

EWING-LAWRENCE SEWERAGE AUTHORITY
FINANCIAL STATEMENTS
December 31, 2013

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, 2013 and 2012, 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, 2013 and 2012, 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 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 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of expenditures of federal and state awards are 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 schedules of expenditures of federal and state awards are the responsibility of management and was derived from and relates directly to, the underlying accounting and other records used to prepare the basic

Other Matters (Continued)

Other Supplementary Information (Continued)

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 schedules of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic 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 24, 2014, and July 30, 2013, for the years ended December 31, 2013 and 2012, 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.

Muradina, P.C.
Certified Public Accountants

July 24, 2014

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, 2013 and 2012. 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 2013 and 2012.

FINANCIAL HIGHLIGHTS

Income from operations for the Authority was \$1,942,489 and \$2,162,846 for the years ended December 31, 2013 and 2012, respectively. The Authority's net position was \$39,068,036 and \$37,327,871 at the close of 2013 and 2012, respectively, which represents an increase of approximately 4.0% in 2013.

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 \$10,903,154 and \$8,538,497 at December 31, 2013 and 2012, 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 2013 of \$2,577,976 and in 2012 of \$4,428,962 related primarily to expenditures for the Scotch Road relief sewer and the Jacob's Creek project, respectively.

Net property and equipment balances were \$42,832,530 and \$41,937,056 at December 31, 2013 and 2012, respectively, and comprise the largest portion of the Authority's assets.

The Authority had \$10,768,650 and \$12,002,579 in revenue bonds and NJEIT loans outstanding as of December 31, 2013 and 2012, 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, 2013 and 2012, financial statements of the Authority:

Condensed Statement of Net Position

	2013	2012	2011	2013-2012	2013-2012
Current assets	\$ 13,631,375	\$ 14,326,465	\$ 15,187,593	\$ (695,090)	Increase/ (Decrease)
Capital assets	42,832,530	41,937,056	39,240,387	895,474	2.14%
Deferred outflows of resources	64,956	166,721	184,340	(101,765)	(61.04)%
Total assets and deferred outflows of resources	56,528,861	56,430,242	54,612,320	98,619	0.17%
Current liabilities, net of bonds and loans payable	3,796,426	3,889,481	3,933,877	(93,055)	(2.39)%
Bonds and loans payable	10,768,650	12,002,579	11,919,018	(1,233,929)	(10.28)%
Accrued post-employment benefits other than pensions	2,216,654	1,805,816	1,362,064	410,838	22.75%
Unearned AFRAs forgiveness	679,095	1,404,495	1,728,777	(725,400)	(61.65)%
Total liabilities	17,460,825	19,102,371	18,943,736	(1,641,546)	(8.59)%
Net Position	39,068,036	37,327,871	35,668,584	1,740,165	4.66%
Restricted investment in capital assets, net of related debt	34,845,216	33,979,352	32,583,447	865,864	2.55%
Other restricted	3,692,676	3,776,760	2,971,788	(84,084)	(2.23)%
Unrestricted (deficit)	530,144	(428,241)	113,349	958,385	(223.80)%
Total net position	\$ 39,068,036	\$ 37,327,871	\$ 35,668,584	\$ 1,740,165	4.66%
Total liabilities and net position	\$ 56,528,861	\$ 56,430,242	\$ 54,612,320	\$ 1,740,165	3.08%

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2013	2012	2011	2013-2012	2013-2012
Operating revenues	\$ 14,171,396	\$ 14,495,131	\$ 11,761,422	\$ (323,735)	(2.23)%
Operating expenses, excluding depreciation	(10,546,405)	(10,599,992)	(10,509,455)	(53,587)	(0.51)%
Depreciation	(1,682,502)	(1,732,293)	(1,902,681)	(49,791)	(2.87)%
Income (loss) from operations	1,942,489	2,162,846	(650,714)	(220,357)	(10.19)%
Non-operating revenues	894,849	324,959	549,072	569,890	175.37%
Non-operating expenses	(1,097,173)	(828,518)	(945,966)	(268,655)	32.43%
Change in net position	1,740,165	1,659,287	(1,047,608)	80,878	4.87%
Net position, beginning of year	37,327,871	35,668,584	36,716,192	1,659,287	4.65%
Net position, end of year	\$ 39,068,036	\$ 37,327,871	\$ 35,668,584	\$ 1,740,165	4.66%

**EWING-LAWRENCE SEWERAGE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS**

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

Cash Flows

Year Ended December 31,		2013			2012			2011			2013-2012			2013-2012		
Net cash from operating activities	Net cash from investing activities	Net cash from financing activities	Net change in cash and cash equivalents	%	Increase/ (Decrease)	%	Increase/ (Decrease)	%	Increase/ (Decrease)	%	Increase/ (Decrease)	%	Increase/ (Decrease)	%		
															2013	2012
\$ 3,319,794	\$ (2,577,353)	\$ 1,040,752	\$ 2,364,657	(6.45)%	(2,577,353)	(41.80)%	1,040,752	55.87%	\$ 1,503,882	\$ (228,871)	\$ (91,758)	\$ 2,203,524	\$ 1,367.52%	\$ 1,850,931	\$ 581,464	

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

ASSETS	
December 31,	
2013	2012
Unrestricted	
Cash and cash equivalents	\$ 7,210,478
Interest receivable	6,042
Other receivables	5,797
Total Unrestricted Assets	7,222,317
Restricted	
Cash and cash equivalents - debt service reserve	2,492,676
Cash and cash equivalents - succeeding year budget	1,200,000
Funds held by trustee	2,716,382
Total Restricted Assets	6,409,058
Total Current Assets	13,631,375
Property and equipment, net	42,832,530
Total Assets	56,463,905
Deferred Outflows of Resources-loss on refunding	64,956
Total Assets and Deferred Outflows of Resources	\$56,528,861
	\$56,430,242

See notes to financial statements.

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

December 31,	
2013	2012*
LIABILITIES AND NET POSITION	
Current Liabilities	
Accounts payable - operations	\$ 354,333
Developers' performance bonds	258,045
Accrued post-employment benefits other than pensions	977,940
Loan payable	1,000,063
Revenue bonds payable	1,110,000
Accrued interest payable	98,751
Accrued liability for compensated absences	1,271,579
Engineering fee deposits	688,499
Other liabilities	147,279
Total Current Liabilities	5,951,489
Non-Current Liabilities	
Accrued post-employment benefits other than pensions	1,805,816
Loan payable	9,248,650
Revenue bonds payable	-
Unearned ARRA principal forgiveness	679,095
Total Non-Current Liabilities	11,509,336
Total Liabilities	17,460,825
Net Position	
Restricted	
Investment in capital assets, net of related debt	34,845,216
Future debt service	2,492,676
Succeeding year budget	1,200,000
Unrestricted	530,144
Total Net Position	39,068,036
Total Liabilities and Net Position	\$56,528,861
	<u>37,327,871</u>
	<u>\$56,430,242</u>

*Restated, see Note M.

See notes to financial statements.

EWING-LAWRENCE SEWERAGE AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended December 31,	2013	2012*
Operating revenues	\$ 13,437,514	\$ 13,166,369
Service agreements	350,230	28,125
Contributions for system improvements	306,368	1,231,435
Connection fees	400	400
Inspection fees	25,140	9,200
Developer applications	1,046	1,249
Interest	50,698	58,353
Miscellaneous	14,171,396	14,495,131
Total operating revenues	14,942,489	14,495,131
Operating expenses	8,367,172	8,496,023
Costs of providing services	1,112,052	1,105,663
Administrative and general	1,067,181	998,306
County sludge facilities	1,682,502	1,732,293
Total operating expenses	12,228,907	12,332,285
Income from operations	2,713,582	2,162,846
Non-operating revenues (expenses)	623	678
Interest income	(408,573)	(162,767)
Interest expense	(58,060)	(55,729)
Amortization of loss on defeasance	(43,705)	(23,187)
Amortization of debt issuance costs	(586,835)	(586,835)
Amortization of post employment benefits	882,276	324,281
other than pensions	11,950	-
ARRA principal forgiveness	(202,324)	(503,559)
Gain on disposal of property and equipment	1,740,165	1,659,287
Total non-operating expenses, net	37,327,871	35,498,699
Change in net position	169,885	169,885
Net position, beginning of year	37,327,871	35,668,584
Net position, beginning of year, restated	39,068,036	37,327,871
Net position, end of year	\$ 37,327,871	\$ 37,327,871

*Restated, see Note M.

See notes to financial statements.

EWING-LAWRENCE SEWERAGE AUTHORITY
STATEMENT OF CASH FLOWS

	<u>2013</u>	<u>2012</u>
Year Ended December 31,		
Cash Flows from Operating Activities		
Cash received from		
Service agreements	\$13,437,514	\$13,166,369
Contributions for system improvements	350,230	28,125
Connection fees	306,368	1,231,435
Inspection fees	400	400
Interest income	1,046	663
Miscellaneous revenue	88,326	67,357
Cash used for		
Costs of providing services	(8,684,857)	(8,841,715)
Administrative and general	(1,112,052)	(1,105,663)
County sludge facilities	(1,067,181)	(998,306)
Net cash from operating activities	3,319,794	3,548,665
Cash Flows from Investing Activities		
Interest income	623	678
Purchases of property and equipment	(2,577,976)	(4,428,962)
Net cash from investing activities	(2,577,353)	(4,428,284)
Cash Flows from Financing Activities		
Repayments of loans	(624,009)	(137,041)
Proceeds from loans	500,000	2,423,890
Funds held by trustee	3,229,340	-
Repayments of bond principal	(1,110,000)	(1,065,000)
Payment of bond interest	(373,115)	(181,097)
Net cash from financing activities	1,622,216	1,040,752
Net change in cash and cash equivalents	2,364,657	161,133
Cash and cash equivalents, beginning of year	8,538,497	8,377,364
Cash and cash equivalents, end of year	<u>\$10,903,154</u>	<u>\$ 8,538,497</u>

The following is a summary of the Authority's cash and cash equivalents

Cash on hand	\$ 300	\$ 300
Checking accounts	119,015	199,474
Bank trust accounts	10,783,839	8,338,723
Total cash and cash equivalents	<u>\$10,903,154</u>	<u>\$ 8,538,497</u>

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

Year Ended December 31,	2013	2012
Cash Flows from Operating Activities		
Income from operations	\$ 1,942,489	\$ 2,162,846
Adjustments to reconcile income from operations to net cash from operating activities		
Depreciation	1,682,502	1,732,293
Accrual for normal cost of other post-employment benefits	(175,997)	(143,083)
Changes in assets and liabilities		
Interest receivable	(1,224)	(586)
Other receivables	537	(196)
Accounts payable - operations	(106,511)	(100,001)
Accrued liability for compensated absences	(22,445)	(109,546)
Engineering fee deposits	6,115	(4,008)
Other liabilities	(5,672)	10,946
Net cash from operating activities	\$ 3,319,794	\$ 3,548,665

See notes to financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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 ("U.S. GAAP") applicable to governmental proprietary type funds.

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, 2013 and 2012, 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, 2013 and 2012, were covered by the Federal Deposit Insurance Corporation (the "FDIC") or by the New Jersey Governmental Unit Deposit Protection Act.

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 the 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 U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2013 and 2012, the Authority's investments consisted of cash equivalents.

Property and Equipment

Land and land improvements, buildings and building improvements, and machinery and equipment over \$10,000 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.

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2012A and 2013 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.

Unearned ARRA Principal Forgiveness

A portion of the 2010 NJEIT loan proceeds include ARRA principal forgiveness, which is financial assistance in the form of forgiveness of loan principal. The unearned principal forgiveness is recognized based on twenty-five percent of loan program expenditures made during the year.

Deferred Outflows of Resources

The Authority has performed advanced refundings. The difference between the reacquisition price and the net carrying amounts of the old debt are deferred and amortized over the remaining life of the old or new debt, whichever is shorter.

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

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 OPB cost equal to the annual required contribution and recognize the unfunded accrued actuarial liability over an amortization period of thirty years.

Reclassification of Prior Year Balances

Certain prior year balances have been reclassified to conform with the current year's presentation.

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, 2013 and 2012, were \$11,019,959 and \$8,789,537, 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.

B. CASH AND CASH EQUIVALENTS (CONTINUED)

Custodial Credit Risk (Continued)

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

	2013	2012
Bank of New York	\$ 7,985,704	\$ 5,640,340
TD Bank	-	138,758
PNC Bank	124,778	124,513
Wells Fargo	1,851,037	1,883,772
Santander	941,335	1,002,154
Cash on hand	300	300
Total	\$10,903,154	\$ 8,789,537

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:

	2013	2012
Land	\$ 461,112	\$ 461,112
Land improvements	2,171,499	2,171,499
Buildings and building improvements	22,952,379	23,079,619
Machinery and equipment	49,494,101	49,467,450
Construction in progress	8,892,935	7,517,557
Subtotal	83,972,026	82,697,237
Accumulated depreciation	41,139,497	40,760,181
Total	\$42,832,530	\$41,937,056

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

C. PROPERTY AND EQUIPMENT (CONTINUED)

Capital asset activities were as follows:

December 31, 2013			
Non-Depreciable Assets	Land	Construction in progress	Depreciable Assets
Beginning Balance	Additions	Retirements/Reductions	Ending Balance
\$ 461,112	\$ -	\$ -	\$ 461,112
7,517,557	1,375,378	-	8,892,935
2,171,499	-	-	2,171,499
23,079,619	-	127,240	22,952,379
49,467,450	1,202,598	1,175,947	49,494,101
82,697,237	2,577,976	1,303,187	83,972,026
40,760,181	1,682,502	1,303,187	41,139,496
\$41,937,056	\$ 895,474	\$ -	\$42,832,530
December 30, 2012			
Non-Depreciable Assets	Land	Construction in progress	Depreciable Assets
Beginning Balance	Additions	Retirements/Reductions	Ending Balance
\$ 461,112	\$ -	\$ -	\$ 461,112
3,559,638	3,957,919	-	7,517,557
2,171,499	-	-	2,171,499
23,079,619	-	-	23,079,619
49,021,416	471,043	25,009	49,467,450
78,293,284	4,428,962	25,009	82,697,237
39,052,897	1,732,293	25,009	40,760,181
\$39,240,387	\$ 2,696,669	\$ -	\$41,937,056

Depreciation expense was as follows:

Year Ended December 31,	
2013	2012
\$ 42,667	\$ 42,667
468,590	469,353
1,171,245	1,220,273
\$ 1,682,502	\$ 1,732,293
Land improvements	
Building and building improvements	
Machinery and equipment	
Total depreciation expense	

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

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:

2013		2012	
Bonds Payable	Interest	Bonds Payable	Interest
1998 Serial Revenue Bonds	3.65%	1998 Serial Revenue Bonds	3.65%
2011-2014	5.00%	2010-2014	5.00%
2011-2014	3.00%	2010-2014	3.00%
2011-2014	4.40%	2010-2014	4.40%
Subtotal bonds payable		Subtotal bonds payable	
2,265,000		3,330,000	
1,110,000		1,065,000	
1,155,000		2,265,000	
Less current portion		Less current portion	
(45,000)		45,000	
\$ 1,110,000		\$ 1,065,000	
Net non-current portion		Net non-current portion	
\$ 1,155,000		\$ 1,155,000	
Beginning Balance	Additions	Beginning Balance	Additions
780,000	-	1,145,000	-
385,000	-	365,000	-
725,000	-	700,000	-
1,110,000	-	1,065,000	-
1,155,000	-	2,265,000	-
1,110,000	-	1,110,000	-
45,000	-	45,000	-
(45,000)	-	(45,000)	-
\$ 1,110,000		\$ 1,065,000	
Ending Balance	Reductions	Ending Balance	Reductions

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

2014	Principal	Interest	Total
	\$ 1,155,000	\$ 53,190	\$ 1,208,190

D. BONDS AND LOAN PAYABLE (CONTINUED)

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, 2013, are as follows:

2014	\$ 805,000
------	------------

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. The unamortized deferred loss on defeasance amounting to \$64,956 and \$166,721 at December 31, 2013 and 2012, respectively, is included in the financial statements as a reduction of revenue bonds payable. Amortization expense amounted to \$58,060 and \$55,729 for the years ended December 31, 2013 and 2012, respectively. During 2013 outstanding bond issuance costs of \$43,705 were expensed to comply with new government accounting standards.

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

Loan Payable

As of December 31, 2013 and 2012, the Authority maintained a loan balance of \$9,613,650 ("NJ-EIT") financing program. The amount available through the program at December 31, 2013 and 2012, was \$2,716,382 and \$5,776,816, 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:

2014*	\$ 1,000,063	\$ 272,065	\$ 1,272,128
2015	510,252	260,465	770,717
2016	526,678	248,265	774,943
2017	539,733	235,265	774,998
2018	555,543	220,765	776,308
2019 to 2023	2,758,111	859,825	3,617,936
2024 to 2028	2,525,470	441,225	2,966,695
2029 to 2031	1,197,799	59,105	1,256,904
Total	\$ 9,613,650	\$ 2,596,980	\$12,210,630

*The 2014 principal amount includes an NJ-EIT interim loan in the amount of \$500,000. This loan will be refinanced in 2014.

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 2013 and 2012 were \$412,785 and \$417,518, respectively.

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* ("OPFB"). 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 OPFB cost for 2013 and 2012 were \$977,940, assuming a 30-year amortization of the actuarial accrued liability.
- During 2013 and 2012, the Authority paid \$567,102 and \$534,188 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.

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

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.
- 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, 2013 and 2012.

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":

December 31,	
2013	2012
\$ 2,492,676	\$ 1,992,260
2,480,318	1,991,799
<u>\$ 12,358</u>	<u>\$ 461</u>
Cash and investment balance	Cash and investment balance
Debt service reserve required balance	Debt service reserve required balance
Excess	Excess

I. COMMITMENTS AND CONTINGENCIES

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

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

I. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 MCI/A 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 MCI/A for regional facilities shall be apportioned among the participants on a basis as described in the agreement.

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

As of December 31, 2013 and 2012, the total outstanding bonds of MCI/A in connection with the regional sludge facilities amounted to \$6,830,000 and \$10,005,000, respectively.

The Authority's proportionate share of the debt service relating to the outstanding bonds of MCI/A and other expenses for the regional sludge facility for 2013 and 2012 amounted to \$1,067,181 and \$998,306, 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 53% 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 2014 through 2019 approximate \$38.6 million.

L. SUBSEQUENT EVENTS

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 \$27,000,000 through the New Jersey Environmental Infrastructure Trust Financing Program in May 2014.

M. PRIOR PERIOD ADJUSTMENT

During the year ended December 31, 2013, the Authority determined that the recording of the 2010 New Jersey Environmental Infrastructure Trust loan in 2010 understated the available funds held by trustee by \$1,898,661, as well as principal forgiveness on the loan through the American Recovery and Reinvestment Act ("ARRA") by \$2,276,703 and expense by \$378,042. This correction resulted in a net increase of \$169,885 in unrestricted net position at December 31, 2011, which included an increase in expense of \$378,042 for deobligated funds in 2010 and an increase to revenue in 2011 of \$547,927 for the recognition of ARRA principal forgiveness. In addition, the 2012 financial statements as originally issued were restated for the related ARRA principal forgiveness revenue of \$324,281.

SUPPLEMENTARY INFORMATION

EWING-LAWRENCE SEWERAGE AUTHORITY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended December 31, 2013
(With Comparative Totals for 2012)

	2013						2012	
	Unreserved (Deficit)	Future Debt Service	Current Debt Service	Improvement Fund	Succeeding Year Budget	Investment in Property, Plant and Equipment	Total	Total
Operating Revenues								
Service agreements	\$ 13,437,514	\$ -	\$ -	\$ 350,230	\$ -	\$ -	\$ 13,437,514	\$ 13,166,369
Contributions for system improvements	-	-	-	-	-	-	350,230	28,125
Connection fees	306,368	-	-	-	-	-	306,368	1,231,435
Inspection fees	400	-	-	-	-	-	400	400
Developer applications	25,140	-	-	-	-	-	25,140	9,200
Interest	1,046	-	-	-	-	-	1,046	1,249
Miscellaneous	50,698	-	-	-	-	-	50,698	58,353
Total operating revenues	13,821,166	-	-	350,230	-	-	14,171,396	14,495,131
Operating Expenses								
Costs of providing services	8,367,172	-	-	-	-	-	8,367,172	8,496,023
Administrative and general	1,112,052	-	-	-	-	-	1,112,052	1,105,663
County sludge facilities	1,067,181	-	-	-	-	-	1,067,181	998,306
Depreciation and amortization	-	-	-	-	-	-	1,682,502	1,732,293
Total operating expenses	10,546,405	-	-	-	-	-	12,228,907	12,332,285
Income (loss) from operations	3,274,761	-	-	350,230	-	(1,682,502)	1,942,489	2,162,846
Non-operating revenues (expenses)								
Interest income	-	581	-	-	-	-	623	678
Interest expense	-	-	(408,573)	-	-	-	(408,573)	(162,767)
Amortization of loss on defeasance	-	-	(58,060)	-	-	-	(58,060)	(55,729)
Amortization of debt issuance costs	-	-	-	-	-	(43,705)	(43,705)	(23,187)
Amortization of post employment benefits	(586,835)	-	-	-	-	-	(586,835)	(586,835)
ARRA principal forgiveness	882,276	-	-	-	-	-	882,276	324,281
Gain on disposal	11,950	-	-	-	-	-	11,950	-
Total non-operating revenues (expenses)	307,391	581	(466,633)	42	-	(43,705)	(202,324)	(503,559)
Income (loss) before transfers	3,582,152	581	(466,633)	350,272	-	(1,726,207)	1,740,165	1,659,287
Transfers	(3,052,008)	499,835	466,633	77,969	(584,500)	2,592,071	-	-
Change in net position	530,144	500,416	-	428,241	(584,500)	865,864	1,740,165	1,659,287
Net position, beginning of year	(428,241)	1,992,260	-	(428,241)	1,784,500	33,979,352	37,327,871	35,668,584
Net position, end of year	\$ 101,903	\$ 2,492,676	\$ -	\$ 530,144	\$ 1,200,000	\$ 34,845,216	\$ 39,068,036	\$ 37,327,871

EWING-LAWRENCE SEWERAGE AUTHORITY

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

Year Ended December 31, 2013

2013 Budget	2013 Actual
\$ 1,353,500	\$ 1,353,500
13,437,514	13,437,514
-	350,230
100,000	306,368
500	400
1,000	25,140
5,000	1,046
40,000	50,698
\$ 14,937,514	\$ 15,524,896
Revenues	
Retained earnings appropriated	
Service agreements	
Contributions for system improvements	
Connection fees	
Inspection fees	
Developer applications	
Interest	
Miscellaneous	
Total operating revenues	
Expenses	
Cost of providing services	
Labor	
Employee benefits	
Material and supplies	
Contracted services	
Repairs and maintenance	
Sludge disposal	
Utilities	
Professional fees	
Remediation	
Compliance	
Industrial waste water pre-treatment program	
Labor	
Other	
Total cost of providing services	
Administrative and general	
Labor	
Materials and supplies	
Contracted services	
Insurance	
Total administrative and general expenses	
Interest expense	
Other costs funded by operating revenues	
Principal maturity	
Capital outlays	
Future debt service	
County sludge facilities	
Amortization of loss on defeasance	
Amortization of debt issue costs	
Amortization of post employment benefits	
Total other costs funded by operating revenues	
Total costs funded by operating revenues	
Excess	
Total	
*UNAUDITED	

EWING-LAWRENCE SEWERAGE AUTHORITY

ROSTER OF OFFICIALS (UNAUDITED)

Year Ended December 31, 2013

Position	Board Members
Chair Vice Chair Treasurer Assistant Treasurer Secretary Assistant Secretary	Joseph Cermelle Anne Zamonski Harold Vereen Raymond J. DiFrancesco Pasquale "Pat" Colavita Charles Geter
Position	Other Officials
Executive Director Counsel Engineers	S. Robert Filler W. Barry Rank Jacobs Environmental Consulting

All employees of the Ewing-Lawrence Sewerage Authority are covered by a Public Employees' 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 FEDERAL AWARDS

Year Ended December 31, 2013

State Funding Department Program Title	Grant Number	CFDA #	Grant Period	Program or Loan Amount	Current Year's Expenditures	Cumulative Expenditures
* New Jersey Environmental Infrastructure Trust Financing Program - Series 2010B (ARRA)	S340391-08	66.468	09/01/10 - completion	\$ 2,276,702	\$ 725,400	\$ 1,597,607
* New Jersey Environmental Infrastructure Trust Financing Program - Series 2010B (ARRA)	S340391-08	66.468	03/01/10 - completion	<u>2,276,703</u>	<u>725,400</u>	<u>1,597,607</u>
				<u>\$ 4,553,405</u>	<u>\$ 1,450,800</u>	<u>\$ 3,195,214</u>

*Denotes major program.

See note to the schedule of expenditures of federal and state awards.

EWING-LAWRENCE SEWERAGE AUTHORITY

SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended December 31, 2013

State Funding Department Program Title	Grant Number	Grant Period	Program or Loan Amount	Program or Loan Amount Received	Current Year's Expenditures	Cumulative Expenditures
* New Jersey Environmental Infrastructure Trust Financing Program - Series 2010B	S340391-08	09/01/10 - completion	\$ 4,553,405	\$ 1,450,803	\$ 1,450,803	\$ 3,195,220
* New Jersey Environmental Infrastructure Trust Financing Program - Series 2012A	S340391-09	03/01/12 - completion	1,307,469	180,705	180,705	1,307,469
			<u>\$ 5,860,874</u>	<u>\$ 1,631,508</u>	<u>\$ 1,631,508</u>	<u>\$ 4,502,689</u>

* Denotes major program.

See note to the schedule of expenditures of federal and state awards.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended December 31, 2013

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal and state awards include the federal and 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 these schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:

• Material weaknesses identified? Yes No

• Significant deficiencies identified that are not considered to be material weaknesses? Yes No

Noncompliance material to financial statements noted? Yes No

Federal and State Awards

Internal control over major programs:

• Material weaknesses identified? Yes No

• Significant deficiencies identified that are not considered to be material weaknesses? Yes No

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 No

Identification of major programs:

Federal and State Loan Account

Name of Federal and State Program

Number/CFDA Number

S340391-08/ 66.468 New Jersey Environmental Infrastructure Trust Financing Program - Series 2010B (ARRA)

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 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 - Federal and 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 years ended December 31, 2013 and 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 24, 2014.

Internal Control Over Financial Reporting

In planning and performing our audits 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 opinion 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

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.

Musaduno, F.C.
Certified Public Accountant

July 24, 2014

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL AND STATE PROGRAM; REPORT ON INTERNAL CONTROL OVER
COMPLIANCE; AND REPORT ON THE SCHEDULES 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 Federal and 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 federal
and state programs for the year ended December 31, 2013. The Authority's major
federal and 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 federal and state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's
major federal and 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 federal and 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 federal and state program. However, our audit does not
provide a legal determination of the Authority's compliance.

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

Opinion on Each Major Federal and 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 federal and state programs for the year ended December 31, 2013.

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 federal and 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 federal and 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 federal or state program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal or state program will not be prevented, or detected and corrected, on a timely basis. 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 federal or 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 results 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.

Therese J. P. C.
Chief Financial Officer

July 24, 2014