

The Linden Roselle Sewerage Authority

Financial Statements

December 31, 2012 and 2011

With Independent Auditors' Report

and

Reports on Internal Control and Compliance

The Linden Roselle Sewerage Authority
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December 31, 2012 and 2011

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Independent Auditors' Report

The Honorable Chairman and Members of the Board
The Linden Roselle Sewerage Authority
Linden, New Jersey

Report on the Financial Statements

We have audited the accompanying statement of fund net assets of the Linden Roselle Sewerage Authority (the "Authority") at December 31, 2012, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the year then ended and notes to the financial statements, which collectively comprise the Authority's 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the regulatory basis financial statements are free of 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 auditor's 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.

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

Basis for Unqualified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority at December 31, 2012, and changes in its financial position and its cash flow for the year then ended in conformity with accepted accounting principles in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying supplementary sections and schedule of expenditures of state awards, as required by *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* and New Jersey State Office of Management and Budget Circular Letter 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The information included in the supplemental sections and schedule of expenditures of state awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental sections and schedule of expenditures of state awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The information included in the Officials in Office and Surety Bonds have not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

The financial statements for 2011 were audited by other auditors and their reports dated May 14, 2012 expressed unqualified opinions and no modifications to supplementary information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2013 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, and grant agreements 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 internal control over financial reporting or on compliance. That report is 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.

For Training Purposes Only

Livingston, New Jersey
April 24, 2013

**The Linden Roselle Sewerage Authority
Management's Discussion and Analysis
December 31, 2012 and 2011**

This section of the annual financial statements of The Linden Roselle Sewerage Authority (the "Authority") presents Management's Discussion and Analysis ("MD&A") of the activities and financial performance of the Authority for the years ended December 31, 2012 and 2011. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole. This should be read in conjunction with the Authority's financial statements and accompanying notes.

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.

Overview of the Financial Statements

The Authority is a self-supporting entity and follows enterprise fund reporting. The Authority's financial statements are presented using the economic resources measurements focus and the accrual basis of accounting.

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

The Statement of Net Assets presents the financial position of the Authority on a historical cost basis. These statements present information on the Authority's assets, 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 Revenue, Expenses and Changes in Net Assets present the results of the business activities over the course of the year and information as to how the net assets changed during the year.

The Statement of Cash Flows presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. These statements present cash receipt 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 balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any.

2012 Financial Highlights

Cash and cash equivalents increased by \$1,761,703 (24.1%) to \$9,068,458 in 2012 from \$7,306,703 in 2011.

Funds held by New Jersey Environmental Infrastructure Trust ("NJEIT") increased \$2,974,442 in 2012 from zero in the prior year. The funds consist of the remaining proceeds of the 2012 financing of the restoration, rehabilitation, and upgrade of the plant (the "Liquid End Project").

Total current assets, inclusive of the funds held by NJEIT, increased by \$4,673,430 (52.3%) to \$13,599,492 in 2012 from \$8,927,602 in 2011.

Debt (bonds and loans payable), inclusive of the financing from NJEIT, increased by \$6,920,223 (67.8%) to \$17,125,864 in 2012 from \$10,205,641 in 2011.

Operating revenues decreased by \$124,734 (-1.2%) to \$10,215,083 in 2012 from \$10,339,817 in 2011.

Operating expenses decreased by \$1,035,093 (-12.3%) to \$7,369,300 in 2012 from \$8,404,393 in 2011.

The Authority had operating income of \$1,376,309 in 2012 and \$463,060 in 2011.

Net assets increased by \$1,002,587 in 2012 and \$141,041 in 2011.

Financial Analysis of the Authority

Financial Position. The following table summarizes assets, liabilities and net assets of the Authority as of December 31, 2012, 2011, and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Current Year % Increase (Decrease)</u>
Current assets:				
Cash and cash equivalents	\$ 9,068,458	\$ 7,306,755	\$ 8,323,645	24.1%
Funds held by NJEIT	2,974,442		372,300	
Other current assets	<u>1,556,593</u>	<u>1,620,847</u>	<u>1,207,773</u>	(4.0)%
Total current assets	13,599,493	8,927,602	9,903,718	52.3%
Capital assets - property, plant and equipment (net)	28,496,014	25,181,144	25,374,926	13.2%
Non-current assets - debt issuance costs (net)	<u>182,655</u>	<u>215,355</u>	<u>251,715</u>	(15.2)%
Total assets	42,278,162	34,324,101	35,530,359	23.2%
Current liabilities (excluding current portion of bonds and loans payable)	282,119	620,933	762,686	(54.6)%
Bonds and loans payable:				
Current portion	1,224,742	867,525	1,302,986	41.2%
Long-term portion	<u>15,901,122</u>	<u>9,338,116</u>	<u>10,176,667</u>	70.3%
	17,407,983	10,826,574	12,242,339	60.8%
Other non-current liabilities	<u>495,655</u>	<u>125,590</u>	<u>57,124</u>	294.6%
Total liabilities	<u>17,903,638</u>	<u>10,952,164</u>	<u>12,299,463</u>	63.5%
Net assets	<u>24,374,524</u>	<u>23,371,937</u>	<u>23,230,896</u>	4.3%
Net assets consist of:				
Invested in capital assets, net of related debt	14,820,059	15,190,858	14,519,288	(2.4)%
Restricted	3,618,420	4,159,539	4,438,261	(13.0)%
Unrestricted	<u>5,936,045</u>	<u>5,021,540</u>	<u>4,273,347</u>	18.2%
	<u>\$ 24,374,524</u>	<u>\$ 23,371,937</u>	<u>\$ 23,230,896</u>	4.2%

During 2012:

Cash and cash equivalents increased due mainly to the increase in NJEIT funds and a decrease in expenses.

The decrease in current liabilities resulted mainly from the timing of payment of expenses.

The Authority is currently in repayment of two NJEIT debt issuances for plant improvements relating to Sludge Handling Facilities and Liquid End Facilities, respectively. In 2012, the Authority made payments of \$912,777 on the Sludge Handling Facilities Project and payments of \$210,708 on the Liquid End Facilities Project. The Sludge Handling Facility improvements are complete and have been placed in service. The Liquid End Facilities improvements are currently in process and financing claims are

released to the Authority based on approved requisitions for the expenditures incurred on the Project, subject to NJEIT review and approval.

Capital assets, net of accumulated depreciation, decreased as a result of depreciation expense of approximately \$1.5 million and disposal of assets no longer in use.

Debt increased due to the NJEIT financing of \$7,764,648, which was offset by approximately \$32,700 accretion as result of the amortization of original issue discount on the 1992 capital appreciation bonds and the payment of principal of \$1,010,000 which accounted for the decrease in bonds and loans payable.

Net assets invested in capital assets, net of related debt, decreased as a result of current year depreciation expense offset by the scheduled debt service payments made during the year. The unrestricted assets increased in the current year mainly due to current year income.

Results of Operations. The following table summarized the revenues, expenses and charges in fund net assets of the Authority for the years ended December 31, 2012, 2011, and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>Current Year % Increase (Decrease)</u>
Revenues:				
Operating revenues:				
Service charges	\$9,207,337	\$9,834,777	\$10,144,685	(6.4)%
Wastewater beneficial reuse	398,794	365,380	396,520	9.1%
Sandy related reimbursements	450,000			
Other	150,528	122,582	172,029	22.8%
Non-operating revenues:				
Interest and investment income	8,424	17,078	8,183	(50.7)%
Total revenues	<u>10,215,083</u>	<u>10,339,817</u>	<u>10,721,417</u>	(1.2)%
Expenses:				
Operating expenses	7,369,300	8,404,393	8,517,430	(12.3)%
Depreciation	1,469,473	1,472,364	1,504,610	(0.2)%
Non-operating expenses:				
Interest expense	344,423	288,224	347,751	19.5%
Other	29,300	33,795	40,347	(13.3)%
Total expenses	<u>9,212,496</u>	<u>10,198,776</u>	<u>10,410,138</u>	(9.7)%
Change in net assets	<u>1,002,587</u>	<u>141,041</u>	<u>\$ 311,279</u>	610.9%

Service charges are collected from the City of Linden (the "City"), the Borough of Roselle (the "Borough") and certain industrial and commercial customers (the "Major Users") for the recovery of 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 the 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).

On October 29, 2012, Super Storm Sandy caused significant damage to the Authority's plant and equipment. While the Authority's wastewater treatment operations were not interrupted, business operations were negatively impacted as the Authority's server was lost and systems became unavailable for several weeks. As of December 31, 2012, the Authority estimated plant and equipment losses of \$450,000, all of which the Authority anticipates will be recoverable from FEMA and flood insurance, net of applicable deductibles.

The service charges to the City, the Borough and the 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>
2012	\$4,969,223	\$2,641,364	\$1,597,750	\$9,207,337
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

Wastewater beneficial reuse fees are amounts collected from PSE&G 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.

During 2012:

Revenue from major users continues to drop.

FEMA claims and insurance payments are approximately \$450,000.

Other revenues consisted of lease and miscellaneous income.

Operating expenses in 2012 decreased by \$1,035,093 from 2011, primarily due to the following: decrease in sludge barging costs of approximately \$637,000, decrease in high tension power costs of approximately \$192,000, decrease in professional service fees of approximately \$46,000 and decrease of \$28,000 in contract services.

Interest expense increased \$56,199, mainly due to the new NJEIT loan.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The investment in capital assets and the related financing costs account for a significant portion of the Authority's budget and, consequently, of the service charges to its customers. The Authority's investment in capital assets consists of land, buildings and improvements, machinery and equipment, furniture and fixtures, and construction in progress aggregating to \$69,116,856 and \$64,415,045 at December 31, 2012 and 2011, respectively. Accumulated depreciation amounted to \$40,620,842 and \$39,233,901 at those respective dates. The increase in accumulated depreciation is the result of the current year depreciation expense and disposal of capital assets no longer in use.

Debt

The authority structures its capital financing plan in a manner that avoids or minimizes significant fluctuations in year-to-year service charge assessments to its customers, although there was an NJEIT issuance of approximately \$7,900,000 in 2012

For the year ended December 31, 2012, the Authority had \$17,125,864 in outstanding debt. The Authority retired \$1,009,618 of debt during 2012.

More detailed information about debt can be found in Note 6 of the notes to financial statements.

Economic Outlook

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 cost of operations, maintenance, regulatory compliance and plant upgrades, the Authority maintains strict budgetary controls on expenditures and explores alternative sources of revenue to support its service charge rates. The Authority is currently engaged in the Liquid End Facilities improvements which will downsize the facility's Biochemical Oxygen Demand (BOD) levels from 71,000 pounds per day to 40,000 pounds per day and implement energy efficient equipment, resulting in reduced operating costs for the foreseeable future.

Contacting the Authority's Management

This financial report is designed to provide the residents of the City of Linden, the Borough of Roselle, the Authority's Major Users and creditors with a general overview of the Authority's finances to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Executive Director, The Linden Roselle Sewerage Authority, 5005 South Wood Avenue, Linden, New Jersey 07036. The Authority's telephone number is .908-862-7100.

The Linden Roselle Sewerage Authority
Statements of Fund Net Assets
December 31, 2012 and 2011

	2012	2011		2012	2011
Assets			Liabilities		
Current assets:			Current liabilities		
Unrestricted			Payable from unrestricted assets:		
Cash and cash equivalents	\$ 5,727,770	\$ 4,147,216	Accounts payable	\$ 94,854	\$ 521,569
Insurance claims receivable	450,000	-	Deferred income	20,559	20,318
Accounts receivable	1,106,592	1,620,847	Other accrued liabilities	495,655	125,590
Total unrestricted assets	7,284,362	5,768,063	Total payable from unrestricted assets	611,068	667,477
Restricted:			Payable from restricted assets:		
Cash and cash equivalents	3,340,688	3,159,539	Accrued interest payable	166,706	79,046
Funds held by New Jersey			Current portion of long-term debt	1,224,742	867,525
Infrastructure Trust	2,974,442	-	Total payable from restricted assets	1,391,448	946,571
Total restricted assets	6,315,130	3,159,539	Total current liabilities	2,002,516	1,614,048
Total current assets	13,599,492	8,927,602			
Capital assets:			Long-term debt - net of current portion	15,901,122	9,338,116
Land	236,512	236,512	and unamortized discount and premium	17,903,638	9,338,116
Buildings and improvements	58,036,573	57,967,091	Total liabilities		
Machinery and equipment	5,568,490	5,592,404	Net assets		
Furniture and fixtures	53,878	53,878	Invested in capital assets, net of related debt	14,820,059	15,190,858
Construction in progress	5,221,403	565,160	Committed for:		
	69,116,856	64,415,045	Operations	2,777,500	2,848,333
Less accumulated depreciation	40,620,842	39,233,901	Debt service reserve	140,051	140,128
Net	28,496,014	25,181,144	Renewal and replacement	700,869	171,078
Bond issue costs - net of amortization	182,655	215,355	Unassigned	5,936,045	5,021,540
			Total net assets	24,374,524	23,371,937
				\$ 42,278,162	\$ 34,324,101

The Notes to Financial Statements are an integral part of these statements

The Linden Roselle Sewerage Authority
Statements of Revenues, Expenses and Changes in Fund Net Assets
Years Ended December 31, 2012 and 2011

Exhibit B

	Year Ended December 31	
	2012	2011
Operating revenues:		
Service charges	\$ 9,207,337	\$ 9,834,777
Wastewater beneficial reuse fees	398,794	365,380
Interest on delinquent accounts	109,652	83,852
Lease income	40,876	38,730
Insurance income	450,000	-
Miscellaneous income	8,424	17,078
Total operating revenues	<u>10,215,083</u>	<u>10,339,817</u>
Operating expenses, excluding depreciation	<u>7,369,300</u>	<u>8,404,393</u>
Operating income before depreciation	2,845,783	1,935,424
Depreciation	<u>1,469,474</u>	<u>1,472,364</u>
Income from operations	1,376,309	463,060
Non-operating revenues (expenses):		
Investment income	3,400	2,565
Interest expense	(344,423)	(288,224)
Amortization of deferred bond issue costs	<u>(32,700)</u>	<u>(36,360)</u>
Change in net assets	1,002,587	141,041
Net assets, beginning of year	<u>23,371,937</u>	<u>23,230,896</u>
Net assets, end of year	<u>\$ 24,374,524</u>	<u>\$ 23,371,937</u>

The Notes to Financial Statements are an integral part of these statements

Statements of Cash Flows
Years Ended December 31, 2012 and 2011

	Year Ended December 31 2012	2011
Cash flows from operating activities		
Receipts from:		
Service charges	\$ 9,721,592	\$ 9,421,703
Beneficial reuse	398,794	365,380
Leases income	41,117	12,448
Interest on delinquent accounts	109,652	83,852
Miscellaneous	458,424	17,078
Payments for:		
Wages and salaries	(2,484,399)	(2,696,368)
Employee benefits and payroll taxes	(1,498,345)	(1,601,050)
Operations and maintenance	(3,443,206)	(4,146,724)
Net cash provided by operating activities	<u>3,303,629</u>	<u>1,456,319</u>
Cash flows from financing activities		
Payments of principal on bonds and loans	(1,009,618)	(1,302,986)
Additions to capital assets	(4,716,720)	(1,278,582)
Funds Received from NJEIT	4,525,435	372,300
Interest paid on bonds and notes	(344,423)	(266,507)
Net cash used in financing activities	<u>(1,545,326)</u>	<u>(2,475,775)</u>
Cash flows from investing activities		
Interest received	<u>3,400</u>	<u>2,565</u>
Net cash provided by investing activities	<u>3,400</u>	<u>2,565</u>
Increase (decrease) in cash and cash equivalents	1,761,703	(1,016,891)
Cash and cash equivalents, beginning of year	7,306,755	8,323,646
Cash and cash equivalents, end of year	<u>\$ 9,068,458</u>	<u>\$ 7,306,755</u>
Summary of cash and cash equivalents:		
Unrestricted	\$ 5,727,770	\$ 4,147,216
Restricted	3,340,688	3,159,539
	<u>\$ 9,068,458</u>	<u>\$ 7,306,755</u>

The Notes to Financial Statements are an integral part of these statements.

The Linden Roselle Sewerage Authority
Notes to Financial Statements
December 31, 2012 and 2011

1. Nature of Activities

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.

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

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 ("GAAP"). In its accounting and financial reporting, the Authority follows the pronouncements of Government Accounting Standards Board ("GASB"). As permitted by GAAP, the Authority has elected to not adopt Financial Accounting Standards Board pronouncements issued after November 30, 1989.

The GASB issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. In addition to pensions, many state and local governmental employers provide other postemployment benefits ("OPEB") as part of the total compensation offered to attract and retain the services of qualified employees.

OPEB includes postemployment healthcare, as well as other forms of postemployment benefits (for example, life insurance) when provided separately from a pension plan. This Statement establishes standards for the measurement, recognition, and display of OPEB expense, expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information ("RSI") in the financial reports of state and local governmental employers. The Authority was required to implement this statement in financial statements for periods beginning after December 15, 2008. There was no significant effect on the Authority's financial statements as a result of the adoption of GASB 45.

The GASB issued GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

The effective date for this pronouncement was for periods beginning after December 15, 2007. There was no effect on the Authority's financial statements as a result of the adoption of GASB 49.

The Linden Roselle Sewerage Authority
Notes to Financial Statements
December 31, 2012 and 2011

Funds and Accounts established by Bond Resolutions and Trust Agreement

In accordance with Bond Resolutions and Trust Agreement (the "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 – 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 remitted 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 of (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 – 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.

Debt Service Fund – used to pay principal and interest on the bonds. When bonds are purchased or redeemed, the amount, if any, in the Debit 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 Linden Roselle Sewerage Authority
Notes to Financial Statements
December 31, 2012 and 2011

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, amounts from the Debt Service Fund may be transferred into this fund as described below.

Debt Service Reserve Fund – 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, amounts 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. Amounts in this 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.

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 Fund, as required under the Trust Agreement, the maximum annual net debt service requirement amount is \$140,051 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 (see Note 6).

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 services 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.

The Linden Roselle Sewerage Authority
Notes to Financial Statements
December 31, 2012 and 2011

Cash Equivalents

The Authority considers investments with original maturities of three months or less, from date of acquisition, to be cash equivalents.

Insurance Claims Receivable

As a result of damages incurred related to Hurricane Sandy, the Authority sustained approximately \$450,000 in repairs to facility assets. Claims have been submitted to the Authority's insurance carrier for reimbursement at December 31, 2012. As of April 24, 2013, approximately \$436,000 was received on these claims and the entire amount is deemed collectible.

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 the capital assets are 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.

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.

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

The Authority has established a policy of classifying fund balances in accordance with GASB #54 as follows:

Committed Fund Balance – amounts constrained to specific purposes by the Authority itself, using its highest level of decision-making authority; to be reported as committed; amounts cannot be used for any other purposes unless the Authority takes the highest-level action to remove or change the constraint. Presently, amounts are committed in accordance with debt agreements.

Unassigned Fund Balance – amounts that are available for any purpose.

Management of the Authority has the authority to express intended use resources in the assignment of fund balance, whereas an Authority resolution is required to express intended use resources that results in a commitment of fund balance.

3. 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 \$9,068,458 and \$7,306,755 in 2012 and 2011, 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

The Linden Roselle Sewerage Authority
Notes to Financial Statements
December 31, 2012 and 2011

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, 2012, the Authority was not exposed to custodial credit risk.

4. Funds Held by New Jersey Environmental Infrastructure Authority ("NJEIT")

In 2003, the Authority completed 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 loan in the amount of \$6,807,579 (the "Fund Loan"). Under the terms of the financing, the proceeds from this loan 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 were received for the 2003 financing.

In April 2012, the Authority completed financing with NJEIT for the upgrade and/or replacement of its sludge handling facilities (the "Liquid End Project"). The financing consisted of an interest-bearing loan in the amount of \$3,715,000 (the "Trust Loan") and a non-interest bearing portion in the amount of \$4,191,741 (the "Fund Loan"). Under the terms of the financing, the proceeds from these loans are held by NJEIT and released to the Authority based on approved requisitions for the payment of costs incurred on the project.

The transactions in funds held by NJEIT consisted of the following:

Principal amount of loans:		
Trust Loan	\$ 3,715,000	
Fund Loan	<u>4,191,741</u>	\$7,906,741
Closing costs		<u>348,914</u>
		<u>8,255,655</u>
Funds released to the Authority during 2012		5,281,213
Funds held by NJEIT at December 31, 2012		2,974,442
Interest earned on deposits		115

The Linden Roselle Sewerage Authority
Notes to Financial Statements
December 31, 2012 and 2011

5. Capital Assets

Capital assets activity for year ended December 31, 2012 was as follows:

	Balance December 31, 2011	Increases	Decreases	Balance December 31, 2012
Capital assets not being depreciated:				
Land	\$ 236,512	\$ -	\$ -	\$ 236,512
Construction in progress	565,160	4,656,243	-	5,221,403
	<u>801,672</u>	<u>4,656,243</u>	<u>-</u>	<u>5,457,915</u>
Capital assets being depreciated:				
Buildings and improvements	57,967,091	69,482	-	58,036,573
Machinery and equipment	5,592,404	-	23,914	5,568,490
Furniture and fixtures	53,878	-	-	53,878
	<u>63,613,373</u>	<u>69,482</u>	<u>23,914</u>	<u>63,658,941</u>
Less accumulated depreciation:				
Buildings and improvements	12,797,895	244,284	-	13,042,181
Machinery and equipment	26,382,553	1,225,015	82,535	27,525,033
Furniture and fixtures	53,453	175	-	53,628
	<u>39,233,901</u>	<u>1,469,474</u>	<u>82,535</u>	<u>40,620,842</u>
	<u>24,379,472</u>	<u>1,399,992</u>	<u>58,621</u>	<u>23,038,101</u>
	<u>\$25,181,144</u>	<u>\$ 3,256,251</u>	<u>\$ 58,621</u>	<u>\$ 28,496,014</u>

For the years ended December 31, 2012 and 2011, depreciation expense was \$1,469,474 and \$1,472,364 respectively.

6. Long-Term Debt

Long-term debt activity for the years ended December 31, 2012 and 2011 was as follows:

	Balance December 31, 2011	Additions	(Amortization)	Payments	Balance December 31, 2012
1992 Capital Appreciation Bonds:					
Maturity value	\$ 690,000	\$ -	\$ -	\$ (140,000)	\$ 550,000
Unamortized original issue discount	(105,478)	-	36,369	-	(69,109)
Accreted value	584,522	-	36,369	(140,000)	480,891
2003 NJEIT Loans:					
Trust Loan	5,145,000	-	-	(330,000)	4,815,000
Fund Loan	4,190,560	-	-	(348,914)	3,841,646
Premium	91,094	-	(13,269)	-	77,825
	<u>9,426,654</u>	<u>-</u>	<u>(13,269)</u>	<u>(678,914)</u>	<u>8,734,471</u>
2012 NJEIT Loans:					
Trust Loan	-	3,715,000	-	-	3,715,000
Fund Loan	-	4,191,741	-	(142,093)	4,049,648
	<u>-</u>	<u>7,906,741</u>	<u>-</u>	<u>(142,093)</u>	<u>7,764,648</u>
Loan Payable - EDA	194,446	-	-	(48,611)	145,835
	<u>\$ -10,205,622</u>	<u>\$ 7,906,741</u>	<u>\$ 23,100</u>	<u>\$ (1,009,618)</u>	<u>\$ 17,125,845</u>

**The Linden Roselle Sewerage Authority
Notes to Financial Statements
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1992 Revenue Refunding Bonds (the "1992 Bonds")

The 1992 Capital Appreciation Bonds mature in annual installments from 2013 through 2016 at varying accreted values ranging from \$135,000 to \$140,000 a year. The yield on those bonds is 6.90% a year based on the proceeds of original issue. 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 are \$550,000 and \$-0-, respectively, with annual requirements ranging from \$135,000 in 2013 to \$140,000 in the final year. For 2012, principal and interest paid by the Authority was \$140,000 and \$-0-, respectively.

2003 NJEIT Loans

The Authority completed financing of the Sludge Handling Facilities Project in 2003 with NJEIT. The financing consisted 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") (see Note 4).

The Trust Loan consists of bonds maturing in annual installments ranging from \$345,000 to \$540,000 from 2013 through 2023. The yields on these bonds range from 4.00% to 5.00%.

The Fund Loan consists of bonds maturing in semiannual installments on February 1 and August 1 of each year through 2023.

2012 NJEIT Loans

The Authority completed financing of the Liquid End Project in 2012 with NJEIT. The financing consisted of an interest-bearing loan in the amount of \$3,715,000 (the "Trust Loan" and a non-interest-bearing loan in the amount of \$4,049,648 (the "Fund Loan") (see Note 4).

The Trust Loan consists of bonds maturing in annual installments ranging from \$130,000 to \$275,000 from 2013 through 2031. The yields on these bonds range from 2.00% to 5.00%.

The Fund Loan consists of bonds maturing in semiannual installments on March 1 and September 1 of each year through 2031.

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 cost 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 in equal annual installments of \$48,611 through 2015.

Annual Debt Service on Outstanding Bonds and Loans

The annual debt service (principal and interest) on the outstanding bonds and loans are due as follows:

The Linden Roselle Sewerage Authority
Notes to Financial Statements
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Year of Maturity	2012 Trust Loan				2003 Trust Loan				Fund Loan (Principal Only)*
	Coupon	Principal	Interest	Sub-Total	Coupon	Principal	Interest	Sub-Total	
2013	2.00%	\$ 130,000	\$ 153,443	\$ 283,443	5.00%	\$ 345,000	\$ 221,230	\$ 566,230	\$ 347,992
2014	3.00%	135,000	150,843	285,843	5.00%	365,000	203,980	568,980	349,882
2015	4.00%	135,000	146,793	281,793	4.00%	385,000	185,730	570,730	350,758
2016	5.00%	145,000	141,393	286,393	4.00%	400,000	170,330	570,330	350,512
2017	5.00%	150,000	134,143	284,143	4.20%	415,000	154,330	569,330	349,897
2018-22	Various	865,000	550,963	1,415,963	Various	2,365,000	474,625	2,839,625	1,746,169
2023-27	Various	1,105,000	311,963	1,416,963	Various	540,000	25,650	565,650	346,636
2028-31	Various	1,050,000	84,940	1,134,940					
		<u>\$ 3,715,000</u>	<u>\$ 1,674,478</u>	<u>\$ 5,389,478</u>		<u>\$ 4,815,000</u>	<u>\$ 1,435,875</u>	<u>\$ 6,250,875</u>	<u>\$ 3,841,646</u>
	1992 Refunding Bonds			Total	NJED Loan			Grand Totals	Total
	Coupon	Principal	Interest			Principal	Interest		
2013	6.90%	\$ 32,033	\$ 135,000	\$ 86,866	\$ 48,611	\$ 768,783	\$ 509,673	\$ 1,278,456	\$ 1,278,456
2014	6.95%	30,709	140,000	83,873	48,611	792,459	494,823	1,287,282	1,287,282
2015	6.95%	27,656	135,000	75,538	48,611	809,406	467,523	1,276,929	1,276,929
2016	6.95%	26,786	140,000	73,163	-	784,925	451,723	1,236,648	1,236,648
2017	-	-	-	-	-	778,139	288,473	1,066,612	1,066,612
2018-22	-	-	-	-	-	4,295,697	1,025,588	5,321,284	5,321,284
2023-27	-	-	-	-	-	2,710,697	337,613	3,048,309	3,048,309
2028-31	-	-	-	-	-	1,902,558	84,940	1,987,498	1,987,498
		<u>\$ 117,184</u>	<u>\$ 550,000</u>	<u>\$ 319,440</u>		<u>\$ 12,842,665</u>	<u>\$ 3,660,353</u>	<u>\$ 16,503,018</u>	

The Linden Roselle Sewerage Authority
Notes to Financial Statements
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7. Pension and Retirement Plan

The Authority's employees participate in the Public Employees' Retirement System (PERS), a cost sharing multiple-employer defined benefit plan administered by the State. The Authority's contribution is based upon an actuarial computation performed by the PERS. Pursuant to the Pension Security Legislation Act of 1997, the issuance of bonds permitted the pension benefit obligation to be fully funded from 1998 to 2004. Beginning in 2005, the Authority was assessed a portion of its normal contribution, which increased each year until 2009, when 100% of the normal contribution will be assessed, as for each year thereafter. It is the Authority's policy to pay 100% of the contributions assessed by the PERS. For the years ended December 31, 2010, 2009, and 2008, the Authority's contributions were \$227,356, \$195,486, and \$145,625, respectively. Employees of the Authority are required to participate in the PERS and contribute 6.64% of their annual compensation.

Public Employees Retirement System

The PERS was established January 1, 1955 under the provisions of N.J.S.A. 43:15A to provide coverage, including postretirement health care, to substantially all fulltime employees of the State or any county, municipality, school district or public agency provided the employee is not a member of another State-administered retirement system. Membership is mandatory for such employees and vesting occurs after 10 years of service and 25 years for health care coverage.

Tier 1 Members (members enrolled prior to July 1, 2007) are eligible for retirement at age 60 with an annual benefit generally determined to be 1/55th of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of creditable service. Members who retire early and under age 55 receives retirement benefits as calculated in the abovementioned formula, but at a reduced rate (1/4 of 1% for each month the member lacks of attaining age 55). Tier 2 Members (members enrolled July 1, 2007 to November 2, 2008) are eligible for retirement at age 60 with an annual benefit generally determined to be 1/55th of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of creditable service early retirement is available to those under age 60 with 25 or more years of credited service. Those members who retire early and under age 60 receives retirement benefits as calculated in the abovementioned formula, but at a reduced rate (1/12 of 1% each month the member lacks attaining age 60 but over age 55 and 1/4 of 1% for each month the member lacks of attaining age 55).

Chapter 89, P.L. 2008, establishes a minimum base salary of \$7,700 per year to be eligible for enrollment in Tier 3 of the PERS (members enrolled on or after November 2, 2008 and prior to May 21, 2010) are eligible for retirement at age 62 with an annual benefit generally determined to be 1/55th of the average annual compensation for the highest three fiscal years' compensation for each year of membership during years of creditable service. Early retirement is available to those under age 62 with 25 or more years of credited service. Those members who retire early and under age 62 receives retirement benefits as calculated in the abovementioned formula, but at a reduced rate (1/12 of 1% for each month the member lacks of attaining age 62 but over age 55 and 1/4 of 1% for each month the member lacks of attaining age 55).

Chapter 1, P.L. 2010, requires a minimum number of 32 hours per week to be eligible to enroll in Tier 4 of the PERS (members enrolled after May 21, 2010) are eligible for retirement at age 62 with an annual benefit generally determined to be 1/60th of the average annual compensation for the highest five fiscal years' compensation for each year of membership during years of creditable service. Early retirement is available to those under age 62 with 25 or more years of credited service.

The Linden Roselle Sewerage Authority
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Those members who retire early and under age 62 receives retirement benefits as calculated in the abovementioned formula, but at a reduced rate (1/12 of 1% for each month the member lacks of attaining age 62 but over age 55 and 1/4 of 1% for each month the member lacks of attaining age 55). Chapter 1, P.L. 2010 imposes a maximum compensation limits for PERS pension contributions who become members after May 21, 2010. For 2012, that amount is \$110,100. Any member hired after May 21, 2010, whose annual maximum compensation will be reached in any year, will become a participant of the Defined Contribution Retirement Program ("DCRP") with regard to the remaining compensation, unless the member irrevocably elects to waive participation in the DCRP. For the amount of compensation in excess of the maximum compensation, 5.5% will be deducted as a contribution for the purposes of DCRP. The Authority will be responsible for the DCRP's matching 3% contribution.

The State of New Jersey, Department of Treasury, Division of Pension and Benefits, issues publicly available financial reports that include the financial statements and required supplementary information for the PERS. The financial reports may be obtained by writing to the State of New Jersey, Department of Treasury, Division of Pension and Benefits, P.O. Box 295, Trenton, New Jersey 08625-0295. or by visiting their website at www.state.nj.us/treasury/pensions.

8. Other Postemployment Benefits

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. The SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq., to provide health care benefits to State employees, retirees, and their dependents. 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 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. In 1984, the Authority authorized participation in the SHBP's post-retirement benefit program through resolution to adopt the provisions of Chapter 88. Retired employees and their dependents, including surviving spouses, are eligible based on 25 years or more of service in the PERS or who approved for disability retirement. The SHBP provides to the Authority health benefits and prescription drug coverage, as well as reimbursing such retirees for their premium charges under Part B of the Federal Medicare Program. Part B covers Medicare eligible physician services, outpatient hospital services, certain home health services, and durable medical equipment. The State administers the SHBP and has the authority to establish and amend certain benefit provisions offered.

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 www.state.nj.us/treasury/pensions.

Funding Policy

Participating employers are contractually required to contribute based on the amount of premiums attributable to their retirees. Post-retirement medical benefits under the SHBP have been funded on a pay-as-you-go basis since 1994.

Contributions to pay for the health premiums of participating retirees in the SHBP are billed to the Authority on a monthly basis. The Authority's contributions to SHBP for the years ended December 31, 2012 and 2011 was \$119,468 and \$113,064, respectively, which equaled the required contributions for each year. There were 12 retired participants eligible at December 31, 2012 and 2011.

The Linden Roselle Sewerage Authority
Notes to Financial Statements
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9. 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. Subsequent contracts are on a month to month basis. 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 \$613,376 in 2012 and \$1,263,804 in 2011.

The Authority has been named in an ongoing lawsuit regarding liability for the remediation of Passaic River pollution. As a result of the litigation, the Authority has budgeted an anticipated settlement amount in 2012 and maintained a similar amount in the 2013 budget.

The Authority is subject to 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.

10. Risk Management

The Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction 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.

11. Subsequent Events

The Authority has evaluated subsequent events occurring after December 31, 2012 through the date of April 24, 2013, 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.

The Linden Roselle Sewerage Authority

Schedule of Operating Revenues and Cost Funded
by Operating Revenues Compared to BudgetYear Ended December 31, 2012 with Comparative
Actual Amounts for the Year Ended December 31, 2011

	<u>2012 Budget</u>	<u>2012 Actual</u>	<u>2011 Actual</u>
Operating revenue:			
Service charges, excluding amounts presented under industry assessment:			
City of Linden:			
Major users	\$ 1,369,490	\$ 1,360,975	\$ 1,745,001
Other users	4,863,879	4,969,223	4,839,696
Borough of Roselle	2,652,256	2,641,364	2,630,926
Industry assessment:			
Service charges	130,000	235,775	619,154
Wastewater beneficial reuse fees	220,800	398,794	365,380
Lease income	40,600	40,876	38,730
Interest on delinquent accounts	80,000	109,652	83,852
Insurance income	-	450,000	-
Miscellaneous	12,500	8,424	17,078
Total operating revenue	<u>9,369,525</u>	<u>10,215,083</u>	<u>10,339,817</u>
Interest income	<u>7,000</u>	<u>3,400</u>	<u>2,565</u>
Total revenue	<u>9,376,525</u>	<u>10,218,483</u>	<u>10,342,382</u>
Expenses excluding depreciation:			
Employment costs:			
Salaries and wages	2,857,300	2,854,464	2,764,834
Employee benefits	1,514,500	1,498,345	1,601,050
Administrative expenses:			
Office expense	68,500	53,785	58,928
Trustee and paying agent fee	3,000	3,017	3,767
Professional, consulting and training	480,400	232,315	276,905
Insurance	130,100	119,653	110,685
Plant operating expenses:			
Power	1,438,500	1,295,953	1,488,135
Gas, fuel, oil and water	145,000	96,350	198,104
Chemicals	154,200	135,018	123,087
Plant maintenance, supplies and equipment	149,500	163,531	135,830
Contract services	72,500	36,473	64,524
Lab supplies and equipment	36,900	15,351	26,437
Outside labs and permits	37,800	20,548	12,822
Sludge removal	1,099,100	627,268	1,263,804
User charge expense	48,000	45,084	47,984
Other environmental enforcement requirements	197,000	126,174	177,313
Contingency and miscellaneous	112,700	45,972	50,184
Total expenses	<u>8,545,000</u>	<u>7,369,300</u>	<u>8,404,393</u>

See Independent Auditors' Report

**Schedule of Bonds Payable 1992 Refunding Revenue Bonds
Capital Appreciation Bonds
December 31, 2012**

<u>Year of Maturity</u>	<u>Yield</u>	<u>Issued Value</u>	<u>Maturity Value due June 1</u>	<u>Accreted Value</u>
2013	6.90%	\$ 32,033	\$ 135,000	\$ 86,866
2014	6.95%	30,709	140,000	83,873
2015	6.95%	27,656	135,000	75,538
2016	6.95%	26,786	140,000	73,163
		<u>\$ 117,184</u>	<u>\$ 550,000</u>	<u>\$ 319,440</u>

The Capital Appreciation Bonds pay interest at maturity.

Schedule of 2003 NJEIT Loans Payable

December 31, 2012

Year of Maturity	Coupon	Trust Loan			Fund Loan (Principal Only)*	Total
		Principal	Interest	Sub-Total		
2013	5.00%	\$ 345,000	\$ 221,230	\$ 566,230	\$ 347,992	\$ 914,222
2014	5.00%	365,000	203,980	568,980	349,682	918,662
2015	4.00%	385,000	185,730	570,730	350,758	921,488
2016	4.00%	400,000	170,330	570,330	350,512	920,842
2017	4.20%	415,000	154,330	569,330	349,897	919,227
2018	4.25%	430,000	136,900	566,900	348,404	915,304
2019	5.00%	450,000	118,625	568,625	349,464	918,089
2020	5.00%	470,000	96,125	566,125	347,928	914,053
2021	4.50%	495,000	72,625	567,625	349,849	917,474
2022	4.75%	520,000	50,350	570,350	350,524	920,874
2023	4.75%	540,000	25,650	565,650	346,636	912,286
		<u>\$ 4,815,000</u>	<u>\$ 1,435,875</u>	<u>\$ 6,250,875</u>	<u>\$ 3,841,646</u>	<u>\$ 10,092,521</u>

* The Fund Loan does not bear interest.

The Linden Roselle Sewerage Authority

Schedule 5

Schedule of 2012 NJEIT Loans Payable

December 31, 2012

Year of Maturity	Trust Loan				Fund Loan (Principal Only)*	Total
	Coupon	Principal	Interest	Sub-Total		
2013	2.00%	\$ 130,000	\$ 153,443	\$ 283,443	\$ 213,139	\$ 496,582
2014	3.00%	135,000	150,843	285,843	213,139	498,982
2015	4.00%	135,000	146,793	281,793	213,139	494,932
2016	5.00%	145,000	141,393	286,393	213,139	499,532
2017	5.00%	150,000	134,143	284,143	213,139	497,282
2018	5.00%	155,000	126,643	281,643	213,139	494,782
2019	5.00%	165,000	118,893	283,893	213,139	497,032
2020	5.00%	175,000	110,643	285,643	213,139	498,782
2021	5.00%	180,000	101,893	281,893	213,139	495,032
2022	5.00%	190,000	92,893	282,893	213,139	496,032
2023	5.00%	200,000	83,393	283,393	213,139	496,532
2024	5.00%	210,000	73,393	283,393	213,139	496,532
2025	5.00%	220,000	62,893	282,893	213,139	496,032
2026	5.00%	230,000	51,893	281,893	213,139	495,032
2027	3.00%	245,000	40,393	285,393	213,139	498,532
2028	3.00%	250,000	33,043	283,043	213,139	496,182
2029	3.125%	260,000	25,543	285,543	213,139	498,682
2030	3.20%	265,000	17,418	282,418	213,139	495,557
2031	3.25%	275,000	8,938	283,938	213,140	497,077
		<u>\$ 3,715,000</u>	<u>\$ 1,674,478</u>	<u>\$ 5,389,478</u>	<u>\$ 4,049,648</u>	<u>\$ 9,439,126</u>

* The Fund Loan does not bear interest.

**The Linden Roselle Sewerage Authority
Officials in Office and Surety Bonds
December 31, 2012**

The following officials were in office during the period under audit:

John A. Ziemian.....	Chairman
Frank P. Koczur.....	Vice Chairman
John Hreha.....	Treasurer
John D. Sheehy.....	Secretary
Yves F. Auborg	Alternate Member
Edward Mikolajczyk.....	Alternate Member
Gary G. Fare.....	Executive Director
Ryan Moy.....	Finance Manager
Weiner Lesniak LLP.....	Legal Advisor

Surety Bond Coverage

The following officials were bonded:

Treasurer.....	\$100,000
Executive Director.....	\$100,000
All Employees – Faithful Performance Blanket Position Bond.....	\$100,000



McENERNEY, BRADY & COMPANY, LLC
Certified Public Accountants

**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**

The Honorable Chairman and Members of the Board
The Linden Roselle Sewerage Authority
Linden, New Jersey

We have audited, in accordance with the 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 Linden Roselle Sewerage Authority, Union County, New Jersey (the "Authority"), as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Authority's basic financial statements, and have issued our report thereon dated April 24, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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

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

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 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*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deborah Brandy Company, LLC

Livingston, New Jersey
April 24, 2013

Report on Compliance For Each Major State Program; Report on Internal Control Over Compliance; and Report on the Schedule of Expenditures of State Awards Required by OMB Circular A-133 and New Jersey OMB Circular 04-04

The Honorable Chairman and Members of the Board
Linden Roselle Sewerage Authority
Linden, New Jersey

Report on Compliance for Each Major State Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Authority's major 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 New Jersey OMB Circular 04-04, *Single Audit Policy for Recipients of Federal Grants, State Grants and State Aid Programs* (collectively, "OMB Circular A-133"). Those standards and OMB Circular A-133 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 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 program. However, our audit does not provide a legal determination of the Authority's compliance.

Opinion on Each Major 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 programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion

on compliance for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of State Awards Required by NJ OMB Circular 04-04

We have audited the financial statements of the Authority as of and for the year ended December 31, 2012, and have issued our report thereon dated April 24, 2013, which contained an unqualified opinion on those financial statements on the basis of accounting principles generally accepted in the United States of America. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the regulatory basis financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of state awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

For the Board of Directors, Anthony J. F. [Signature]

Livingston, New Jersey
April 24, 2013

LINDEN ROSELLE SEWERAGE AUTHORITY
SCHEDULE OF EXPENDITURES OF STATE AWARDS
YEAR ENDED DECEMBER 31, 2012

Grantor/ Program Title	State Account/Project Number	Program or Award Amount	Funds Available May 1, 2012	Net Disbursement Charges	Funds Available December 31, 2012	Grant Period	
						From	To
Department of Environmental Protection							
New Jersey Environmental Infrastructure Trust	S340299-07	\$ 10,255,655	\$ 10,255,655	\$ 4,525,435	\$ 5,730,220	5/1/2012	Completion
Facilities Improvements - Liquid End	S340299-07	(2,000,000)	(2,000,000)	882,525	(1,117,475)	5/1/2012	Completion
Loan Forgiveness Program - Liquid End							
		<u>8,255,655</u>	<u>8,255,655</u>	<u>5,407,960</u>	<u>4,612,745</u>		
Total Department of Environmental Protection							
		<u>\$ 8,255,655</u>	<u>\$ 8,255,655</u>	<u>\$ 5,407,960</u>	<u>\$ 4,612,745</u>		
Total State Assistance							

See accompanying Notes to Schedule of Expenditures of State Awards

**NOTES TO THE SCHEDULE OF EXPENDITURES OF
STATE AWARD**

**LINDEN ROSELLE SEWERAGE AUTHORITY
NOTES TO THE SCHEDULE OF EXPENDITURES OF
STATE AWARDS
DECEMBER 31, 2012**

1. General

The accompanying schedule presents the activity of the state financial assistance programs of the Linden Roselle Sewerage Authority. The Authority is defined in Note 1 (A) to the Authority's financial statements. All state financial assistance passed through other government agencies is included on the schedule of expenditures of state awards.

2. Basis of Accounting

The accompanying schedule of expenditures of state awards is presented using the accrual basis of accounting.

3. Relationship to Financial Statements

Amounts reported in the accompanying schedules agree with the amounts reported in the related state financial reports.

4. FEMA REIMBURSEMENT

The Authority received \$59,159 for costs associated with Hurricane Irene.

**LINDEN ROSELLE SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012**

Part I – Summary of Auditor's Results

Financial Statements

Type of auditors' report issued on financial statements Unqualified

Internal control over financial reporting:

- | | | | |
|--|-----------|----------------------|------|
| 1) Material weakness(es) identified | _____ Yes | _____ <u>X</u> _____ | No |
| 2) Significant deficiency(ies) that are not
considered to be material weakness(es)? | _____ Yes | _____ <u>X</u> _____ | None |

Noncompliance material to the financial statements noted?	_____ Yes	_____ <u>X</u> _____	No
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State Awards Section –

Internal Control over major programs:

- | | | | |
|--|-----------|----------------------|----|
| 1) Material weakness(es) identified | _____ Yes | _____ <u>X</u> _____ | No |
| 2) Significant deficiency(ies) that are not
considered to be material weakness(es)? | _____ Yes | _____ <u>X</u> _____ | No |

Type of auditor's report used on compliance for major programs	<u>Unqualified</u>
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Any audit findings disclosed that are required to be reported in accordance with section .510 (a) of Circular A-133 or NJ OMB Circular 04-04?	_____ Yes	_____ <u>X</u> _____	No
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Identification of major programs:

<u>State Account/Project(s)</u>	<u>Name of State Program or Cluster</u>
<u>S340299-07</u>	<u>NJEIT Loan Program</u>
_____	_____
_____	_____
_____	_____

Dollar threshold used to distinguish between Type A and Type B Programs	<u>\$300,000</u>
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Auditee qualified as low-risk auditee?	_____ Yes	_____ <u>X</u> _____	No
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**LINDEN ROSELLE SEWERAGE AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2012**

Part 1 – Summary of Auditor's Results

State Awards Section

NOT APPLICABLE

Part 2 – Schedule of State Award Findings and Questioned Costs

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs, related to the audit of major federal and state programs, as required by OMB Circular A-133 and New Jersey OMB's Circular 04-04.

Current Year State Awards

None

This section identifies the status of prior-year findings related to the financial statements and federal and state awards that are required to be reported in accordance with Chapter 6.12 of *Government Auditing Standards*, U.S. OMB Circular A-133 (section .315(a)(b)) and New Jersey OMB's Circular 04-04

There were no prior year findings.