

**Annual
Financial Report**

of

**The Linden Roselle
Sewerage Authority**

For the Years Ended December 31, 2011 and 2010

Prepared By

The Linden Roselle Sewerage Authority

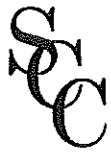
Finance Department

THE LINDEN ROSELLE SEWERAGE AUTHORITY

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FINANCIAL SECTION



SUPLEE, CLOONEY & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Honorable Chairman and
Members of the Board
The Linden Roselle Sewerage Authority
P.O. Box 4118
Linden, New Jersey 07036-8118

We have audited the accompanying statement of net assets of The Linden Roselle Sewerage Authority at December 31, 2011, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of The Linden Roselle Sewerage Authority as of December 31, 2010 were audited by other auditors whose report dated April 18, 2011 expressed an unqualified opinion on those statements.

We conducted our audits in accordance with U.S. generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Linden Roselle Sewerage Authority at December 31, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated May 14, 2012 on our consideration of The Linden Roselle Sewerage Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

SUPLEE, CLOONEY & COMPANY

The Management Discussion and Analysis and the required supplementary information, as listed in the foregoing table of contents, respectively, are not a required part of the basic financial statements but are supplementary information required by the U.S. Generally Accepted Accounting Principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The information included in the accompanying Supplementary Information Section is presented for purposes of additional analysis and is 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. 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

May 14, 2012

Suplee, Clooney & Company



SUPLEE, CLOONEY & COMPANY

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INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Board of Commissioners
Linden Roselle Sewerage Authority
P.O. Box 4118
Linden, New Jersey 07036-8118

We have audited the financial statements of The Linden Roselle Sewerage Authority for the year ended December 31, 2011, and have issued our report thereon dated May 14, 2012. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governing Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The Linden Roselle Sewerage Authority's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of The Linden Roselle Sewerage Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of The Linden Roselle Sewerage Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of The Linden Roselle Sewerage Authority's financial statements will not be prevented, or detected and corrected on a timely basis.

SUPLEE, CLOONEY & COMPANY

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above. However, we noted immaterial matters involving the internal control that which are discussed in the General Comments and Recommendations Section of this report.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information of The Linden Roselle Sewerage Authority and Federal and State audit agencies and is not intended to be and should not be used by anyone other than these specified parties.

May 14, 2012

A handwritten signature in cursive script that reads "Suplee, Clooney & Company". The signature is written in dark ink and is positioned to the right of the date.

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MANAGEMENT DISCUSSION AND ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2011 UNAUDITED

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplementary information.

OVERVIEW OF ANNUAL FINANCIAL REPORT

The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's budget, bond resolutions and other management tools were used for this analysis.

The Authority's audited financial statements are presented in conformity with generally accepted accounting principles. The financial statements include: Statements of Net Assets; Statements of Revenues, Expenses and Changes in Net Assets; Statements of Cash Flows; and Notes to Financial Statements.

The Statements of Net Assets present the financial position of the Authority on a historical cost basis. These statements present information on the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases and decreases in net assets is one indicator of whether the financial position of the Authority is improving or deteriorating.

While the Statements of Net Assets provide information about the nature and amount of resources and obligations at year-end, the Statements of Revenues, Expenses and Changes in Net Assets present the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year.

The Statements of Cash Flows present changes in cash and cash equivalents, resulting from operational, financing, and investing activities. These statements present cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The Notes to Financial Statements provide required disclosures and other information that are essential to an understanding of material data provided in the basic financial statements. The notes present information that include accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

AUTHORITY'S FINANCIAL REPORT

Condensed Statements of Net Assets

		<u>December 31</u>	
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Current Assets	\$ 8,927,602	\$ 9,903,718	\$ 10,212,315
Non Current Assets	215,355	251,715	292,062
Capital Assets, Net of			
Accumulated Depreciation	<u>25,181,144</u>	<u>25,374,926</u>	<u>26,272,353</u>
Total assets	<u>\$ 34,324,101</u>	<u>\$ 35,530,359</u>	<u>\$ 36,776,730</u>
Accounts Payable and Accrued			
Expenses	\$ 746,523	\$ 819,810	\$ 1,144,496
Bonds Payable	<u>10,205,641</u>	<u>11,479,653</u>	<u>12,712,617</u>
Total Liabilities	10,952,164	12,299,463	13,857,113
Net Assets	<u>23,371,937</u>	<u>23,230,896</u>	<u>22,919,617</u>
Total Liabilities and Net Assets	<u>\$ 34,324,101</u>	<u>\$ 35,530,359</u>	<u>\$ 36,776,730</u>

Current assets is comprised largely of cash and cash equivalents and accounts receivable. Cash and cash equivalents totals \$7.3 million and \$8.3 million at December 31, 2011 and 2010, respectively which decreased \$1.0 million or 12.2%. Accounts Receivable totals \$1.6 million and \$1.2 million at December 31, 2011 and 2010, respectively; an increase of \$413 thousand or 34.2%.

Capital assets, net of accumulated depreciation, amounted to \$25.2 million and \$25.4 million at December 31, 2011 and 2010, respectively; a decrease of \$194 thousand. This decrease is the result of capital asset purchases of \$1.3 million and depreciation expense of \$1.5 million. The Authority's capital assets consist of land, buildings and improvements, machinery and equipment, furniture and fixtures, and construction in progress which aggregate \$64.4 million and \$63.1 million at December 31, 2011 and 2010, respectively. Accumulated depreciation amounts to \$39.2 million and \$37.8 million at December 31, 2011 and 2010, respectively.

The remaining proceeds from the New Jersey Environmental Infrastructure Trust (NJEIT) of \$372,300 were received in 2011.

Bonds payable of \$10.2 million and \$11.5 million at December 31, 2011 and 2010 decreased \$1.3 million or 11.1%. The final payment of \$450,000 was made during 2011 on the 1996 Revenue Bonds.

Net assets total \$23.4 million and \$23.2 million at December 31, 2011 and 2010, respectively; an increase of \$141 thousand in 2011. Net assets include: (i) Investments in capital assets, net of related liabilities, totaling \$15.2 million and \$14.5 million at December 31, 2011 and 2010, respectively; (ii) Restricted net assets totaling \$3.2 million and \$4.4 million at December 31, 2011 and 2010, respectively; and (iii) Unrestricted net assets of \$5.0 million and \$4.3 million at December 31, 2011 and 2010, respectively. An appropriation of \$850 thousand and \$375 thousand, respectively, of unrestricted net assets at December 31, 2011 and 2010 has been made to fund a portion of the Year 2012 and 2011 Operating Budgets, respectively.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	<u>Years ended December 31</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating Revenues	<u>\$10,339,817</u>	<u>\$10,713,234</u>	<u>\$10,539,749</u>
Operating Expenses	8,404,393	8,517,430	8,697,788
Depreciation	<u>1,472,364</u>	<u>1,504,610</u>	<u>1,359,420</u>
Total Operating Expenses	<u>\$ 9,876,757</u>	<u>\$ 10,022,040</u>	<u>\$ 10,057,208</u>
Operating Income	\$ 463,060	\$ 691,194	\$ 482,541
<u>Nonoperating Revenues, Net:</u>			
Interest Expense, Net	(288,224)	(347,751)	(379,812)
Other, Net	<u>(33,795)</u>	<u>(32,164)</u>	<u>(28,893)</u>
Net Income (Loss)	\$ 141,041	\$ 311,279	\$ 73,836
<u>Net Assets:</u>			
Beginning of Year	<u>23,230,896</u>	<u>22,919,617</u>	<u>22,845,781</u>
End of Year	<u>\$ 23,371,937</u>	<u>\$ 23,230,896</u>	<u>\$ 22,919,617</u>

Operating revenues are comprised largely of Service Charges from the City of Linden (City), the Borough of Roselle (Borough) and certain industrial and commercial customers (Major Users) for the recovery of the Authority's operating and maintenance costs, debt service costs, and required reserves appropriated in the annual budget. Operating revenues of \$10.3 million in 2011 compare to \$10.7 million in 2010, a decrease of \$373 thousand or 3.5%.

Operating expenses total \$8.4 million in 2011 compare to \$8.5 million in 2010, a decrease of \$113 thousand or 1.3%.

Interest expense amounted to \$288 thousand in 2011 compared to \$348 thousand in 2010, a decrease of \$60 thousand or 17.1%. Interest costs are decreasing as the Authority's debt is being repaid.

The service charges to the City, the Borough and Major Users for the last five years are as follows:

<u>Year</u>	<u>City</u>	<u>Borough</u>	<u>Major Users</u>	<u>Total</u>
2011	\$ 4,839,696	\$ 2,630,926	\$ 2,364,155	\$ 9,834,777
2010	4,740,354	2,639,987	2,764,344	10,144,685
2009	4,786,180	2,686,517	2,658,227	10,130,924
2008	4,780,253	2,596,943	2,947,145	10,324,341
2007	4,902,104	2,649,398	2,613,407	10,164,909

Condensed Statements of Cash Flows

	<u>Years Ended December 31</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net Cash Provided by Operating Activities	\$ 1,456,319	\$2,542,915	\$1,702,986
Net Cash Used in Capital and Financing Activities	(2,475,775)	(2,187,898)	(1,899,158)
Net Cash Provided by Investing Activities	<u>2,565</u>	<u>8,183</u>	<u>11,036</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$(1,016,891)	\$ 363,200	\$ (185,136)
<u>Cash and Cash Equivalents:</u>			
Beginning of Year	<u>8,323,646</u>	<u>7,960,446</u>	<u>8,145,582</u>
End of Year	<u>\$ 7,306,755</u>	<u>\$8,323,646</u>	<u>\$7,960,446</u>

Net cash provided by operating activities amounted to \$1.4 million and \$2.5 million in the years ended December 31, 2011 and 2010, respectively. The \$1.1 million net decrease in the year 2011 was principally due to a decrease in receipts from service charges in the year 2011.

Net cash used in capital and financing activities largely relate to principal and interest payments on the Authority's long term debt (\$1.6 million in 2011 and 2010, respectively) along with additions to capital assets (\$1.3 million and \$607 thousand in 2011 and 2010, respectively). These were partially offset with the receipt of the remaining proceeds from the New Jersey Environmental Infrastructure Trust (NJEIT) of \$372,300.

AUTHORITY OVERVIEW

General

The Linden Roselle Sewerage Authority (the "Authority") is a public body politic and corporate, organized and existing under the Sewerage Authorities Law, constituting Chapter 138 of the P.L. of 1946 of the State of New Jersey and by parallel ordinances adopted in December 1947 by the City of Linden (the "City") and the Borough of Roselle (the "Borough").

The Authority owns and operates a sanitary sewer system providing treatment and disposal of sewerage from the City and the Borough.

Revenue is provided primarily from annual service charges collected from the City, the Borough and customers classified as major industrial users (Major Users). The service charges are based generally on the Authority's operation and maintenance costs, debt service costs and required reserves appropriated in the annual budget.

The service charges of the City and the Borough are calculated in accordance with provisions of the Municipal Contract, as amended and supplemented, entered into by and among the Authority, the City and the Borough. The service charges to the Major Users are calculated taking into account the volume (flow in million gallons) and strength of their wastewater discharges (biological oxygen demand and suspended solids in tons).

Wastewater beneficial reuse fees are amounts collected from certain power utility companies for reservation of capacity to draw treated effluent from the Authority to be used for cooling water. These revenues are utilized by the Authority to offset the service charges.

The Authority operates in a fully developed service area. The industrial user base has changed substantially with companies relocating, reducing or ceasing manufacturing. This has resulted in a loss of revenue which has been a challenge for the Authority in avoiding large sewer rate increases. With the future reductions in revenue and the increasing costs of operations, maintenance, regulatory compliance and plant upgrades, the Authority maintains strict budgetary controls on expenditures and explores alternative sources of revenues to support its service charge rates. The Authority's future capital projects will downsize the facility organic capacity and implement energy efficient equipment which will result in reduced operating costs for the foreseeable future.

Contacting the Authority's Management

Questions concerning the Authority's annual financial report should be addressed to the Authority's Executive Director at The Linden Roselle Sewerage Authority, 5005 South Wood Avenue, Linden, New Jersey 07036.

BASIC FINANCIAL STATEMENTS

THE LINDEN ROSELLE SEWERAGE AUTHORITY

STATEMENTS OF NET ASSETS
DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>Restated 2010</u>
<u>ASSETS</u>		
Unrestricted Assets:		
Cash and Cash Equivalents	\$ 4,147,216	\$ 3,885,384
Accounts Receivable	<u>1,620,847</u>	<u>1,207,773</u>
<u>Total Unrestricted Assets</u>	<u>\$ 5,768,063</u>	<u>\$ 5,093,157</u>
Restricted Assets:		
Cash and Cash Equivalents	\$ 3,159,539	\$ 4,438,261
Funds held by the NJEIT	<u>-</u>	<u>372,300</u>
<u>Total Restricted Assets</u>	<u>\$ 3,159,539</u>	<u>\$ 4,810,561</u>
Property, Plant and Equipment, at Cost	\$ 64,415,045	\$ 63,136,463
Less: Accumulated Depreciation	<u>39,233,901</u>	<u>37,761,537</u>
<u>Net Property, Plant and Equipment</u>	<u>\$ 25,181,144</u>	<u>\$ 25,374,926</u>
Bond issue costs - net of amortization	<u>215,355</u>	<u>\$ 251,715</u>
<u>TOTAL ASSETS</u>	<u>\$ 34,324,101</u>	<u>\$ 35,530,359</u>

See accompanying notes to financial statements.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

STATEMENTS OF NET ASSETS
DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>Restated</u> <u>2010</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities Payable From Unrestricted Assets:		
Accounts Payable	\$ 521,569	\$ 629,784
Accrued Liabilities	125,590	57,124
Deferred Income	20,318	46,600
<u>Total Current Liabilities Payable From Unrestricted Assets</u>	<u>\$ 667,477</u>	<u>\$ 733,508</u>
Current Liabilities Payable From Restricted Assets:		
Accrued Interest Payable	\$ 79,046	\$ 86,302
Current Portion of Long-term Debt	867,525	1,302,986
<u>Total Current Liabilities Payable From Restricted Assets</u>	<u>\$ 946,571</u>	<u>\$ 1,389,288</u>
Total Long-Term Debt, Net of Current Maturities	\$ 9,338,116	\$ 10,176,667
<u>Total Liabilities</u>	<u>\$ 10,952,164</u>	<u>\$ 12,299,463</u>
Net Assets:		
Invested in Capital Assets, net of Related Liabilities	\$ 15,190,858	\$ 14,519,288
Restricted:		
Operations	2,848,333	2,870,132
Debt Service Reserve	140,128	602,639
Retirement of Capital Appreciation Bonds	-	-
Renewal and Replacement	171,078	965,490
Unrestricted	5,021,540	4,273,347
<u>Total Net Assets</u>	<u>\$ 23,371,937</u>	<u>\$ 23,230,896</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 34,324,101</u>	<u>\$ 35,530,359</u>

See accompanying notes to financial statements.

EXHIBIT B

THE LINDEN ROSELLE SEWERAGE AUTHORITY

STATEMENTS OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Operating Revenues:		
Service Charges	\$ 9,834,777	\$ 10,144,685
Wastewater Beneficial Reuse Fees	365,380	396,520
Interest on Delinquent Accounts	83,852	98,253
Lease Income	38,730	58,330
Miscellaneous Income	<u>17,078</u>	<u>15,446</u>
<u>Total Operating Revenues</u>	<u>\$ 10,339,817</u>	<u>\$ 10,713,234</u>
Operating Expenses:		
Total Operating Costs	\$ 8,404,393	\$ 8,517,430
Depreciation	<u>1,472,364</u>	<u>1,504,610</u>
<u>Total Operating Expenses</u>	<u>\$ 9,876,757</u>	<u>\$ 10,022,040</u>
<u>Operating Income</u>	<u>\$ 463,060</u>	<u>\$ 691,194</u>
Nonoperating Revenues (Expenses):		
Interest Income	\$ 2,565	\$ 8,183
Interest Expense, Net	(288,224)	(347,751)
Amortization of Deferred Bond Issue Costs	<u>(36,360)</u>	<u>(40,347)</u>
<u>Net Income</u>	<u>\$ 141,041</u>	<u>\$ 311,279</u>
Net Assets, Beginning of Year	<u>\$ 23,230,896</u>	<u>\$ 22,919,617</u>
Net Assets, End of Year	<u><u>\$ 23,371,937</u></u>	<u><u>\$ 23,230,896</u></u>

See accompanying notes to financial statements.

THE LINDEN ROSELLE SEWERAGE AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
<u>Cash Flows from Operating Activities:</u>		
Receipts from Service Charges	\$ 9,421,703	\$ 10,806,773
Receipts from Wastewater Beneficial Reuse Fees	365,380	398,520
Receipts from Leases	12,448	58,330
Interest Received on Delinquent Accounts	83,852	98,253
Miscellaneous Receipts	17,078	15,446
Payments to Employees	(2,696,368)	(2,754,110)
Payments for Employee Benefits and Payroll Taxes	(1,601,050)	(1,510,492)
Payments for Operations and Maintenance	<u>(4,146,724)</u>	<u>(4,567,805)</u>
<u>Net Cash Provided by Operating Activities</u>	<u>\$ 1,456,319</u>	<u>\$ 2,542,915</u>
<u>Cash Flows from Capital and Related Financing Activities:</u>		
Principal Payments on Bonds and Loans	\$ (1,302,986)	\$ (1,267,464)
Acquisition of Property, Plant and Equipment	(1,278,582)	(607,182)
Funds Received from the NJEIT	372,300	-
Interest Paid on Bonds	<u>(266,507)</u>	<u>(313,252)</u>
<u>Net Cash Used in Capital and Financing Activities</u>	<u>\$ (2,475,775)</u>	<u>\$ (2,187,898)</u>
<u>Cash Flows from Investing Activities:</u>		
Interest Received	\$ 2,565	\$ 8,183
<u>Net Cash Provided by Investing Activities</u>	<u>\$ 2,565</u>	<u>\$ 8,183</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (1,016,891)	\$ 363,200
Cash and Cash Equivalents, Beginning of Year	<u>8,323,646</u>	<u>7,960,446</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 7,306,755</u></u>	<u><u>\$ 8,323,646</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>		
Operating Income	\$ 463,060	\$ 691,194
Depreciation	1,472,364	1,504,610
Changes in Operating Assets and Liabilities:		
Accounts Receivable	(413,074)	671,797
Accounts Payable and Accrued Liabilities	(39,749)	(324,686)
Deferred Income	<u>(26,282)</u>	<u>-</u>
Net Cash Provided by Operating Activities	<u><u>\$ 1,456,319</u></u>	<u><u>\$ 2,542,915</u></u>

See accompanying notes to financial statements.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

(1) GENERAL

The Linden Roselle Sewerage Authority (the "Authority") is a public body politic and corporate, organized and existing under the Sewerage Authorities Law, constituting Chapter 138 of the P.L. of 1946 of the State of New Jersey and by parallel ordinances adopted in December 1947 by the City of Linden (the "City") and the Borough of Roselle (the "Borough").

The Authority owns and operates a sanitary sewer system providing treatment and disposal of sewerage from the City and the Borough.

Revenue is provided primarily from annual service charges collected from the City, the Borough and customers classified as major industrial users. The service charges are based generally on the Authority's operation and maintenance costs, debt service costs and required reserves appropriated in the annual budget.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation

The financial statements of the Authority have been prepared using economic resources measurement focus and on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. In its accounting and financial reporting, the Authority follows the pronouncements of Government Accounting Standards Board ("GASB"). As permitted by accounting principles generally accepted in the United States, the Authority has elected to not adopt Financial Accounting Standards Board pronouncements issued after November 30, 1989.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funds and Accounts Established by Bond Resolutions and Trust Agreement

In accordance with Bond Resolutions and Trust Agreement securing the 1992 Revenue Bonds and the 1996 Revenue Bonds, the Authority has established various cash and investment accounts with a trustee with restrictions on the use of funds, as follows:

Construction Fund – The construction fund has been established for the payment of the cost of each project for which bonds have been issued under the Trust Agreement. Upon completion of the construction project, any funds remaining and not reserved for unpaid costs shall be transferred to the renewal and replacement fund.

Revenue Fund – All pledged revenues as defined in the Trust Agreement are required to be paid over to the trustee upon receipt and deposited in the revenue fund. Transfers from the revenue fund shall be made on the first day of each month in amounts needed to establish the respective fund balances as follows:

Operating Fund – to the greater of the amount of (i) the Authority's net operating expenses for the current month and the next succeeding three months or (ii) \$1,600,000.

Debit Service Fund – to equal the interest and principal falling due on the Bonds during the fiscal year.

Sinking Fund – to equal the aggregate amount of all sinking fund installments, if any, required to be paid during the fiscal year.

Debt Service Reserve Fund – to maintain or provide an amount equal to the maximum annual net debt service requirement as defined in the Trust Agreement on the bonds for any succeeding fiscal year.

Renewal and Replacement Fund – to equal the reasonably required reserve called for by the Trust Agreement.

General Fund – to deposit therein the balance of the pledged revenues to the extent any monies are available.

Operating Fund – The operating fund is used to pay all reasonable and necessary costs of operating, maintaining and repairing the sewer system (other than the types of repairs budgeted or authorized for payment from the renewal and replacement fund).

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funds and Accounts Established by Bond Resolutions and Trust Agreement (Continued)

Debt Service Fund – The debt service fund shall be used to pay principal and interest on the bonds. When bonds are purchased or redeemed, the amount, if any, in the debt service fund representing interest thereon shall be applied to the payment of accrued interest in connection with any such redemption or purchase and any excess thereof together with any amount representing principal shall be transferred to the renewal and replacement fund.

Sinking Fund – The Trustee shall establish and maintain a separate account for each series of outstanding bonds that mature on a single date and for which sinking fund installments are established. Monies paid into the sinking fund shall be segregated and set aside in said accounts in proportion to the respective amounts of sinking fund installments payable during the next fiscal year with respect to the particular bonds for which such amount is maintained.

The Authority by resolution shall determine whether a sinking fund account established for any series of bonds shall operate as a redemption sinking fund account or as an invested sinking fund account. In addition to transfers from the revenue fund, moneys from the debt service fund may be transferred into this fund as described below.

Debt Service Reserve Fund – The debt service reserve fund is used to make up any deficiencies in the debt service fund or any other sinking fund account. In addition to transfers from the revenue fund, moneys from the renewal and replacement and the general funds may be transferred into this fund as described below.

Renewal and Replacement Fund – If the amount in the debt service reserve fund shall be less than the maximum annual net debt service requirement, the Trustee shall withdraw from the renewal and replacement fund and pay into the debt service reserve fund the amount needed to increase the amount in the debt service reserve fund so that it equals such maximum annual net debt service requirement. Monies in the fund may be applied to the reasonable and necessary expenses of the Authority with respect to the sewer system for extraordinary improvements, constructions, major repairs, renewals, replacements or maintenance items of a type not recurring annually or at shorter intervals and for costs or equipment.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Funds and Accounts Established by Bond Resolutions and Trust Agreement (Continued)

General Fund – If the amount in the debt service reserve fund shall be less than the maximum annual net debt service requirement, the Trustee shall withdraw from the general fund and pay into the debt service reserve fund the amount needed to increase the amount in the debt service reserve fund so that it equals the maximum annual net debt service requirement. Under the conditions set forth in the Trust Agreement, the Trustee may transfer monies from the general fund to the revenue fund of the Authority to be spent for any lawful purpose.

Annual Net Debt Service Reserve Requirement – Under the Trust Agreement, this represents debt service requirements for any fiscal year, including principal and interest due on all outstanding bonds and any sinking fund installments, less determinable investment income projected to be received on investment securities and other investment obligations purchased from time to time from pledged revenues and held by the trustee in the invested sinking fund.

The Authority has determined that, for purposes of funding the debt service reserve funds as required under the Trust Agreement, the maximum annual net debt service requirement amounts to \$140,128, and does not include the debt service on the loans payable to the New Jersey Environmental Infrastructure Trust and the New Jersey Economic Development Authority.

Revenue and Expense Classification

The Authority distinguishes operating revenues and expenses from non-operating items in the preparation of its financial statements. Operating revenues consists of service charges and wastewater beneficial reuse fees derived from the operation of the Authority's sanitary sewer system and the providing of treatment and disposal of sewerage from the City, the Borough and other customers. Operating expenses consists primarily of personnel costs, administrative expenses, power, sludge removal and other plant expenses related to the operation of the sanitary sewer system and the delivery of treatment and disposal services. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Cash Equivalents

The Authority considers investments with original maturities of three months or less when acquired to be cash equivalents.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

Capital assets are stated at cost which includes direct construction costs and capitalized interest (net of related interest income and other expenses related to construction). The capitalization threshold for the particular classification of capital assets is as follows:

<u>Asset</u>	<u>Threshold</u>
Land	All
Building and Equipment	All
Machinery and Equipment	\$2,500
Furniture and Fixtures	\$1,000
Computer equipment	\$1,000

Depreciation is determined on a straight-line basis for all capital assets, except land and construction in progress. Depreciation is provided over the estimated useful lives of the assets ranging from 3 to 48 years.

Details of property, plant and equipment as of December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Land	\$ 236,512	\$ 236,512
Buildings and Improvements	57,967,091	57,125,956
Machinery and Equipment	5,592,404	5,520,715
Furniture and Fixtures	53,878	53,878
Construction in Progress	<u>565,160</u>	<u>199,402</u>
	\$64,415,045	\$63,136,463
Less: Accumulated Depreciation	<u>39,233,901</u>	<u>37,761,537</u>
Net Property, Plant and Equipment	<u>\$25,181,144</u>	<u>\$25,374,926</u>

Interest Expense – Capital Appreciation Bonds

The original issue discount on the Capital Appreciation Bonds is being amortized over the life of the bonds by the effective-interest method.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory

Inventory of spare parts and supplies is recorded as an expense when purchased and accordingly, is not included in the statements of net assets.

Income Taxes

No provision for income taxes has been made as the Authority is exempt from Federal and State income taxes.

Bond Issue Costs

Costs related to the insurance of the bonds are being amortized on the interest method over the life of the bonds.

Net Assets

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first and unrestricted resources as needed.

Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(3) BUDGETARY PROCEDURES

The Authority follows these procedures in establishing the Operating Fund budget:

The annual budget for each fiscal year of the Authority is introduced by resolution passed by not less than a majority of the governing body. Copies are submitted to the Director of the Division of Local Government Services Director (Director) for approval prior to its adoption.

The budget must comply with the terms and provisions of loan agreements, and is to be in such form and detail as to items of revenue, expenses and other contents as required by law or by rules and regulations of the Local Finance Board.

No authority budget can be finally adopted until the Director has approved the budget.

Public hearings are conducted to obtain citizen comments on the proposed budget.

Operating expense appropriations lapse at the close of the fiscal year to the extent that they have not been expended.

The level at which expenditures cannot exceed the budget is at the total budget level.

The budget may be increased after adoption when an item of revenue has been made available after the adoption date.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(4) DEPOSITS AND INVESTMENTS

Cash and cash equivalents consist primarily of cash deposits and treasury money market funds. Cash on deposit (unrestricted and restricted), which totaled \$7,306,755 and \$8,323,645 in 2011 and 2010, respectively, is partially insured by federal deposit insurance in the amount of \$250,000 in each depository. Balances above the federal deposit insurance amount are insured by a collateral pool maintained by the bank as required by New Jersey statutes under the New Jersey Governmental Unit Deposit Protection Act ("GUDPA").

GASB Statement No. 40 requires that the Authority disclose whether its deposits are exposed to custodial credit risk (risk that in the event of failure of the counterparty, the Authority would not be able to recover the value of its deposit or investment). Deposits are considered to be exposed to custodial credit risk if they are: uninsured and uncollateralized (securities are not pledged to the depositor), collateralized with the securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the name of the Authority.

The Authority does not have a policy for the management of custodial credit risk, other than depositing all of its funds in banks covered by GUDPA. At December 31, 2011, the Authority was not exposed to custodial credit risk.

(5) FUNDS HELD BY NEW JERSEY ENVIRONMENTAL INFRASTRUCTURE TRUST ("NJEIT")

In 2003, the Authority completed the financing with New Jersey Environmental Infrastructure Trust ("NJEIT") for the restoration, rehabilitation, upgrade and/or replacement of all of its sludge handling facilities (the "Sludge Handling Facilities Project"). The financing consisted of an interest-bearing and non-interest bearing loan in the amount of \$13,897,579. Under the terms of the financing, the proceeds from the loans are held by NJEIT and released to the Authority based on approved requisitions for the payment of costs incurred on the project. At December 31, 2011 all funds have been received.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(6) CAPITAL ASSETS

Capital Assets are summarized as follows:

	<u>Balance</u> <u>Dec 31, 2010</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>Dec 31, 2011</u>
Land	\$ 236,512			\$ 236,512
Buildings and Improvements	57,125,956	\$ 841,135		57,967,091
Machinery and Equipment	5,520,715	71,689		5,592,404
Furniture and Fixtures	53,878			53,878
Construction in Progress	<u>199,402</u>	<u>786,045</u>	<u>\$420,287</u>	<u>565,160</u>
	<u>\$63,136,463</u>	<u>\$1,698,869</u>	<u>\$420,287</u>	<u>\$64,415,045</u>
Less: Accumulated Depreciation	<u>37,761,537</u>	<u>1,472,364</u>	<u>---</u>	<u>39,233,901</u>
Net Property, Plant and Equipment	<u>\$25,374,926</u>	<u>\$ 226,505</u>	<u>\$420,287</u>	<u>\$25,181,144</u>

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(7) LONG TERM DEBT

Long-term debt activity for the years ended December 31, 2011 was as follows:

	<u>2011</u>	<u>2010</u>
1992 Capital Appreciation Bonds:		
Principal	\$ 690,000	\$ 830,000
Unamortized Original Issue Discount	<u>(105,459)</u>	<u>(148,616)</u>
Accreted value	584,541	681,384
1996 Revenue Bonds	- 0 -	450,000
New Jersey Environmental Infrastructure Trust 2003 Loans	9,335,560	9,999,935
Unamortized Premium	<u>91,094</u>	<u>105,277</u>
Loan carrying value	9,426,654	10,105,212
New Jersey Economic Development Loan, Non- Interest Bearing	<u>194,446</u>	<u>243,057</u>
Total Debt	\$10,205,641	\$11,479,653
Less Current Maturities	<u>867,525</u>	<u>1,302,986</u>
Total Long-Term Debt	<u>\$ 9,338,116</u>	<u>\$10,176,667</u>

Detail information regarding Long Term Debt at December 31, 2011 and 2010 is as follows:

1992 Revenue Refunding Bonds (the "1992 Bonds")

The 1992 capital appreciation bonds mature in annual installments through 2016 at varying accreted values ranging from \$135,000 to \$140,000 per year. The yield on these bonds is 6.90%. The 1992 bonds are not subject to redemption prior to maturity.

Pledged revenues include all revenues derived from the ownership of the Sewer System. The bonds are payable with pledged revenue through 2016. Total principal and interest remaining on the debt totals \$690,000 and \$830,000 at December 31, 2011 and 2010, respectively.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(7) LONG TERM DEBT (CONTINUED)

1996 Revenue Bonds (the "1996 Bonds")

The 1996 Bonds consist of serial bonds that matured with a final installment of \$450,000 during 2011. The yield on these bonds was 5.35%.

2003 NJEIT Loans

New Jersey Environmental Infrastructure Trust ("NJEIT") financing consists of an interest-bearing loan in the amount of \$7,090,000 (the "Trust Loan") and a non-interest-bearing loan in the amount of \$6,807,579 (the "Fund Loan"). This financing completed the Authority's funding requirements of the Sludge Handling Facilities Project in 2003.

The Trust Loan consists of bonds maturing in annual installments ranging from \$315,000 to \$540,000 to 2023. The yield on these bonds ranges from 4.00% to 5.00%.

The Fund Loan consists of bonds maturing in semiannual installments through 2023.

New Jersey Economic Development Loan

The Port Authority of New York and New Jersey (the "PANYNJ") provided the Authority with a non interest-bearing credit facility of up to \$875,000 to finance the costs of certain improvements to the sewer system. The funds were released to the Authority on a monthly basis based upon actual costs incurred on the project from August 8, 1991 to April 30, 1996. On November 1, 1996, PANYNJ assigned its rights, title and interest to receive the loan payments, loan amount and the original loan agreement to the New Jersey Economic Development Authority. The loan is payable with equal annual installments of \$48,611 through 2015. The amount outstanding at December 31, 2011 is \$194,446.

Annual Debt Service on Outstanding Bonds and Loans

Aggregate long-term principal debt payment requirements during the next five years are as follows:

2012	\$ 867,525
2013	876,603
2014	903,293
2015	870,758
2016	890,512

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(8) NET ASSETS

The components of net assets are as follows:

	<u>December 31,</u> <u>2011</u>	<u>2010</u>
Net Assets:		
Invested in Capital Assets, net of related liabilities	\$15,190,858	\$14,519,288
Restricted:		
Operations	2,848,333	2,870,132
Debt Service Reserve	140,128	602,639
Retirement of Capital Appreciation Bonds	- 0 -	- 0 -
Renewal and Replacement	171,078	965,490
Total Restricted	<u>\$ 3,159,539</u>	<u>\$ 4,438,261</u>
Unrestricted	<u>5,021,540</u>	<u>4,273,347</u>
	<u>\$23,371,937</u>	<u>\$23,230,896</u>

The Authority appropriated \$850,000 and \$375,000 of Unrestricted Net Assets to fund a portion of its Operating Budgets for the years 2012 and 2011, respectively

(9) PENSION PLAN

Authority employees participate in the Public Employees' Retirement System (PERS) of New Jersey, a multi-employer cost sharing plan. The Division of Pensions within the Treasury Department of the State of New Jersey is the administrator of the plan. The plan does not maintain separate records for each member in the state and, therefore, the actuarial data for the Authority is not available.

Participating employees are required by State statute to contribute 5.5% of their base salary to the plan through September 30, 2011. Beginning October 1, 2011 employees were required to contribute 6.5% of their base salary to the plan. In addition, PERS generally requires the Authority to fund a contribution. The Authority funded contributions of \$280,115 and \$227,356 to the Plan in the years 2011 and 2010, respectively.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(10) OTHER POSTEMPLOYMENT BENEFITS

The Authority provides post-retirement health benefits to employees who retire with 25 years or more of service within the system. Employees with ten (10) or more years of service may also qualify for benefits under the Disability Retirement Provisions of the Plan. There are currently twelve (12) retirees who meet this requirement and are receiving benefits.

Plan Description. The Authority contributes to the State Health Benefits Program (SHBP) a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq. to provide health benefits to State employees, retirees, and their dependents. The SHBP was extended to employees, retirees, and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents. The State Health Benefits Commission is the executive body established by statute to be responsible for the operation of the SHBP. The State of New Jersey Division of Pensions and Benefits issues a publicly available financial report that includes financial statements and required supplementary information for the SHBP.

That report may be obtained by writing to: State of New Jersey Division of Pensions and Benefits, P.O. Box 295, Trenton, NJ 08625-0295 or by visiting their website at <http://www.state.nj.us/treasury/pensions>.

Funding Policy. Contributions to pay for the health premiums of participating employees in the SHBP are billed to the Authority on a monthly basis. Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. In accordance with Chapter 62, P.L. 1994, post-retirement medical benefits have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis. The Authority's contributions to SHBP for the years ended December 31, 2011 and 2010 were \$104,161 and \$138,609, respectively, which equaled the required contributions for each year.

(11) RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destructions of assets; error and omission; injuries to employees; and natural disaster. The Authority contracts for commercial liability insurance for property, general liability, auto liability, public official liability, law enforcement liability, workers' compensation, employee health and life insurance. There were no significant reductions in insurance coverage for each of the past three years.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2011 AND 2010

(12) SUBSEQUENT EVENTS

The Authority has evaluated subsequent events occurring after the financial statement date through May 14, 2012, which is the date the financial statements were available to be issued. Based on this evaluation, the Authority has determined that no subsequent events have occurred which require disclosure in the financial statements.

(13) COMMITMENTS AND CONTINGENCIES

The Authority engaged the services of a private contractor for sludge removal and disposal under various contracts extending up to June 2012. The contractor is compensated on a per ton basis at annual rates specified in the contracts which are based on estimated annual tonnages. Sludge removal and disposal costs based on the currently effective agreement amounted to \$1,263,804 and \$1,306,593 in the years 2011 and 2010, respectively.

The Authority is subject to extensive federal and state environmental regulations. The Authority's management is not aware of any violations that may have a material effect on the financial statements

(14) FINANCIAL STATEMENT RESTATEMENT

As of January 1, 2011, the Authority restated its 2010 financial statements to reflect the overstatement of various Net Asset accounts, which were not in agreement with the Bond Resolution requirements. The effect of this restatement is a correction to the following Net Asset accounts as of December 31, 2010:

	<u>Restated 2010</u>	<u>Per Audit 2010</u>
Net Assets:		
Invested in Capital Assets, Net of Related Liabilities	\$14,519,288	\$13,532,423
Restricted:		
Operations	2,870,132	2,981,800
Debt Service Reserve	620,639	602,639
Retirement of Capital Appreciation Bonds	-	82,294
Renewal and Replacement	965,490	650,766
Unrestricted	<u>4,273,347</u>	<u>5,380,974</u>
<u>Total Net Assets</u>	<u>\$23,230,896</u>	<u>\$23,230,896</u>

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SUPPLEMENTARY INFORMATION

THE LINDEN ROSELLE SEWERAGE AUTHORITY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS RESERVED AND UNRESERVED
YEARS ENDED DECEMBER 31, 2011 AND 2010

	OPERATING AND REVENUE FUNDS AND INVESTMENT IN CAPITAL ASSETS, NET	OPERATIONS	DEBT SERVICE RESERVE	RESTRICTED RETIREMENT OF CAPITAL APPRECIATION BONDS	RENEWAL AND REPLACEMENT	TOTAL 2011	TOTAL 2010
Operating Revenues:							
Service Charges	\$ 9,834,777	\$	\$	\$	\$	\$ 9,834,777	\$ 10,144,685
Wastewater Beneficial Reuse Fees	365,380					365,380	396,520
Interest on Delinquent Accounts	83,852					83,852	98,253
Lease Income	38,730					38,730	58,330
Miscellaneous Income	17,078					17,078	15,446
<u>Total Operating Revenues</u>	<u>\$ 10,339,817</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 10,339,817</u>	<u>\$ 10,713,234</u>
Operating Expenses:							
Total Operating Costs	\$ 8,404,393	\$	\$	\$	\$	\$ 8,404,393	\$ 8,517,430
Depreciation	1,472,364					1,472,364	1,504,610
<u>Total Operating Expenses</u>	<u>\$ 9,876,757</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 9,876,757</u>	<u>\$ 10,022,040</u>
Operating Income	\$ 463,060	\$	\$	\$	\$	\$ 463,060	\$ 691,194
Nonoperating Revenues (Expenses):							
Interest Income	2,003	\$	128	\$	\$	2,565	8,183
Interest Expense, Net	(288,224)				434	(288,224)	(347,751)
Amortization of Deferred Bond Issue Costs	(36,360)					(36,360)	(40,347)
Income Before Transfers	\$ 140,479	\$ -	\$ 128	\$ -	\$ 434	\$ 141,041	\$ 311,279
Interfund Transactions	\$ 1,279,284	\$ (21,799)	\$ (462,639)	\$	\$ (794,846)	\$ -	\$ -
Net Assets, Beginning of Year	\$ 18,792,635	\$ 2,870,132	\$ 602,639	\$ -	\$ 965,490	\$ 23,230,896	\$ 22,919,617
Net Assets, End of Year	\$ 20,212,358	\$ 2,848,333	\$ 140,128	\$ -	\$ 171,078	\$ 23,371,937	\$ 23,230,896

THE LINDEN ROSELLE SEWERAGE AUTHORITY

SCHEDULE OF OPERATING REVENUES
AND COSTS FUNDED BY OPERATING
REVENUES COMPARED TO BUDGET
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	<u>2011</u> <u>BUDGET</u>	<u>2011</u> <u>ACTUAL</u>	<u>2010</u> <u>ACTUAL</u>
Revenues:			
Service Charges:			
Major Users	\$ 1,524,806	\$ 1,745,001	\$ 2,246,954
Other Users	4,676,780	4,839,696	4,740,354
Borough of Roselle	2,637,188	2,630,926	2,639,987
Industry Assessment:			
Service Charges	563,900	619,154	517,390
Wastewater Beneficial Reuse Fees	398,750	365,380	396,520
Lease Income	39,250	38,730	58,330
Interest on Delinquent Accounts	-	83,852	98,253
Miscellaneous	77,500	17,078	15,446
Interest Income	\$ 7,000	\$ 2,565	\$ 8,183
<u>TOTAL REVENUES</u>	<u>\$ 9,925,174</u>	<u>\$ 10,342,382</u>	<u>\$ 10,721,417</u>

THE LINDEN ROSELLE SEWERAGE AUTHORITY

SCHEDULE OF OPERATING REVENUES
AND COSTS FUNDED BY OPERATING
REVENUES COMPARED TO BUDGET
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011 <u>BUDGET</u>	2011 <u>ACTUAL</u>	2010 <u>ACTUAL</u>
Operating Expenses:			
Salaries and Wages	\$ 2,800,000	\$ 2,764,834	\$ 2,783,683
Employee Benefits	1,565,400	1,601,050	1,508,854
Office Expense	69,000	58,928	56,842
Trustee and Paying Agent Fee	3,200	3,767	3,767
Professional, Consulting and Training	248,700	276,905	247,333
Insurance	114,000	110,685	96,440
Power	1,556,000	1,488,135	1,749,973
Gas, Fuel, Oil and Water	151,000	198,104	148,461
Chemicals	159,600	123,087	128,646
Plant Maintenance, Supplies and Equipment	153,500	135,830	111,844
Contract Services	80,500	64,524	86,601
Lab Supplies and Equipment	37,000	26,437	16,555
Outside Labs and Permits	19,000	12,822	27,725
Sludge Removal	1,372,300	1,263,804	1,306,593
User Charge Expense	41,000	47,984	41,159
Other Environmental Enforcement Requirements	190,200	177,313	162,062
Contingency and Miscellaneous	50,000	50,184	40,892
Total Operating Expenses	\$ <u>8,610,400</u>	\$ <u>8,404,393</u>	\$ <u>8,517,430</u>
Other Costs Funded by Revenues:			
Interest Expense	\$ 286,788	\$ 302,407	\$ 298,420
Principal Maturity on Notes and Bonds	1,302,986	1,302,986	1,267,464
Renewal and Replacement Reserves	100,000	100,000	550,000
Total Other Costs	\$ <u>1,689,774</u>	\$ <u>1,705,393</u>	\$ <u>2,115,884</u>
TOTAL COSTS	\$ 10,300,174	\$ 10,109,786	\$ 10,633,314
Unreserved Retained Earnings Utilized	<u>(375,000)</u>	<u>(375,000)</u>	<u>(600,000)</u>
Net Total Appropriations	<u>9,925,174</u>	<u>9,734,786</u>	<u>10,033,314</u>
EXCESS OF REVENUES OVER COSTS	\$ <u><u>-</u></u>	\$ <u><u>607,596</u></u>	\$ <u><u>688,103</u></u>

SCHEDULE 3

THE LINDEN ROSELLE SEWERAGE AUTHORITY

BONDS PAYABLE

1992 REFUNDING REVENUE BONDS
CAPITAL APPRECIATION BONDS

DECEMBER 31, 2011

<u>YEAR OF</u> <u>MATURITY</u>	<u>INTEREST</u> <u>RATE</u>	<u>ISSUED</u> <u>VALUE</u>	<u>PRINCIPAL</u> <u>DUE</u> <u>JUNE 1</u>	<u>ACCRETED</u> <u>VALUE</u>
2012	6.900%	\$ 35,550	\$ 140,000	\$ 135,331
2013	6.900%	32,033	135,000	121,939
2014	6.900%	30,709	140,000	118,019
2015	6.900%	27,656	135,000	106,288
2016	6.900%	26,786	140,000	102,945
		<u>\$ 152,734</u>	<u>\$ 690,000</u>	<u>\$ 584,522</u>

The bonds pay interest annually.

THE LINDEN ROSELLE SEWERAGE AUTHORITYBONDS PAYABLE2003 NJEIT LOANS PAYABLEDECEMBER 31, 2011

<u>YEAR OF MATURITY</u>	<u>INTEREST RATE</u>	<u>TRUST LOAN</u>		<u>FUND LOAN PRINCIPAL</u>	<u>TOTAL</u>
		<u>PRINCIPAL</u>	<u>INTEREST</u>		
2012	5.000%	\$ 330,000	\$ 237,730	\$ 348,914	\$ 916,644
2013	5.000%	345,000	221,230	347,992	914,222
2014	5.000%	365,000	203,980	349,682	918,662
2015	4.000%	385,000	185,730	350,758	921,488
2016	4.000%	400,000	170,330	350,512	920,842
2017	4.200%	415,000	154,330	349,897	919,227
2018	4.250%	430,000	136,900	348,404	915,304
2019	5.000%	450,000	118,625	349,464	918,089
2020	5.000%	470,000	96,125	347,928	914,053
2021	4.500%	495,000	72,625	349,849	917,474
2022	4.750%	520,000	50,350	350,524	920,874
2023	4.750%	540,000	25,650	346,636	912,286
		<u>\$ 5,145,000</u>	<u>\$ 1,673,605</u>	<u>\$ 4,190,560</u>	<u>\$ 11,009,165</u>

The bonds pay interest semi-annually.

THE LINDEN ROSELLE SEWERAGE AUTHORITY

ROSTER OF OFFICIALS

DECEMBER 31, 2011

<u>Name</u>	<u>Title</u>
John A. Ziemian	Chairman
Frank P. Koczur	Vice Chairman
John Hreha	Treasurer
To Be Appointed	Secretary
Robert F. Bunk	Alternate Member
To Be Appointed	Alternate Member
Gary G. Fare	Executive Director
Kenneth J. Benko	Finance Manager
Weiner Lesniak LLP	Legal Advisor

THE LINDEN ROSELLE SEWERAGE AUTHORITY

DECEMBER 31, 2011

GENERAL COMMENTS AND RECOMMENDATIONS

COMMENTS

The accounts receivable detail for the Linden non-major users was not reconciled to the general ledger.

The restricted net assets as recorded are not in agreement with the requirements of the bond resolution.

RECOMMENDATIONS

That the accounts receivable detail for the Linden non-major users be reconciled to the general ledger.

That the restricted net assets be in agreement with the requirements of the bond resolution.