

FINANCIAL STATEMENTS AND ADDITIONAL
INFORMATION

The Linden Roselle Sewerage Authority
Years Ended December 31, 2009 and 2008
With Report of Independent Auditors

The Linden Roselle Sewerage Authority

Financial Statements and
Additional Information

Years Ended December 31, 2009 and 2008

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Ernst & Young LLP
99 Wood Avenue South
Iselin, NJ 08830-0471
Tel: +1 732 516 4200
www.ey.com

Report of Independent Auditors

Members of the Board
The Linden Roselle Sewerage Authority

We have audited the accompanying financial statements of The Linden Roselle Sewerage Authority (the "Authority") as of and for the years ended December 31, 2009 and 2008, as listed in the table of contents. 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.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Authority's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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 as of December 31, 2009 and 2008, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the financial statements, as of January 1, 2009, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2010 on our consideration of the Authority's internal control over financial reporting and 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 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.

Management's discussion and analysis on pages 4 to 10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 audits were conducted for the purpose of forming an opinion on the basic financial statements. The additional information on Schedules 1, 2 and 3, as required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such additional information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ernst & Young LLP

May 27, 2010

The Linden Roselle Sewerage Authority

Management's Discussion and Analysis

Years Ended December 31, 2009 and 2008

This section of the annual financial statements of The Linden Roselle Sewerage Authority (the "Authority") presents Management's Discussion and Analysis of the activities and financial performance of the Authority for the years ended December 31, 2009 and 2008. The intent of this discussion and analysis is to look at the Authority's financial performance as a whole. Please read it in conjunction with the Authority's financial statements and accompanying notes.

2009 Financial Highlights

Cash and cash equivalents decreased by \$185,136 (2.3%) to \$7,960,446 in 2009 from \$8,145,582 in 2008.

Funds held by New Jersey Environmental Infrastructure Trust ("NJEIT") remained at \$372,300 in 2009 and 2008. The funds consist of the remaining proceeds of the financing of the restoration, rehabilitation, upgrade and/or replacement of all of its sludge handling facilities (the "Sludge Handling Facilities Project") in 2003.

Total current assets, inclusive of the funds held by NJEIT, decreased by \$184,734 (1.8%) to \$10,212,315 in 2009 from \$10,397,049 in 2008.

Debt (bonds and loans payable), inclusive of the financing from NJEIT, decreased by \$1,197,640 (8.6%) to \$12,712,617 in 2009 from \$13,910,257 in 2008.

Operating revenues decreased by \$219,080 (2.0%) to \$10,539,749 in 2009 from \$10,758,829 in 2008.

Operating expenses decreased by \$173,270 (2.0%) to \$8,697,788 in 2009 from \$8,871,058 in 2008.

The Authority had operating income of \$482,541 in 2009 and \$456,574 in 2008.

Net assets increased by \$73,836 in 2009 and \$114,577 in 2008.

2008 Financial Highlights

Cash and cash equivalents decreased by \$38,184 (0.47%) to \$8,145,582 in 2008 from \$8,183,766 in 2007.

Funds held by New Jersey Environmental Infrastructure Trust ("NJEIT") remained at \$372,300 in 2008 and 2007. The funds consist of the remaining proceeds of the financing of the restoration, rehabilitation, upgrade and/or replacement of all of its sludge handling facilities (the "Sludge Handling Facilities Project") in 2003.

Total current assets, inclusive of the funds held by NJEIT, increased by \$118,824 (1.16%) to \$10,397,049 in 2008 from \$10,278,225 in 2007.

Debt (bonds and loans payable), inclusive of the financing from NJEIT, decreased by \$1,181,075 (7.83%) to \$13,910,257 in 2008 from to \$15,091,332 in 2007.

Operating revenues increased by \$164,565 (1.55%) to \$10,758,829 in 2008 from \$10,594,264 in 2007.

Operating expenses increased by \$849,962 (10.60%) to \$8,871,058 in 2008 from \$8,021,096 in 2007.

The Authority had operating income of \$456,574 in 2008 and \$1,159,822 in 2007.

Net assets increased by \$114,577 in 2008 and \$863,909 in 2007.

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 measurement focus and the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. Enterprise fund statements reflect short- and long-term financial information about the activities and operations of the Authority. These statements are presented in a manner similar to a private business. The financial statements are presented on pages 11 to 14.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to financial statements can be found on pages 15 to 29 of this report.

Financial Analysis of the Authority

Financial Position. The following table summarizes assets, liabilities and net assets of the Authority as of December 31, 2009, 2008 and 2007:

	2009	2008	2007	Current Year % Increase (Decrease)
Current assets:				
Cash and cash equivalents	\$ 7,960,446	\$ 8,145,582	\$ 8,183,766	(2.3)%
Funds held by NJEIT	372,300	372,300	372,300	0.0
Other current assets	1,879,569	1,879,167	1,722,159	0.0
Total current assets	10,212,315	10,397,049	10,278,225	(1.8)
Capital assets – property, plant and equipment (net)	26,272,353	27,310,067	28,146,943	(3.8)
Non-current assets – debt issuance costs (net)	292,062	331,991	380,615	(12.0)
Total assets	36,776,730	38,039,107	38,805,783	(3.3)
Current liabilities (excluding current portion of bonds and loans payable)	1,089,010	1,219,412	931,380	(10.7)
Bonds and loans payable:				
Current portion	1,262,962	1,232,520	1,269,268	2.5
Long-term portion	11,449,655	12,677,737	13,822,064	(9.7)
	12,712,617	13,910,257	15,091,332	(8.6)
Other non-current liabilities	55,486	63,657	51,867	(12.8)
Total liabilities	13,857,113	15,193,326	16,074,579	(8.8)
Net assets	\$ 22,919,617	\$ 22,845,781	\$ 22,731,204	0.3
Net assets consist of:				
Invested in capital assets, net of related debt	\$ 13,932,036	\$ 13,701,093	\$ 14,100,706	1.7
Restricted	4,315,222	4,445,342	4,391,595	(2.9)
Unrestricted	4,672,359	4,699,346	4,238,903	(0.6)
	\$ 22,919,617	\$ 22,845,781	\$ 22,731,204	0.3%

During 2009:

Cash and cash equivalents decreased due mainly to the payment of debt due in 2009 and timing of the collection of accounts receivable.

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

There were no payments made related to the Sludge Handling Facilities Project. The funds are released to the Authority based on approved requisitions for the expenditures incurred on the Project.

Capital assets, net of accumulated depreciation, decreased as a result of depreciation expense of approximately \$1.4 million, partially offset by current year asset additions of approximately \$322,000.

Debt decreased due to principal payments of approximately \$1.2 million, which was offset by approximately \$40,000 accretion as a result of the amortization of original issue discount on the 1992 capital appreciation bonds 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.

During 2008:

Cash and cash equivalents decreased due mainly to the payment of debt due in 2007 and timing of the collection of accounts receivable.

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

There were no payments made related to the Sludge Handling Facilities Project. The funds are released to the Authority based on approved requisitions for the expenditures incurred on the Project.

Capital assets, net of accumulated depreciation, decreased as a result of depreciation expense of approximately \$1.4 million, partially offset by current year asset additions of approximately \$594,321.

Debt decreased due to principal payments of approximately \$1.2 million, which was offset by approximately \$47,000 accretion as a result of the amortization of original issue discount on the 1992 capital appreciation bonds 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 summarizes the revenues, expenses and changes in fund net assets of the Authority for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007	Current Year % Increase (Decrease)
Revenues:				
Operating revenues:				
Service charges	\$ 10,130,924	\$ 10,324,341	\$ 10,164,909	(1.9)%
Wastewater beneficial reuse fees	280,000	300,000	300,000	(6.7)
Other	128,825	134,488	129,355	(4.2)
Non-operating revenues:				
Interest and investment income	11,036	89,066	348,032	(87.6)
Net increase in fair value of investments	—	—	84,782	0.0
Total revenues	10,550,785	10,847,895	11,027,078	(2.7)
Expenses:				
Operating expenses	8,697,788	8,871,058	8,021,096	(2.0)
Depreciation	1,359,420	1,431,197	1,413,346	(5.0)
Non-operating expenses:				
Interest expense	379,812	382,439	675,264	(0.7)
Other	39,929	48,624	53,463	(17.9)
Total expenses	10,476,949	10,733,318	10,163,169	(2.4)
Change in net assets	\$ 73,836	\$ 114,577	\$ 863,909	(35.6)%

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 to 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).

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

Year	City	Borough	Major Users	Total
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
2006	4,824,914	2,576,783	2,905,351	10,307,048
2005	4,703,798	2,460,571	2,550,252	9,714,621

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.

During 2009:

The decrease in interest income was a result of much lower average interest rates prevailing during 2009 compared to 2008.

Other revenues consisted of lease and miscellaneous income.

Operating expenses in 2009 decreased by \$173,270 from 2008, mainly due to lower sludge barging costs from decreased tonnage offset by higher power costs as a result of increased rates.

Interest expense includes non-cash accretion of \$55,074 in 2009 and \$63,059 in 2008 and on the 1992 capital appreciation bonds. The remaining interest expense related to the 1996 revenue bonds and the NJEIT Trust Loan.

During 2008:

The decrease in interest income was a result of much lower average interest rates prevailing during 2008 compared to 2007.

Other revenues consisted of lease and miscellaneous income.

Operating expenses in 2008 increased by \$849,962 from 2007, mainly due to higher sludge barging costs from increased tonnage, higher power costs as a result of increased rates, and legal costs.

Depreciation expense remained at the same level as 2007 as there were no significant additions.

Interest expense includes non-cash accretion of \$63,059 in 2008 and \$298,108 in 2007 and on the 1992 capital appreciation bonds. The remaining interest expense related to the 1996 revenue bonds and the NJEIT Trust 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 \$64,093,009 and \$63,843,973 at December 31, 2009 and 2008, respectively. Accumulated depreciation amounted to \$37,820,656 and \$36,533,906 at those respective dates. The increase in accumulated depreciation is the result of the current year depreciation expense.

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.

For the year ended December 31, 2009, the Authority had \$12,712,617 in outstanding long-term debt. The Authority retired \$1,237,156 of debt during 2009.

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 customer base is considered stable and changes, if any, will depend upon redevelopment activities in the City and the Borough, as well as operational changes that may be implemented by the Authority's Major Users. With the increasing cost 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 charges rates.

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 and 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.

Statements of Fund Net Assets

See accompanying notes to financial section

Exhibit B

The Linden Roselle Sewerage Authority

Statements of Revenues, Expenses and Changes in Fund Net Assets

	Year Ended December 31	
	2009	2008
Operating revenues:		
Service charges	\$ 10,130,924	\$ 10,324,341
Wastewater beneficial reuse fees	280,000	300,000
Interest on delinquent accounts	69,471	70,430
Lease income	56,462	55,007
Miscellaneous income	2,892	9,051
	<u>10,539,749</u>	<u>10,758,829</u>
Operating expenses, excluding depreciation	8,697,788	8,871,058
Operating income before depreciation	<u>1,841,961</u>	<u>1,887,771</u>
Depreciation	1,359,420	1,431,197
Income from operations	<u>482,541</u>	<u>456,574</u>
Non-operating revenues (expenses):		
Investment income	11,036	89,066
Interest expense	(379,812)	(382,439)
Amortization of deferred bond issue costs	(39,929)	(48,624)
Change in net assets	<u>73,836</u>	<u>114,577</u>
Net assets, beginning of year	22,845,781	22,731,204
Net assets, end of year	<u>\$ 22,919,617</u>	<u>\$ 22,845,781</u>

See accompanying notes to financial statements.

Exhibit C

The Linden Roselle Sewerage Authority

Statements of Cash Flows

	Year Ended December 31	
	2009	2008
Cash flows from operating activities		
Receipts from:		
Service charges	\$ 10,130,522	\$ 10,167,333
Beneficial reuse	280,000	300,000
Leases	56,462	55,007
Interest on delinquent accounts	69,471	70,430
Miscellaneous	16,141	9,051
Payments for:		
Wages and salaries	(2,696,127)	(2,725,855)
Employee benefits and payroll taxes	(1,330,757)	(1,251,318)
Operations and maintenance	(4,822,726)	(4,737,839)
Net cash provided by operating activities	1,702,986	1,886,809
Cash flows from capital and related financing activities		
Payments of principal on bonds and loans	(1,237,156)	(1,689,672)
Additions to property, plant and equipment	(321,706)	(444,323)
Interest paid on bonds and notes	(340,296)	(139,031)
Net cash used in capital and related financing activities	(1,899,158)	(2,273,026)
Cash flows from investing activities		
Interest received	11,036	348,033
Net cash provided by investing activities	11,036	348,033
Decrease in cash and cash equivalents	(185,136)	(38,184)
Cash and cash equivalents, beginning of year	8,145,582	8,183,766
Cash and cash equivalents, end of year	\$ 7,960,446	\$ 8,145,582

The Linden Roselle Sewerage Authority

Statements of Cash Flows (continued)

	Year Ended December 31	
	2009	2008
Reconciliation of income from operations to net cash provided by operating activities		
Income from operations	\$ 482,541	\$ 456,574
Adjustments to reconcile income from operations to net cash provided by operating activities:		
Depreciation	1,359,420	1,431,197
Changes in assets and liabilities:		
Accounts receivable	(402)	(157,008)
Accounts payable / accrued liabilities	(138,573)	156,046
Net cash provided by operating activities	<u>\$ 1,702,986</u>	<u>\$ 1,886,809</u>
Balance comprised of		
Unrestricted	\$ 6,570,001	\$ 6,242,709
Restricted	1,390,445	1,902,873
	<u>\$ 7,960,446</u>	<u>\$ 8,145,582</u>
Supplemental disclosures of cash flow information		
Interest expense – amortization of original issue discount on capital appreciation bonds	\$ 55,074	\$ 63,059
Amortization of bond issue costs charged to expense	\$ 35,636	\$ 37,468
Amortization of premium on bonds	\$ (15,558)	\$ (16,357)

See accompanying notes to financial statements.

The Linden Roselle Sewerage Authority

Notes to Financial Statements

December 31, 2009 and 2008

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.

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

2. Summary of Significant Accounting Policies

The following is a summary of significant accounting policies:

Basis of Financial Statement Presentation

The financial statements of the Authority have been prepared using the 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 the 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.

Recent Accounting Pronouncements

In July 2004, 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.

The Linden Roselle Sewerage Authority

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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. GASB No. 45 is effective in phases based on total annual revenues. The Authority fell in Phase 3 and 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.

In November 2006, 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.

Funds and Accounts Established by Bond Resolutions and Trust Agreement

In accordance with the 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.

The Linden Roselle Sewerage Authority
Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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.

Debt 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).

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.

The Linden Roselle Sewerage Authority

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 account 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 reserve 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 this fund may be applied to the reasonable and necessary expenses of the Authority with respect to the sewer system for extraordinary improvements, constructions, reconstructions, major repairs, renewals, replacements or maintenance items of a type not recurring annually or at shorter intervals and for costs of 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 or to the Authority to be spent for any lawful purpose.

The Linden Roselle Sewerage Authority
Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

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 \$600,362, 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 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 (continued)

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 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 issuance 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.

The Linden Roselle Sewerage Authority

Notes to Financial Statements (continued)

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 \$8,047,736 and \$8,145,582 in 2009 and 2008, 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, 2009, the Authority was not exposed to custodial credit risk.

The Linden Roselle Sewerage Authority

Notes to Financial Statements (continued)

4. Funds Held by New Jersey Environmental Infrastructure Authority ("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 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"). 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. The transactions in funds held by NJEIT consisted of the following:

Principal amount of loans:		
Trust Loan	\$ 7,090,000	
Fund Loan	<u>6,807,579</u>	\$13,897,579
Premium		226,710
Accrued interest on Trust Loan received at closing		18,899
Cost of issuance		<u>(519,289)</u>
Net proceeds		13,623,899
Funds released to the Authority during 2003		<u>(1,161,033)</u>
Funds held by NJEIT at December 31, 2003		12,462,866
Interest earned on deposits		43,078
Funds released to the Authority during 2004		<u>(6,999,141)</u>
Funds held by NJEIT at December 31, 2004		5,506,803
Funds released to the Authority during 2005		<u>(4,976,077)</u>
Funds held by NJEIT at December 31, 2005		530,726
Funds released to the Authority during 2006		<u>158,426</u>
Funds held by NJEIT at December 31, 2006		372,300
Funds released to the Authority during 2007		<u>—</u>
Funds held by NJEIT at December 31, 2007		372,300
Funds released to the Authority during 2008		<u>—</u>
Funds held by NJEIT at December 31, 2008		372,300
Funds released to the Authority during 2009		<u>—</u>
Funds held by NJEIT at December 31, 2009		<u>\$ 372,300</u>

The Linden Roselle Sewerage Authority

Notes to Financial Statements (continued)

5. Capital Assets

Capital assets activity for the years ended December 31, 2009 and 2008 was as follows:

	Balance, December 31, 2008	Increases	Decreases	Transfers	Balance, December 31, 2009
Capital assets not being depreciated:					
Land	\$ 236,512	\$ —	\$ —	\$ —	\$ 236,512
Construction in progress	8,665	251,141	—	(8,665)	251,141
Total capital assets not being depreciated	245,177	251,141	—	(8,665)	487,653
Capital assets being depreciated:					
Buildings and improvements	56,443,106	34,449	—	—	56,477,555
Machinery and equipment	7,101,812	36,116	(72,670)	8,665	7,073,923
Furniture and fixtures	53,878	—	—	—	53,878
Total capital assets being depreciated	63,598,796	70,565	(72,670)	8,665	63,605,356
Less accumulated depreciation:					
Buildings and improvements	30,817,861	1,328,576	—	—	32,146,337
Machinery and equipment	5,663,231	30,631	(72,670)	—	5,621,192
Furniture and fixtures	52,814	213	—	—	53,027
Total accumulated depreciation	36,533,906	1,359,420	(72,670)	—	37,820,656
Capital assets, net of accumulated depreciation	27,064,890	(1,288,855)	—	8,665	25,784,700
Total net capital assets	\$ 27,310,067	\$ (1,037,714)	\$ —	\$ —	\$ 26,272,353
	Balance, December 31, 2007	Increases	Decreases	Transfers	Balance, December 31, 2008
Capital assets not being depreciated:					
Land	\$ 236,512	\$ —	\$ —	\$ —	\$ 236,512
Construction in progress	8,665	—	—	—	8,665
Total capital assets not being depreciated	245,177	—	—	—	245,177
Capital assets being depreciated:					
Buildings and improvements	55,882,581	560,525	—	—	56,443,106
Machinery and equipment	7,068,016	33,796	—	—	7,101,812
Furniture and fixtures	53,878	—	—	—	53,878
Total capital assets being depreciated	63,004,475	594,321	—	—	63,598,796
Less accumulated depreciation:					
Buildings and improvements	29,494,344	1,323,517	—	—	30,817,861
Machinery and equipment	5,555,954	107,277	—	—	5,663,231
Furniture and fixtures	52,411	403	—	—	52,814
Total accumulated depreciation	35,102,709	1,431,197	—	—	36,533,906
Capital assets, net of accumulated depreciation	27,901,766	(836,876)	—	—	27,064,890
Total net capital assets	\$ 28,146,943	\$ (836,876)	\$ —	\$ —	\$ 27,310,067

Depreciation expense was \$1,359,420 and \$1,431,197 for the years ended December 31, 2009 and 2008.

The Linden Roselle Sewerage Authority

Notes to Financial Statements (continued)

6. Long-Term Debt

Long-term debt activity for the years ended December 31, 2009 and 2008 was as follows:

	Balance, December 31, 2008	Additions	Accretion (Amortization)	Payments	Balance, December 31, 2009	Due Within One Year
1992 capital appreciation bonds:						
Maturity value	\$ 1,105,000	\$ -	\$ -	\$ (140,000)	\$ 965,000	\$ 135,000
Unamortized original issue discount	(253,021)	-	55,074	-	(197,947)	(4,501)
Accreted value	851,979		55,074	(140,000)	767,053	130,499
1996 Revenue Bonds	1,290,000	-	-	(410,000)	880,000	430,000
2003 NJEIT Loans:						
Trust loan	6,055,000	-	-	(290,000)	5,765,000	305,000
Fund loan	5,237,333	-	-	(348,545)	4,888,788	348,852
Premium	135,666	-	(15,558)	-	120,108	-
	11,427,999	-	(15,558)	(638,545)	10,773,896	653,852
Loan payable – Economic Development Authority	340,279	-	-	(48,611)	291,668	48,611
	<u>\$ 13,910,257</u>	<u>\$ -</u>	<u>\$ 39,516</u>	<u>\$(1,237,156)</u>	<u>\$ 12,712,617</u>	<u>\$ 1,262,962</u>

	Balance, December 31, 2007	Additions	Accretion (Amortization)	Payments	Balance, December 31, 2008	Due Within One Year
1992 capital appreciation bonds:						
Maturity value	\$ 1,320,000	\$ -	\$ -	\$ (215,000)	\$ 1,105,000	\$ 140,000
Unamortized original issue discount	(316,080)	-	63,059	-	(253,021)	(4,636)
Accreted value	1,003,920	-	63,059	(215,000)	851,979	135,364
1996 Revenue Bonds	1,680,000	-	-	(390,000)	1,290,000	410,000
2003 NJEIT Loans:						
Trust loan	6,330,000	-	-	(275,000)	6,055,000	290,000
Fund loan	5,585,110	-	-	(347,777)	5,237,333	348,545
Premium	152,023	-	(16,357)	-	135,666	-
	12,067,133	-	(16,357)	(622,777)	11,427,999	638,545
Loan payable – Economic Development Authority	340,279	-	-	-	340,279	48,611
	<u>\$ 15,091,332</u>	<u>\$ -</u>	<u>\$ 46,702</u>	<u>\$(1,227,777)</u>	<u>\$ 13,910,257</u>	<u>\$ 1,232,520</u>

The Linden Roselle Sewerage Authority

Notes to Financial Statements (continued)

6. Long-Term Debt (continued)

1992 Revenue Refunding Bonds (the "1992 Bonds")

The 1992 capital appreciation bonds mature in annual installments from 2010 through 2016 at varying accreted values ranging from \$135,000 to \$140,000 a year. The yields on those bonds range from 6.90% to 6.95% 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 \$965,000 and \$0, respectively, with annual requirements ranging from \$135,000 in 2010 to \$140,000 in the final year. For 2009, principal and interest paid by the Authority was \$140,000 and \$0, respectively.

1996 Revenue Bonds (the "1996 Bonds")

These consist of serial bonds maturing in annual installments from 2010 through 2011 at varying amounts ranging from \$430,000 to \$450,000 a year. The yields on those bonds range from 5.25% to 5.35%.

Pledged revenues include all revenues derived from the ownership of the Sewer System. The bonds are payable with pledged revenue through 2011. Total principal and interest remaining on the debt are \$880,000 and \$47,399, respectively, with annual requirements ranging from \$465,362 in 2010 to \$462,037 in the final year. For 2009, principal and interest paid by the Authority was \$410,000 and \$57,207, respectively.

The Linden Roselle Sewerage Authority

Notes to Financial Statements (continued)

6. Long-Term Debt (continued)

The Bonds maturing after June 1, 2006 shall be subject to redemption prior to maturity at the option of the Authority, on or after June 1, 2006 as a whole at any time or in part on any interest payment date. If less than all of the Bonds of a maturity are to be redeemed, the particular Bonds of such maturity to be called for redemption shall be selected by lot by the Trustee. Any such redemption of the Bonds shall be at the respective redemption prices (expressed as percentages of the principal amount of the Bonds or portions thereof to be redeemed) set forth below, each case with accrued interest to the redemption date:

Redemption Period (dates inclusive)	Redemption Prices
June 1, 2006 to May 31, 2007	102%
June 1, 2007 to May 31, 2008	101%
June 1, 2008 and thereafter	100%

2003 NJEIT Loans

As described in Note 4, the Authority completed the financing of the Sludge Handling Facilities Project in 2003 with New Jersey Environmental Infrastructure Trust ("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").

The Trust Loan consists of bonds maturing in annual installments ranging from \$305,000 to \$540,000 from 2010 through 2023. The yields on these bonds range from 3.00% to 5.00%.

The Fund Loan consists of bonds maturing in semiannual installments on February 1 and August 1 of each year through 2023. The February 1 semiannual installments are due in decreasing amounts starting at \$80,703 on February 1, 2010 to \$7,882 on February 1, 2023. The August 1 semiannual installments are due in increasing amounts ranging from \$268,149 to \$338,754 a year.

Loan Payable – Economic Development Authority

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

The Linden Roselle Sewerage Authority

Notes to Financial Statements (continued)

6. Long-Term Debt (continued)

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 in an equal annual installment 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:

	1992 Bonds	Loan Payable	1996 Bonds	2003 NJEIT Trust Loan	2003 NJEIT Fund Loan	Total
2010	\$ 135,000	\$ 48,611	\$ 465,362	\$ 567,630	\$ 348,853	\$ 1,565,456
2011	140,000	48,611	462,037	568,480	349,375	1,568,503
2012	140,000	48,611	—	567,730	348,914	1,105,255
2013	135,000	48,611	—	566,230	347,992	1,097,833
2014 – 2018	415,000	97,224	—	2,846,270	1,749,253	5,107,747
2019 – 2023	—	—	—	2,838,375	1,744,401	4,582,776
	<u>\$ 965,000</u>	<u>\$ 291,668</u>	<u>\$ 927,399</u>	<u>\$ 7,954,715</u>	<u>\$ 4,888,788</u>	<u>\$ 15,027,570</u>

7. Pension and Retirement Plan

The Authority's employees participate in the 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, 2009, 2008, and 2007, the Authority's contributions were \$195,486, \$145,625, and \$83,519, respectively. Employees of the Authority are required to participate in the PERS and contribute 5% of their annual compensation.

The general formula for annual retirement benefits is the final average salary divided by 55, times the employee's years of service. Pension benefits fully vest upon reaching 10 years of credited service. Members are eligible for retirement at age 60 with no minimum years of service required. Members who have 25 years or more of credited service may select early retirement without penalty at or after age 55 and receive full retirement benefits. The PERS also provides death and disability benefits. All benefits are established by State statute.

The Linden Roselle Sewerage Authority

Notes to Financial Statements (continued)

7. Pension and Retirement Plan (continued)

The State of New Jersey, Department of the 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.

8. Other Postemployment 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. 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 are 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/.

The Linden Roselle Sewerage Authority

Notes to Financial Statements (continued)

8. Other Postemployment Benefits (continued)

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 plan have been funded on a pay-as-you-go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis.

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, 2009, 2008, and 2007, were \$76,823, \$68,728, and \$84,488, respectively, which equaled the required contributions for each year. There were approximately 10, 10, and 11 retired participants eligible at December 31, 2009, 2008, and 2007, respectively.

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 2009. 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 \$1,578,145 in 2009 and \$2,099,000 in 2008.

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.

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.

II. Additional Information

Schedule 1

The Linden Roselle Sewerage Authority

Schedule of Changes in Net Assets

Year Ended December 31, 2009

	Balance December 31, 2008	Change in Net Assets	Transfer of Depreciation on Contributed Capital	Capital Assets Acquired, Net of Related Debt	Other Transfers	Balance December 31, 2009
Invested in capital assets, net of related debt:						
Contributed capital:						
Cost	\$ 26,817,547	\$ --	\$ --	\$ --	\$ --	\$ 26,817,547
Accumulated depreciation	(21,355,166)	--	(379,836)	--	--	(21,735,002)
Net	5,462,381	--	(379,836)	--	--	5,082,545
Others	8,238,712	--	--	320,706	290,073	8,849,491
	13,701,093	--	(379,836)	320,706	290,073	13,932,036
Restricted for:						
Operations	3,094,600	--	--	--	(112,800)	2,981,800
Debt service reserve fund	617,765	--	--	--	(17,403)	600,362
Retirement of capital appreciation bonds	82,211	--	--	--	83	82,294
Renewal and replacement	650,766	--	--	--	--	650,766
Unrestricted	4,699,346	73,836	379,836	(320,706)	(159,953)	4,672,359
	\$ 22,845,781	\$ 73,836	\$ --	\$ --	\$ --	\$ 22,919,617

The Linden Roselle Sewerage Authority

Schedule of Operating Revenues and Costs Funded
by Operating Revenues Compared to BudgetYear Ended December 31, 2009 with Comparative
Actual Amounts for the Year Ended December 31, 2008

	2009 Budget	2009 Actual	2008 Actual
Operating revenue:			
Service charges, excluding amounts presented under industry assessment:			
City of Linden:			
Major users	\$ 2,194,369	\$ 2,141,517	\$ 2,453,027
Other users	4,698,678	4,786,180	4,780,253
Borough of Roselle	2,686,517	2,686,517	2,596,943
Industry assessment:			
Service charges	547,000	516,710	494,118
Wastewater beneficial reuse fees	200,000	280,000	300,000
Lease income	57,500	56,462	55,007
Interest on delinquent accounts	70,000	69,471	70,430
Miscellaneous	7,500	2,892	9,051
Total operating revenue	10,461,564	10,539,749	10,758,829
Interest income, excluding accretion on invested sinking fund	115,000	11,036	89,066
Total revenue	10,576,564	10,550,785	10,847,895
Expenses excluding depreciation:			
Employment costs:			
Salaries and wages	2,722,200	2,710,027	2,700,249
Employee benefits	1,354,200	1,311,019	1,271,361
Administrative expenses:			
Office expense	74,200	54,544	70,798
Trustee and paying agent fee	6,500	3,767	3,767
Professional, consulting and training	374,700	281,285	280,332
Insurance	127,300	113,211	109,825
Plant operating expenses:			
Power	1,776,000	1,916,630	1,674,237
Gas, fuel, oil and water	161,500	150,705	136,844
Chemicals	121,800	104,655	89,349
Plant maintenance, supplies and equipment	136,000	138,111	104,951
Contract services	82,400	98,908	57,367
Lab supplies and equipment	41,300	23,815	25,603
Outside labs and permits	33,900	14,862	35,155
Sludge removal	1,984,200	1,578,145	2,099,000
User charge expense	38,500	37,762	39,014
Other environmental enforcement requirements	199,100	149,075	162,470
Contingency and miscellaneous	50,000	11,267	10,736
Total expenses	9,283,800	8,697,788	8,871,058

Schedule 2

The Linden Roselle Sewerage Authority

Schedule of Operating Revenues and Costs Funded
by Operating Revenues Compared to BudgetYear Ended December 31, 2009 with Comparative
Actual Amounts for the Year ended December 31, 2008

	2009 Budget	2009 Actual	2008 Actual
Other costs:			
Interest expense	\$ 355,608	\$ 324,738	\$ 318,930
Principal maturity on notes and bonds	1,237,156	1,237,156	1,227,777
Renewal and replacement reserves	100,000	100,000	450,000
Total other costs	1,692,764	1,661,894	1,996,707
Total costs funded by revenues	10,976,564	10,359,682	10,867,765
Surplus (deficit) for budgetary purposes	\$ (400,000)	\$ 191,103	\$ (19,870)
Reconciliation with change in net assets per statement of revenues, expenses and changes in fund net assets:			
Surplus (deficit) for budgetary purposes		\$ 191,103	\$ (19,870)
Add back other costs treated as expense (income) for budgetary purposes:			
Principal maturity on notes and bonds		1,237,156	1,227,777
Less amount available from invested sinking fund			
Renewal and replacement reserves		100,000	450,000
Add (deduct) non-budget income (expense) items:			
Depreciation		(1,359,420)	(1,431,197)
Interest expense – amortization of original issue discount*		(55,074)	(63,509)
Amortization of deferred bond issue costs		(39,929)	(48,624)
Change in net assets		\$ 73,836	\$ 114,577

Schedule 3

The Linden Roselle Sewerage Authority

Schedule of Bonds Payable 1992 Refunding Revenue Bonds

December 31, 2009
Capital Appreciation Bonds

Year of Maturity	Yield	Issued Value	Maturity Value Due June 1	Accreted Value
2010	6.90%	\$ 39,262	\$ 135,000	\$ 106,472
2011	6.90%	38,045	140,000	103,172
2012	6.90%	35,550	140,000	96,405
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>\$ 230,041</u>	<u>\$ 965,000</u>	<u>\$ 625,489</u>

The capital appreciation bonds pay interest at maturity.

The Linden Roselle Sewerage Authority

Schedule of Bonds Payable 1996 Revenue Bonds

December 31, 2009

Year of Maturity	Coupon	Principal	Interest	Total
2010	5.25%	\$ 430,000	\$ 35,362	\$ 465,362
2011	5.35%	450,000	12,037	462,037
		<u>\$ 880,000</u>	<u>\$ 47,399</u>	<u>\$ 927,399</u>

Schedule 3

The Linden Roselle Sewerage Authority

Schedule of 2003 NJEIT Loans Payable

December 31, 2009

Year of Maturity	Trust Loan				Fund Loan (Principal Only) *	Total
	Coupon	Principal	Interest	Sub-Total		
Trust Loan						
2010	3.00%	\$ 305,000	\$ 262,630	\$ 567,630	\$ 348,853	\$ 916,483
2011	5.00%	315,000	253,480	568,480	349,375	917,855
2012	5.00%	330,000	237,730	567,730	348,914	916,644
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
		\$ 5,765,000	\$ 2,189,715	\$ 7,954,715	\$ 4,888,788	\$ 12,843,503

* The Fund Loan does not bear interest.

The Linden Roselle Sewerage Authority

Officials in Office and Surety Bonds

December 31, 2009

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

John A. Ziemian	Chairman
Frank P. Koczur	Vice Chairman
John Hreha, Jr.	Treasurer
Thomas Colicchio	Secretary
Giovanni Principato	Alternate Member
Vacant	Alternate Member
Gary G. Fare.....	Executive Director
Kenneth J. Benko	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

III. Government Auditing Standards Section

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*

Members of the Board
The Linden Roselle Sewerage Authority

We have audited the financial statements of The Linden Roselle Sewerage Authority (the "Authority") as of and for the year ended December 31, 2009, and have issued our report thereon dated May 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government 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 Authority's internal control over financial reporting as a basis for designing our auditing 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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 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.

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 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*.

This report is intended solely for the information and use of management, the members of the board, others within the entity, and the Division of Local Government Services, Department of Community Affairs, State of New Jersey, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

May 27, 2010