other developer contributions	28,125	-
Connection fees	1,231,435	49,802
Inspection fees	400	500
Interest	1,249	3,528
Miscellaneous	<u>67,553</u>	<u>73,363</u>
Total operating revenues	<u>14,495,131</u>	<u>11,761,422</u>
Operating expenses		
Costs of providing services	8,496,023	8,383,035
Administrative and general	1,105,663	1,076,037
County sludge facilities	998,306	1,050,383
Depreciation	<u>1,732,293</u>	<u>1,902,681</u>
Total operating expenses	<u>12,332,285</u>	<u>12,412,136</u>
Income (loss) from operations	<u>2,162,846</u>	<u>(650,714)</u>
Non-operating revenues (expenses)		
Interest income	678	1,146
Interest expense	(162,767)	(282,842)
Amortization of loss on defeasance	(55,729)	(53,102)
Amortization of debt issuance costs	(23,187)	(23,187)
Amortization of post employment benefits other than pensions	<u>(586,835)</u>	<u>(586,835)</u>
Total non-operating expenses, net	<u>(827,840)</u>	<u>(944,820)</u>
Change in net position	1,335,006	(1,595,534)
Net position, beginning of year	<u>35,498,699</u>	<u>37,094,233</u>
Net position, end of year	<u>\$ 36,833,705</u>	<u>\$ 35,498,699</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2012	2011
Cash Flows from Operating Activities		
Cash received from		
Service agreements	\$13,166,369	\$11,634,229
Contributions for system improvements	28,125	150,000
Connection fees	1,231,435	49,802
Inspection fees	400	500
Interest income	663	2,191
Miscellaneous revenue	67,357	71,364
Cash used for		
Costs of providing services	(8,841,715)	(8,277,783)
Administrative and general	(1,105,663)	(1,076,038)
County sludge facilities	(998,306)	(1,050,383)
Net cash from operating activities	<u>3,548,665</u>	<u>1,503,882</u>
Cash Flows from Investing Activities		
Interest income	678	1,146
Purchases of property and equipment	<u>(4,428,962)</u>	<u>(3,013,523)</u>
Net cash from investing activities	<u>(4,428,284)</u>	<u>(3,012,377)</u>
Cash Flows from Financing Activities		
Repayments of loans	(137,041)	(131,645)
Proceeds from loans	2,423,890	2,191,705
Repayments of bond principal	(1,065,000)	(1,015,000)
Payment of bond interest	<u>(181,097)</u>	<u>(228,323)</u>
Net cash from financing activities	<u>1,040,752</u>	<u>816,737</u>
Net change in cash and cash equivalents	161,133	(691,758)
Cash and cash equivalents, beginning of year	<u>8,377,364</u>	<u>9,069,122</u>
Cash and cash equivalents, end of year	<u>\$ 8,538,497</u>	<u>\$ 8,377,364</u>
The following is a summary of the Authority's cash and cash equivalents		
Cash on hand	\$ 300	\$ 300
Checking accounts	199,474	153,319
Bank trust accounts	<u>8,338,723</u>	<u>8,223,745</u>
Total cash and cash equivalents	<u>\$ 8,538,497</u>	<u>\$ 8,377,364</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

STATEMENT OF CASH FLOWS (CONTINUED)

	<u>Year Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Income (loss) from operations	\$ 2,162,846	\$ (650,714)
Adjustments		
Depreciation	1,732,293	1,902,681
Accrual for normal cost of other post-employment benefits	(143,083)	(116,148)
Changes in assets and liabilities		
Contributions receivable	-	150,000
Interest receivable	(586)	(1,337)
Other receivables	(196)	(1,997)
Accounts payable - operations	(100,001)	190,604
Accrued liability for compensated absences	(109,546)	25,050
Engineering fee deposits	(4,008)	1,710
Other liabilities	<u>10,946</u>	<u>4,033</u>
Net cash from operating activities	<u>\$ 3,548,665</u>	<u>\$ 1,503,882</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, 2012 and 2011, 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, 2012 and 2011, 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 GASB 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 statement of revenues, expenses and changes in net position. 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, 2012 and 2011, 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, 2010B and 2012A 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, 2012 and 2011, amounted to \$290,718 and \$267,532, 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, 2012 and 2011.

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, 2012 and 2011, were \$8,789,537 and \$8,793,292, 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:

	2012		2011	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Bank of New York	\$ 5,640,340	\$ 5,640,340	\$ 6,145,087	\$ 6,145,088
TD Bank	138,758	138,758	251,995	639,541
PNC Bank	124,513	124,513	124,371	124,371
Wells Fargo	1,851,026	1,883,772	1,855,611	1,884,292
Sovereign Bank	783,560	1,002,154	-	-
Cash on hand	300	-	300	-
Total	<u>\$ 8,538,497</u>	<u>\$ 8,789,537</u>	<u>\$ 8,377,364</u>	<u>\$ 8,793,292</u>

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>2012</u>	<u>2011</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	49,467,450	49,021,416
Construction in progress	<u>7,517,557</u>	<u>3,559,638</u>
Subtotal	82,697,237	78,293,284
Accumulated depreciation	<u>40,760,181</u>	<u>39,052,897</u>
Total	<u>\$41,937,056</u>	<u>\$39,240,387</u>

Capital asset activities were as follows:

	<u>December 31, 2012</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions/ Retirements</u>	<u>Ending Balance</u>
Non-Depreciable Assets				
Land	\$ 461,112	\$ -	\$ -	\$ 461,112
Construction in progress	3,559,638	3,957,919	-	7,517,557
Depreciable Assets				
Land improvements	2,171,499	-	-	2,171,499
Building and building improvements	23,079,619	-	-	23,079,619
Machinery and equipment	<u>49,021,416</u>	<u>471,043</u>	<u>25,009</u>	<u>49,467,450</u>
Total at historical cost	78,293,284	4,428,962	25,009	82,697,237
Less accumulated depreciation	<u>39,052,897</u>	<u>1,732,293</u>	<u>25,009</u>	<u>40,760,181</u>
Total capital assets	<u>\$39,240,387</u>	<u>\$ 2,696,669</u>	<u>\$ -</u>	<u>\$41,937,056</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

C. PROPERTY AND EQUIPMENT (CONTINUED)

	December 31, 2011			
	Beginning Balance	Additions	Reductions/ Retirements	Ending Balance
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	48,481,655	539,761	-	49,021,416
Total at historical cost	75,279,761	3,013,523	-	78,293,284
Less accumulated depreciation	37,150,216	1,902,681	-	39,052,897
Total capital assets	<u>\$38,129,545</u>	<u>\$ 1,110,842</u>	<u>\$ -</u>	<u>\$39,240,387</u>

Depreciation expense was as follows:

	Year Ended December 31,	
	2012	2011
Land improvements	\$ 42,667	\$ 42,667
Building and building improvements	469,353	558,366
Machinery and equipment	1,220,273	1,301,648
Total depreciation expense	<u>\$ 1,732,293</u>	<u>\$ 1,902,681</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	2012			
		Beginning Balance	Additions	Reductions	Ending Balance
1998 Serial Revenue Bonds, 3.65%- 5.00%	2011-2014	\$ 1,145,000	\$ -	\$ 365,000	\$ 780,000
2002 Serial Revenue Bonds, 3.00%- 4.40%	2011-2014	2,185,000	-	700,000	1,485,000
Subtotal bonds payable		3,330,000	-	1,065,000	2,265,000
Less deferred loss on defeasance		(177,730)	-	(56,917)	(120,813)
Total		3,152,270	-	1,008,083	2,144,187
Less current portion		1,065,000	45,000	-	1,110,000
Net non-current portion		<u>\$ 2,087,270</u>	<u>\$ (45,000)</u>	<u>\$ 1,008,083</u>	<u>\$ 1,034,187</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

D. BONDS AND LOAN PAYABLE (CONTINUED)

Bonds Payable	Maturity Dates	2011			Ending Balance
		Beginning Balance	Additions	Reductions	
1998 Serial Revenue Bonds, 3.65%-5.00%	2010-2014	\$ 1,495,000	\$ -	\$ 350,000	\$ 1,145,000
2002 Serial Revenue Bonds, 3.00%-4.40%	2010-2014	2,850,000	-	665,000	2,185,000
Subtotal bonds payable		4,345,000	-	1,015,000	3,330,000
Less deferred loss on defeasance		(230,832)	-	(53,102)	(177,730)
Total		4,114,168	-	961,898	3,152,270
Less current portion		1,015,000	50,000	-	1,065,000
Net non-current portion		<u>\$ 3,099,168</u>	<u>\$ (50,000)</u>	<u>\$ 961,898</u>	<u>\$ 2,087,270</u>

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

	Principal	Interest	Total
2013	\$ 1,110,000	\$ 103,230	\$ 1,213,230
2014	1,155,000	53,190	1,208,190
	<u>\$ 2,265,000</u>	<u>\$ 156,420</u>	<u>\$ 2,421,420</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, 2012, are as follows:

2013	\$ 755,000
2014	805,000
	<u>\$ 1,560,000</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 GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt reported by Proprietary Activities*. The unamortized deferred loss on defeasance amounting to \$120,813 and \$177,730 at December 31, 2012 and 2011, respectively, is included in the financial statements as a reduction of revenue bonds payable. Amortization expense amounted to \$55,729 and \$53,102 for the years ended December 31, 2012 and 2011, 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, 2012 and 2011, the Authority maintained a loan balance of \$9,737,579 and \$8,589,018, respectively, through the New Jersey Environmental Infrastructure Trust financing program. The amount available through the program at December 31, 2012 and 2011, was \$3,878,155 and \$5,016,443, respectively, and is recorded as funds held by Trustee on the statement of net position. The total maturities, including interest, for the loan for the years ending December 31 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 488,929	\$ 289,640	\$ 778,569
2014	500,063	277,940	778,003
2015	510,252	266,340	776,592
2016	526,678	254,140	780,818
2017	539,733	241,140	780,873
2018 to 2022	2,775,561	973,200	3,748,761
2023 to 2027	2,660,470	532,663	3,193,133
2028 to 2031	<u>1,735,893</u>	<u>115,120</u>	<u>1,851,013</u>
Total	<u>\$ 9,737,579</u>	<u>\$ 2,950,183</u>	<u>\$12,687,762</u>

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 2012 and 2011 were \$417,518 and \$414,359, 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 GASB 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 2012 and 2011 were \$977,940, assuming a 30-year amortization of the actuarial accrued liability.
- During 2012 and 2011, the Authority paid \$534,188 and \$507,251 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, 2012 and 2011.

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>2012</u>	<u>2011</u>
Cash and investment balance	\$ 1,992,260	\$ 1,917,986
Debt service reserve required balance	<u>1,991,799</u>	<u>1,917,423</u>
Excess	<u>\$ 461</u>	<u>\$ 563</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, 2012 and 2011, the total outstanding bonds of MCIA in connection with the regional sludge facilities amounted to \$8,569,936 and \$11,156,764, 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 2012 and 2011 amounted to \$998,306 and \$1,050,383, 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 expires December 31, 2014.

K. CAPITAL PROGRAM

Expected capital program expenditures budgeted from 2013 through 2017 approximate \$38.8 million.

L. SUBSEQUENT EVENTS

Management has evaluated events that occurred after December 31, 2012, but before July 23, 2013, 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 POSITION

Year Ended December 31, 2012
(With Comparative Totals for 2011)

	2012				2011		
	Unreserved (Deficit)	Future Debt Service	Current Debt Service	Improvement Fund	Succeeding Year Budget	Investment in Property, Plant and Equipment	Total
Operating Revenues							
Service agreements	\$ 13,166,369	-	-	-	-	-	\$ 13,166,369
Contributions for system improvements	-	-	-	28,125	-	-	28,125
Connection fees	1,231,435	-	-	-	-	-	1,231,435
Inspection fees	400	-	-	-	-	-	400
Interest	1,249	-	-	-	-	-	1,249
Miscellaneous	67,553	-	-	-	-	-	67,553
Total operating revenues	14,467,006	-	-	28,125	-	-	14,495,131
Operating Expenses							
Costs of providing services	8,496,023	-	-	-	-	-	8,496,023
Administrative and general	1,105,663	-	-	-	-	-	1,105,663
County sludge facilities	998,306	-	-	-	-	-	998,306
Depreciation and amortization	-	-	-	-	-	1,732,293	1,732,293
Total operating expenses	10,599,992	-	-	-	-	1,732,293	12,332,285
Income (loss) from operations	3,867,014	-	-	28,125	-	(1,732,293)	2,162,846
Non-operating revenues (expenses)							
Interest income	-	612	-	-	-	-	678
Interest expense	-	-	(162,767)	-	-	-	(162,767)
Amortization of loss on defeasance	-	-	(55,729)	-	-	-	(55,729)
Amortization of debt issuance costs	-	-	-	-	-	(23,187)	(23,187)
Amortization of post employment benefits	(586,835)	-	-	-	-	-	(586,835)
Total non-operating revenues (expenses)	(586,835)	612	(218,496)	66	-	(23,187)	(827,840)
Income (loss) before transfers	3,280,179	612	(218,496)	28,191	-	(1,755,480)	1,335,006
Transfers	(4,146,050)	73,662	218,496	(28,191)	730,698	3,151,385	-
Change in net position	(865,871)	74,274	-	-	730,698	1,395,905	1,335,006
Net position, beginning of year	(56,536)	1,917,986	-	-	1,053,802	32,583,447	35,498,699
Net position, end of year	(922,407)	\$ 1,992,260	\$ -	\$ -	\$ 1,784,500	\$ 33,979,352	\$ 36,833,705

EWING-LAWRENCE SEWERAGE AUTHORITY

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

Year Ended December 31, 2012

	2012 Budget as Amended*	2012 Actual
Revenues		
Retained earnings appropriated	\$ 1,053,802	\$ 1,053,802
Service agreements	13,166,369	13,166,369
Contributions for system improvements	-	28,125
Connection fees	200,000	1,231,435
Inspection fees	1,000	400
Developer applications	5,000	9,200
Interest	40,000	1,249
Miscellaneous	40,000	58,353
Total operating revenues	<u>\$14,506,171</u>	<u>\$15,548,933</u>
Expenses		
Cost of providing services		
Labor	\$ 3,368,000	\$ 3,214,139
Employee benefits	2,180,000	1,866,595
Material and supplies	962,500	687,280
Contracted services	86,000	70,188
Repairs and maintenance	601,030	533,965
Sludge disposal	715,000	575,293
Utilities	1,526,300	1,101,957
Professional fees	100,000	110,419
Remediation	200,000	175,999
Compliance	15,000	12,331
Industrial waste water pre-treatment program		
Labor	70,500	71,845
Other	210,000	76,012
	<u>10,034,330</u>	<u>8,496,023</u>
Administrative and general		
Labor	579,000	583,780
Materials and supplies	28,000	34,305
Contracted services	354,000	182,698
Insurance	344,000	304,880
	<u>1,305,000</u>	<u>1,105,663</u>
Interest expense		
	<u>200,425</u>	<u>162,766</u>
Other costs funded by operating revenues		
Principal maturity	1,202,041	1,065,000
Capital outlays	601,000	4,428,962
Future debt service	140,247	-
County sludge facilities	1,000,000	998,306
Amortization of loss on defeasance	-	55,729
Amortization of debt issue costs	23,128	23,186
Amortization of post employment benefits	-	586,835
	<u>2,966,416</u>	<u>7,158,018</u>
Total costs funded by operating revenues	14,506,171	16,922,470
Excess	-	(1,373,537)
Total	<u>\$14,506,171</u>	<u>\$15,548,933</u>

*UNAUDITED

EWING-LAWRENCE SEWERAGE AUTHORITY

ROSTER OF OFFICIALS (UNAUDITED)

Year Ended December 31, 2012

<u>Board Members</u>	<u>Position</u>
Charles Geter	Chair
Joseph Cermele	Vice Chair
Raymond J. DiFrancesco	Treasurer
Harold Vereen	Assistant Treasurer
Anne Zamonski	Secretary
Pasquale "Pat" Colavita	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, 2012

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 - Series 2010B	S340391-08	09/01/10 - completion	\$ 9,106,810	\$ 1,297,126	\$ 3,488,831
* New Jersey Environmental Infrastructure Trust Financing Program - Series 2012A	S340391-09	03/01/12 - completion	1,285,602	1,126,764	1,126,763
			<u>\$ 10,392,412</u>	<u>\$ 2,423,890</u>	<u>\$ 4,615,594</u>

*Denotes major program.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTE TO SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended December 31, 2012

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 Circular Letter 04-04-OMB. 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, 2012

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: ***Unmodified***

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: ***Unmodified***

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 - Series 2010B
S340391-09	New Jersey Environmental Infrastructure Trust Financing Program - Series 2012A

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, 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, the financial statements of Ewing-Lawrence Sewerage Authority (the "Authority") as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated July 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the basic financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purposes of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

- ◊ AN INDEPENDENTLY OWNED MEMBER,
MCGLADREY ALLIANCE
- ◊ AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- ◊ NEW JERSEY SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- ◊ NEW YORK SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS
- ◊ PENNSYLVANIA INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
- ◊ AICPA'S PRIVATE COMPANIES PRACTICE
SECTION
- ◊ AICPA'S CENTER FOR AUDIT QUALITY
- ◊ REGISTERED WITH THE PCAOB

CELEBRATING 50 YEARS OF LEADING BY EXAMPLE

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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 from material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect of 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Amercador, P.C.
Certified Public Accountants

July 23, 2013

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF STATE AWARDS REQUIRED BY OMB CIRCULAR A-133 AND STATE OF NEW JERSEY CIRCULAR LETTER 04-04-OMB

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

Report on Compliance for Each Major State Program

We have audited the Ewing-Lawrence Sewerage Authority's (the "Authority") compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* and State of New Jersey Circular Letter 04-04-OMB that could have a direct and material effect on each of the Authority's major state programs for the year ended December 31, 2012. The Authority's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its state programs.

Auditors' Responsibility

Our responsibility is to express opinions on compliance for each of the Authority's major state programs based on our audit of the types of compliance requirements referred to above. 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; and OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*; and State of New Jersey Circular Letter 04-04-OMB. Those standards and circulars 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 examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Authority's compliance.

- AN INDEPENDENTLY OWNED MEMBER,
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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE
OF EXPENDITURES OF STATE AWARDS REQUIRED BY OMB CIRCULAR A-133 AND STATE
OF NEW JERSEY CIRCULAR LETTER 04-04-OMB**

Opinion on Each Major State Program

In our opinion, the Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended December 31, 2012.

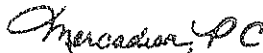
Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and State of New Jersey Circular Letter 04-04-OMB, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the result of that testing based on the requirements of OMB Circular A-133 and State of New Jersey Circular Letter 04-04-OMB. Accordingly, this report is not suitable for any other purposes.


Mercaderes, PC
Certified Public Accountants
July 23, 2013