

EWING-LAWRENCE SEWERAGE AUTHORITY

FINANCIAL STATEMENTS

December 31, 2014

EWING-LAWRENCE SEWERAGE AUTHORITY

TABLE OF CONTENTS

December 31, 2014

	<u>Page Number</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Unaudited)	4
Basic Financial Statements	
Statement of Net Position.....	7
Statement of Revenues, Expenses and Changes in Net Position.....	8
Statement of Cash Flows	9
Notes to Financial Statements.....	10
Supplementary Information	
Schedule of Revenues, Expenses and Changes in Net Position	21
Schedule of Operating Revenues and Costs Funded by Operating Revenues Compared to Budget	22
Roster of Officials.....	23
Schedule of Expenditures of Federal Awards	24
Schedule of Expenditures of State Awards.....	25
Note to Schedules of Expenditures of Federal and State Awards.....	26
Schedule of Findings and Questioned Costs	27
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 <i>Government Auditing Standards</i>	28
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	30

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, 2014 and 2013, and the related notes to 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.

- ◊ AN INDEPENDENTLY OWNED MEMBER,
MCGGLADREY 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
- ◊ REGISTERED WITH THE PCAOB

LEADING BY EXAMPLE FOR MORE THAN 50 YEARS

P.O. Box 7648 • Princeton, NJ 08543-7648 • 609.689.9700 • Fax 609.689.9720 • Mercadien.com

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, 2014 and 2013, 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 audits were conducted for the purpose of forming an opinion on the basic 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.

These schedules are the responsibility of management and were derived from and relate 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 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. 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Other Matters (Continued)

Other Supplementary Information (Continued)

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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 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 basic financial statements. This information 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 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 August 18, 2015, and July 24, 2014, 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.

Mercedien, P.C.

Certified Public Accountants

August 18, 2015

EWING-LAWRENCE SEWERAGE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

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, 2014 and 2013. 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 2014 and 2013.

FINANCIAL HIGHLIGHTS

Income from operations for the Authority was \$1,591,515 and \$1,355,654 for the years ended December 31, 2014 and 2013, respectively. The Authority's net position was \$39,708,298 and \$39,068,036 at the close of 2014 and 2013, respectively.

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 \$13,277,427 and \$10,903,154 at December 31, 2014 and 2013, 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 (UNAUDITED) (CONTINUED)

FINANCIAL ANALYSIS OF THE AUTHORITY (CONTINUED)

The increase in gross capital assets in 2014 of \$4,739,996 and in 2013 of \$2,577,976 was related primarily to expenditures for the wastewater facilities upgrade project, as well as, the Scotch Road relief sewer and the Jacob's Creek project.

Net, property and equipment balances were \$45,843,650 and \$42,832,530 at December 31, 2014 and 2013, respectively, and comprise the largest portion of the Authority's assets.

The Authority had \$32,362,834 and \$10,768,650 in NJEIT loans and revenue bonds outstanding as of December 31, 2014 and 2013, 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, 2014 and 2013, financial statements of the Authority:

Condensed Statement of Net Position

	2014	2013	2012	Change 2014-2013
Current assets	\$ 33,724,109	\$ 13,631,375	\$ 14,326,465	\$ 20,092,734
Capital assets	45,843,650	42,832,530	41,937,056	3,011,120
Total assets	79,567,759	56,463,905	56,263,521	23,103,854
Deferred outflows of resources	-	64,956	166,721	(64,956)
Total assets and deferred outflows or resources	\$ 79,567,759	\$ 56,528,861	\$ 56,430,242	\$ 23,038,898
Current liabilities, net of bonds and loans payable	\$ 3,625,862	\$ 2,818,486	\$ 2,911,541	\$ 807,376
Bonds and loans payable	32,362,834	10,768,650	12,002,579	21,594,184
Net OPEB obligation	3,870,765	3,194,594	2,783,756	676,171
Unearned ARRA forgiveness	-	679,095	1,404,495	(679,095)
Total liabilities	39,859,461	17,460,825	19,102,371	22,398,636
Net position:				
Net investment in capital assets	33,830,680	34,845,216	33,979,352	(1,014,536)
Restricted	3,240,538	3,692,676	3,776,760	(452,138)
Unrestricted	2,637,080	530,144	(428,241)	2,106,936
Total net position	39,708,298	39,068,036	37,327,871	640,262
Total liabilities and net position	\$ 79,567,759	\$ 56,528,861	\$ 56,430,242	\$ 23,038,898

Condensed Statement of Revenues, Expenses and Changes in Net Position

	Year Ended December 31,			
	2014	2013	2012	Change 2014-2013
Operating revenues	\$ 14,093,930	\$ 14,171,396	\$ 14,495,131	\$ (77,466)
Operating expenses	10,373,936	10,546,405	10,599,992	(172,469)
Depreciation and amortization	2,128,479	2,269,337	2,319,128	(140,858)
Income from operations	1,591,515	1,355,654	1,576,011	235,861
Non-operating revenues	529	894,849	324,959	(894,320)
Non-operating expenses	951,782	510,338	241,683	441,444
Change in net position	640,262	1,740,165	1,659,287	(1,099,903)
Net position, beginning of year	39,068,036	37,327,871	35,668,584	1,740,165
Net position, end of year	\$ 39,708,298	\$ 39,068,036	\$ 37,327,871	\$ 640,262

EWING-LAWRENCE SEWERAGE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (CONTINUED)

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,	
	2014	2013
ASSETS		
Current Assets		
Unrestricted		
Cash and equivalents	\$ 10,036,889	\$ 7,710,478
Interest receivable	6,667	6,042
Other receivables	5,853	5,797
Total Unrestricted	<u>10,049,409</u>	<u>7,722,317</u>
Restricted		
Cash and equivalents- debt service reserve	2,308,538	1,992,676
Cash and equivalents- succeeding year budget	932,000	1,200,000
Funds held by trustee	20,434,162	2,716,382
Total Restricted	<u>23,674,700</u>	<u>5,909,058</u>
Total Current Assets	<u>33,724,109</u>	<u>13,631,375</u>
Capital assets, net	<u>45,843,650</u>	<u>42,832,530</u>
Total Assets	<u>79,567,759</u>	<u>56,463,905</u>
Deferred Outflows of Resources - losses on refunding	-	64,956
Total Assets and Deferred Outflows of Resources	<u>\$ 79,567,759</u>	<u>\$ 56,528,861</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable	\$ 1,713,178	\$ 354,333
Developers' performance bonds	242,913	258,045
Loan payable	2,047,252	1,000,063
Revenue bonds payable	-	1,155,000
Accrued interest payable	136,490	98,751
Accrued liability for compensated absences	556,626	1,271,579
Engineering deposits	824,238	688,499
Other liabilities	152,417	147,279
Total Current Liabilities	<u>5,673,114</u>	<u>4,973,549</u>
Non-Current Liabilities		
Net OPEB obligation	3,870,765	3,194,594
Loan payable	30,315,582	8,613,587
Unearned principal forgiveness	-	679,095
Total Non-Current Liabilities	<u>34,186,347</u>	<u>12,487,276</u>
Total Liabilities	<u>39,859,461</u>	<u>17,460,825</u>
Net Position		
Net investment in capital assets	33,830,680	34,845,216
Restricted		
Future debt service	2,308,538	2,492,676
Succeeding year budget	932,000	1,200,000
Unrestricted	2,637,080	530,144
Total Net Position	<u>39,708,298</u>	<u>39,068,036</u>
Total Liabilities and Net Position	<u>\$ 79,567,759</u>	<u>\$ 56,528,861</u>

See notes to financial statements.

EWING-LAWRENCE SEWERAGE AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	Year Ended December 31,	
	2014	2013
Operating revenues		
Service agreements	\$ 13,619,336	\$ 13,437,514
Contributions for system improvements	11,100	350,230
Connection fees	304,032	306,368
Capacity revenue	101,250	13,500
Inspection fees	200	400
Developer applications	28,560	25,140
Interest	777	1,046
Miscellaneous	28,675	37,198
Total operating revenues	<u>14,093,930</u>	<u>14,171,396</u>
Operating expenses		
Costs of providing services	7,815,125	8,367,172
Administrative and general	1,562,206	1,112,052
County sludge facilities	996,605	1,067,181
Depreciation	1,601,555	1,682,502
Amortization of post-employment benefits other than pensions	526,924	586,835
Total operating expenses	<u>12,502,415</u>	<u>12,815,742</u>
Income from operations	<u>1,591,515</u>	<u>1,355,654</u>
Non-operating revenues (expenses)		
Interest income	529	623
Interest expense	(416,554)	(408,573)
Amortization loss on defeasance	(62,753)	(58,060)
Amortization of original issue discount	(2,202)	(43,705)
Gain on disposal of property and equipment	-	11,950
Principal loan (deobligations)/forgiveness	(470,273)	882,276
Non-operating expenses, net	<u>(951,253)</u>	<u>384,511</u>
Change in net position	640,262	1,740,165
Net position, beginning of year	39,068,036	37,327,871
Net position, end of year	<u>\$ 39,708,298</u>	<u>\$ 39,068,036</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2014	2013
Cash Flows from Operating Activities		
Cash received from		
Service agreements	\$ 13,618,654	\$ 13,437,514
Contributions from system improvements	11,100	350,230
Connection fees	304,033	306,368
Inspection fees	200	400
Interest income	777	1,046
Miscellaneous revenue	158,485	88,326
Cash used for		
Cost of providing services	(6,896,242)	(8,684,857)
Administrative and general	(1,562,206)	(1,112,052)
County sludge facilities	(996,605)	(1,067,181)
Net cash from operating activities	<u>4,638,196</u>	<u>3,319,794</u>
Cash Flows from Investing Activities		
Interest income	529	623
Purchases of capital assets, net	(4,612,673)	(2,577,976)
Net cash from investing activities	<u>(4,612,144)</u>	<u>(2,577,353)</u>
Cash Flows from Financing Activities		
Repayments of loans	(2,675,354)	(624,009)
Repayments of bonds	(1,155,000)	(1,110,000)
Proceeds from loans	25,424,538	500,000
Funds held by trustees	(18,867,148)	3,229,340
Payment of bond interest	(378,815)	(373,115)
Net cash from financing activities	<u>2,348,221</u>	<u>1,622,216</u>
Net increase in cash and equivalents	2,374,273	2,364,657
Cash and equivalents, beginning of year	10,903,154	8,538,497
Cash and equivalents, end of year	<u>\$ 13,277,427</u>	<u>\$ 10,903,154</u>
The following is a summary of the Authority's cash and cash equivalents:		
Cash -unrestricted	\$ 10,036,889	\$ 7,710,478
Cash- restricted	3,240,538	3,192,676
Total cash and cash equivalents	<u>\$ 13,277,427</u>	<u>\$ 10,903,154</u>
Reconciliation of Income from Operations to Net Cash from Operating Activities		
Income from operations	\$ 1,591,515	\$ 1,355,654
Adjustments to reconcile income from operations to net cash from operating activities		
Depreciation	1,601,555	1,682,502
OPEB obligation	676,171	410,838
Changes in assets and liabilities		
Interest receivable	-	(1,224)
Other receivables	(682)	537
Accounts payable	1,358,845	(106,511)
Developer deposits	(15,132)	-
Other liabilities	5,138	(5,672)
Engineering fee deposits	135,739	6,115
Accrued compensated absences	(714,953)	(22,445)
Net cash from operating activities	<u>\$ 4,638,196</u>	<u>\$ 3,319,794</u>

See notes to financial statements.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2014 and 2013, 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, 2014 and 2013, were covered by the Federal Deposit Insurance Corporation (the "FDIC") or by the New Jersey Governmental Unit Deposit Protection Act.

In accordance with the 2002 Bond Resolution, the Authority has established the following cash 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 at least 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.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funds Held by Trustee

The net proceeds from the Series 2004, 2010B, 2012A, 2013 and 2014 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.

Capital Assets

Capital assets include land and land improvements, buildings and building improvements, and machinery and equipment over \$10,000 which 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.

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

The Authority recognizes annual OPEB cost equal to the annual required contribution and recognizes the unfunded accrued actuarial liability over an amortization period of thirty years.

Unearned Principal Forgiveness

A portion of the 2010 and 2014 NJEIT loan proceeds include 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

As a result of an advanced refunding the Authority incurred a loss on defeasance which is the difference between the reacquisition price and the net carrying amounts of the old debt. The loss is deferred and amortized over the remaining life of the old or new debt, whichever is shorter and included as a deferred outflow of resources.

Net Position

Equity is classified as net position and displayed in three components:

- 1) Net Investment in Capital Assets - consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any debt that are attributable to the acquisition, construction, or improvement of those assets.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position (Continued)

- 2) Restricted - when constraints placed on net position are either a) externally imposed by creditors (such as the bond resolution), grantors, or laws or regulations of other governments, or b) imposed by law.

Presently, the Authority has two items of restricted net position which is required by the bond resolution. These restrictions are for future debt service and succeeding year budget.

- 3) Unrestricted - any other net position that does not meet the definition of "restricted" or "net investment in capital assets."

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.

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.

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.

Income Taxes

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

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.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

B. CASH AND CASH EQUIVALENTS (CONTINUED)

The Authority's bank balances at December 31, 2014 and 2013, were \$13,865,479 and \$11,019,959, 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.

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. CAPITAL ASSETS

Capital assets consist of the following:

	Year Ended December 31,	
	2014	2013
Land	\$ 461,112	\$ 461,112
Land improvements	2,171,499	2,171,499
Buildings and building improvements	24,917,946	22,952,379
Machinery and equipment	47,915,067	49,494,102
Construction in progress	13,176,497	8,892,935
Subtotal	88,642,120	83,972,027
Less accumulated depreciation	42,798,470	41,139,497
Total	<u>\$ 45,843,650</u>	<u>\$ 42,832,530</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

C. CAPITAL ASSETS (CONTINUED)

Capital asset activities were as follows:

	December 31, 2013	Additions	Retirements	December 31, 2014
Non-Depreciable Assets				
Land	\$ 461,112	\$ -	\$ -	\$ 461,112
Construction in progress	8,892,935	4,283,562	-	13,176,497
Depreciable Assets				
Land improvements	2,171,499	-	-	2,171,499
Buildings and building improvements	24,827,230	160,617	69,901	24,917,946
Machinery and equipment	47,619,250	295,817	-	47,915,067
Total at historical cost	83,972,026	4,739,996	69,901	88,642,121
Less accumulated depreciation	41,139,496	1,601,555	57,420	42,798,471
Total capital assets	<u>\$ 42,832,530</u>	<u>3,138,441</u>	<u>\$ 12,481</u>	<u>\$ 45,843,650</u>

	December 31, 2012	Additions	Retirements	December 31, 2013
Non-Depreciable Assets				
Land	\$ 461,112	\$ -	\$ -	\$ 461,112
Construction in progress	7,517,557	1,375,378	-	8,892,935
Depreciable Assets				
Land improvements	2,171,499	-	-	2,171,499
Buildings and building improvements	23,079,619	-	127,240	22,952,379
Machinery and equipment	49,467,450	1,202,598	1,175,947	49,494,101
Total at historical cost	82,697,237	2,577,976	1,303,187	83,972,026
Less accumulated depreciation	40,760,181	1,682,502	1,303,187	41,139,496
Total capital assets	<u>\$ 41,937,056</u>	<u>\$ 895,474</u>	<u>\$ -</u>	<u>\$ 42,832,530</u>

Depreciation expense was as follows:

	Year Ended December 31,	
	2014	2013
Land improvements	\$ 40,240	\$ 42,667
Buildings and building improvements	467,632	468,590
Machinery and equipment	1,093,683	1,171,245
Total depreciation expense	<u>\$ 1,601,555</u>	<u>\$ 1,682,502</u>

D. BONDS AND LOANS PAYABLE

Bonds 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.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

D. BONDS AND LOANS PAYABLE (CONTINUED)

Bonds Payable (Continued)

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. The refunded 1991 bonds were paid off in 2014.

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 was fully amortized as of December 31, 2014. As of December 31, 2013 the balance was \$64,956 and is included in the financial statements as a reduction of revenue bonds payable. Amortization expense amounted to \$58,060 for the year ended December 31, 2013. 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.

The bonds payable were paid off at December 31, 2014.

Loans Payable

As of December 31, 2014 and 2013, the Authority maintained a loan balance of \$32,362,834 and \$9,613,650, respectively, through the New Jersey Environmental Infrastructure Trust ("NJEIT") financing program. The amount available through the program at December 31, 2014 and 2013, was \$20,434,162 and \$2,716,382, respectively, and is recorded as funds held by trustee on the statement of net position.

The following is a summary of revenue bonds and NJEIT loans outstanding at December 31:

<u>Bonds and Loans Payable</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>2014</u>	<u>2013</u>
1998 Serial Revenue Bonds	3.65%-5.00%	2014	\$ -	\$ 395,000
2002 Serial Revenue Bonds	3.00%-4.40%	2014	-	760,000
Total bonds payable			-	1,155,000
2004 NJEIT Trust and Fund Loan	3.00%-4.375%	2024	1,172,471	1,314,440
2010 NJEIT Trust and Fund Loan	5.00%	2030	4,603,445	6,575,219
2012 NJEIT Trust and Fund Loan	2.00%-5.00%	2031	1,162,381	1,223,991
2013 NJEIT Interim Trust and Fund Loan		2014	-	500,000
2014 NJEIT Trust and Fund Loan	3.250%-5.00%	2033	23,887,537	-
2014 NJEIT Resiliency Interim Trust and Fund Loan		2015	1,537,000	-
Total loans payable			32,362,834	9,613,650
Total bonds and loans payable			\$ 32,362,834	\$ 10,768,650

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

D. BONDS AND LOANS PAYABLE (CONTINUED)

Loans Payable (Continued)

Total maturities, including interest for the years ending December 31, are as follows:

	Principal	Interest	Total
2015	\$ 2,047,252	\$ 455,651	\$ 2,502,903
2016	526,678	437,451	964,129
2017	1,822,540	430,451	2,252,991
2018	1,853,350	402,703	2,256,053
2019	1,878,999	373,453	2,252,452
2020-2024	9,449,049	1,380,111	10,829,160
2025-2029	8,604,091	598,561	9,202,652
2030-2033	6,180,875	152,842	6,333,717
Total	<u>\$ 32,362,834</u>	<u>\$ 4,231,223</u>	<u>\$ 36,594,057</u>

E. AMOUNTS REQUIRED BY BOND RESOLUTION

The following debt service reserve cash and equivalent 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,	
	2014	2013
Cash and cash equivalent balance	\$ 2,308,538	\$ 1,992,676
Debt service required balance	2,256,053	1,980,318
Excess	<u>\$ 52,485</u>	<u>\$ 12,358</u>

F. LONG-TERM LIABILITIES

Long-term liability activity for the years ended December 31, 2014 and 2013 was as follows:

	December 31,				
	2013	Additions	(Reductions)	2014	Amounts Due within One Year
Revenue bonds	\$ 1,155,000	\$ -	\$ 1,155,000	\$ -	\$ -
NJEIT loans payable	9,613,650	25,424,538	2,675,354	32,362,834	2,047,252
Net OPEB obligation	3,194,594	676,171	-	3,870,765	-
Total	<u>\$ 13,963,244</u>	<u>\$ 26,100,709</u>	<u>\$ 3,830,354</u>	<u>\$ 36,233,599</u>	<u>\$ 2,047,252</u>

	December 31,				
	2012	Additions	(Reductions)	2013	One Year
Revenue bonds	\$ 2,265,000	\$ -	\$ 1,110,000	\$ 1,155,000	\$ 1,155,000
NJEIT loans payable	9,737,579	-	123,929	9,613,650	1,000,063
Net OPEB obligation	2,783,756	410,838	-	3,194,594	-
Total	<u>\$ 14,786,335</u>	<u>\$ 410,838</u>	<u>\$ 1,233,929</u>	<u>\$ 13,963,244</u>	<u>\$ 2,155,063</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

G. PENSION PLAN

The Authority participates in the Public Employees' Retirement System ("PERS") Plan of New Jersey, which is a part of the Division of Pensions, Department of the Treasury, State of New Jersey. The Plan is funded annually based on the projected benefit method with aggregate level normal cost and frozen initial unfunded accrued liability. The Plan, 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 2014 and 2013 were \$398,452 and \$412,785, respectively.

Please refer to state website www.state.nj.us for more information regarding the PERS plan.

H. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Authority is a member of the State of New Jersey's cost sharing multiple-employer plan (the "State Plan") for health and post-retirement medical benefits. Thus, the Authority's portion of this liability is included in the State of New Jersey's Comprehensive Annual Financial Report ("CAFR"), as such, the liability of Authority employees is covered under the State Plan on an annual basis.

The total cost included in health insurance expense for these post-retirement benefits was \$850,658, \$768,439, and \$747,800 for the years ended December 31, 2014, 2013 and 2012, respectively.

Please refer to State website www.state.nj.us for more information regarding the PERS Plan.

The Authority also has its own separate plan for dental and prescriptions benefits. An actuarial valuation was performed under the alternative measurement method to calculate the cost and liabilities attributable to these benefits, at December 31, 2014 and 2013. The accrued post-employment benefits other than pension for dental and prescription benefits were \$3,870,765 and \$3,194,594, respectively.

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 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 2014 and 2013 were \$1,230,885 and \$977,940, assuming a 30-year amortization of the actuarial accrued liability.
- During 2014 and 2013, the Authority paid \$554,714 and \$567,102 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 \$17,528,010 as of December 31, 2014.
- The actuarial valuation date was December 31, 2014.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

H. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)

Actuarial Assumptions and Methods

- An assumed discount rate of 1% 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 2015 to 4.70% in years 2020 and later.
 - Dental ranged from 4.00% in 2015 to 3.00% in years 2022 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 2.65%.

I. 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, 2014 and 2013.

J. 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.

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.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

J. COMMITMENTS AND CONTINGENCIES (CONTINUED)

As of December 31, 2014 and 2013, the total outstanding bonds of MCIA in connection with the regional sludge facilities amounted to \$3,500,000 and \$6,830,000, 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 2014 and 2013 amounted to \$996,605 and \$1,067,181, 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.

K. CONCENTRATION OF LABOR FORCE

Approximately 66% of the labor force is covered by a collective bargaining agreement with Construction and General Labor Union Local 172. The contract expires December 31, 2017.

L. CAPITAL PROGRAM

Expected capital program expenditures budgeted from 2015 through 2020 approximate \$38.6 million.

M. 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 \$5,100,000 through the New Jersey Environmental Infrastructure Trust Financing Program in May 2015.

N. PENDING PRONOUNCEMENTS

The Governmental Account Standards Board ("GASB") has issued Statement No. 68, "Accounting and Financial Reporting for Pension Plans," and Statement No. 71, "Pension Transition for Contributions made subsequent to the Measurement Date - an amendment of No. 68." effective for fiscal years beginning after June 15, 2014. The objective of the statements is to improve information about financial support for pensions and improve financial reporting and accounting by state and local governmental pension plans.

The GASB issued Statement No. 72, "Fair Value Measurement and Application" effective for financial statements for periods beginning after June 15, 2015. This standard describes how fair value should be defined and measured, the use of various valuation techniques, and which information about fair value should be disclosed in the notes to the financial statements.

The GASB issued Statement No. 74 "Financial Reporting for Postemployment Benefit Plans Other Than Pensions Plans" addresses the financial reporting of defined benefit OPEB plans that are administered through trusts that meet specified criteria. The statement also includes financial statement footnote disclosure requirements for defined contribution OPEB plans. Statement 74 is effective for financial statements for periods beginning after June 15, 2016.

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

N. PENDING PRONOUNCEMENTS (CONTINUED)

The Governmental Accounting Standards Board issued Statement No. 75 "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" provides guidance for reporting by state and local governments that provide OPEB, such as retiree health insurance, to their employees and for governments that finance OPEB for employees of other governments. This standard requires governments to report a liability on the face of their financial statements for the OPEB they provide.

SUPPLEMENTARY INFORMATION

EWING-LAWRENCE SEWERAGE AUTHORITY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Year Ended December 31, 2014
(With Comparative Totals for 2013)

	2014					2013	
	Unrestricted	Future Debt Service	Current Debt Service	Improvement Fund	Succeeding Year Budget	Investment in Property, Plant, and Equipment	Total
Operating revenues							
Service agreements	\$ 13,619,336	-	\$ -	-	\$ -	\$ -	\$ 13,619,336
Contributions for system improvements	-	-	-	11,100	-	-	11,100
Connection fees	304,032	-	-	-	-	-	304,032
Capacity fees	101,250	-	-	-	-	-	101,250
Inspection fees	200	-	-	-	-	-	200
Developer applications	28,560	-	-	-	-	-	28,560
Interest	777	-	-	-	-	-	777
Miscellaneous	28,675	-	-	-	-	-	28,675
Total operating revenues	14,082,830	-	-	11,100	-	-	14,093,930
Operating expenses							
Costs of providing services	7,815,125	-	-	-	-	-	7,815,125
Administrative and general	1,562,206	-	-	-	-	-	1,562,206
County sludge facilities	996,605	-	-	-	-	-	996,605
Depreciation and amortization	526,924	-	-	-	-	1,601,555	2,128,479
Total operating expenses	10,900,860	-	-	-	-	1,601,555	12,502,415
Income from operations	3,181,970	-	-	11,100	-	(1,601,555)	1,591,515
Non-operating revenues (expenses)							
Interest income	-	471	-	58	-	-	529
Interest expense	-	-	(416,554)	-	-	-	(416,554)
Amortization loss on defeasance	-	-	(62,753)	-	-	-	(62,753)
Amortization of original issue discount	-	-	-	-	-	(2,202)	(2,202)
Gain on disposal of property and equipment	-	-	-	-	-	-	-
ARRA principal forgiveness	(470,273)	-	-	-	-	-	(470,273)
Total non-operating revenues (expenses), net	(470,273)	471	(479,307)	58	-	(2,202)	(951,253)
Income (loss) before transfers	2,711,697	471	(479,307)	11,158	-	(1,603,757)	640,262
Transfers	(604,761)	(184,609)	479,307	(11,158)	(268,000)	589,221	-
Change in net position	2,106,936	(184,136)	-	-	(268,000)	(1,014,536)	640,262
Net position, beginning of year	530,144	2,492,676	-	-	1,200,000	34,845,216	39,068,036
Net position, end of year	\$ 2,637,080	\$ 2,308,538	\$ -	\$ -	\$ 932,000	\$ 33,830,680	\$ 39,708,298

EWING-LAWRENCE SEWERAGE AUTHORITY

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

Year Ended December 31, 2014

	2014 Budget Unaudited	2014 Actual
Revenues		
Retained earnings appropriated	\$ 935,000	\$ -
Service agreements	13,619,336	13,619,336
Contributions from system improvements	-	11,100
Connection fees	300,000	304,032
Capacity revenue	-	101,250
Inspection fees	500	200
Developer applications	1,000	28,560
Interest	3,000	777
Miscellaneous	40,000	28,675
Total operating revenues	<u>\$ 14,898,836</u>	<u>\$ 14,093,930</u>
Expenses		
Cost of providing services		
Labor	\$ 3,503,700	\$ 2,666,569
Employee benefits	2,265,892	1,855,479
Material and supplies	1,014,000	680,334
Contracted services	200,000	71,594
Repairs and maintenance	620,000	480,917
Sludge disposal	715,000	571,319
Utilities	1,440,350	1,261,526
Professional fees	25,000	74,069
Remediation	200,000	68,500
Compliance	40,000	4,727
Industrial waste water pre-treatment program	997,000	996,605
Other	108,000	80,091
Total cost of providing services	<u>11,128,942</u>	<u>8,811,730</u>
Administrative and general		
Labor	586,000	585,104
Employee benefits	270,108	407,133
Materials and supplies	96,000	41,351
Contracted services	181,000	196,634
Insurance	140,000	331,984
Other	88,436	-
Total administrative and general	<u>1,361,544</u>	<u>1,562,206</u>
Interest expense	<u>325,255</u>	<u>416,554</u>
Other costs funded by operating revenues		
Principal maturity	1,655,063	1,655,063
Capital outlays	428,032	33,744
Total other costs funded by operating revenues	<u>2,083,095</u>	<u>1,688,807</u>
Total costs funded by operating revenues	<u>14,898,836</u>	<u>12,479,297</u>
Excess	-	1,614,633
Total	<u>\$ 14,898,836</u>	<u>\$ 14,093,930</u>

EWING-LAWRENCE SEWERAGE AUTHORITY

ROSTER OF OFFICIALS (UNAUDITED)

Year Ended December 31, 2014

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

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

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 FEDERAL AWARDS

Year Ended December 31, 2014

State Funding Department/Program Title	Loan Number	CFDA#	Program or Loan Amount	Grant Period	Current Year's Receipts	Current Year's Expenditures	Cumulative Expenditures
New Jersey Environmental Infrastructure Financing Program / Wastewater Treatment Plant Upgrade	S340391-10	66.468	\$17,387,538	5/21/14-Completion	\$ 3,253,053	\$ 3,253,053	\$ 3,253,053
Total			<u>\$17,387,538</u>		<u>\$ 3,253,053</u>	<u>\$ 3,253,053</u>	<u>\$ 3,253,053</u>

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

EWING-LAWRENCE SEWERAGE AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE AWARDS

Year Ended December 31, 2014

State Funding Department/Program Title	Loan Number	Loan Amount	Grant Period	Loan Amount Received	Current Year's Expenditures	Cumulative Expenditures
New Jersey Environmental Infrastructure Financing Program / Wastewater Treatment Plant Upgrade	S340391-10	\$ 6,156,327	5/21/14-Completion	\$ 1,151,878	\$ 1,151,878	\$ 1,151,878
New Jersey Environmental Infrastructure Financing Program - Resiliency Project	S340391-11	1,537,000	5/21/14-Completion	241,772	241,772	241,772
Total		<u>\$ 7,693,327</u>		<u>\$ 1,393,650</u>	<u>\$ 1,393,650</u>	<u>\$ 1,393,650</u>

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

EWING-LAWRENCE SEWERAGE AUTHORITY

NOTE TO SCHEDULES OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended December 31, 2014

Note 1. Basis of Presentation

The accompanying schedules of expenditures of federal and state awards include the federal and state grant activity of the Authority and are presented on the accrual basis of accounting. The information in these schedules 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.

EWING-LAWRENCE SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 Year Ended December 31, 2014

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

Federal and 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 auditors' 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:

Federal/State Loan Number/CFDA Number
66.468/S340391-10
S340391-11

Name of Federal and/or State Program
Wastewater treatment plant upgrade
Resiliency project

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

_____ yes X no

**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, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated August 18, 2015.

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 purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. 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,
MCGGLADREY 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
- 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 misstatement, 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.

Mercadieu, P.C.
Certified Public Accountants

August 18, 2015

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

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, 2014. 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.

- AN INDEPENDENTLY OWNED MEMBER,
MCGGLADREY 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
- REGISTERED WITH THE PCAOB

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 (CONTINUED)

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, 2014.

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.

Mercadion, P.C.
Certified Public Accountants

August 18, 2015