

**Middlesex County Utilities
Authority - Solid Waste Division**

Basic Financial Statements
and Required Supplementary Information

December 31, 2011 and 2010

Middlesex County Utilities Authority - Solid Waste Division

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December 31, 2011 and 2010

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Independent Auditors' Report

Board of Directors
Middlesex County Utilities Authority - Solid Waste Division

We have audited the accompanying statement of net assets of the Middlesex County Utilities Authority - Solid Waste Division (the "Authority") as of December 31, 2011 and 2010, and the related statement of revenues and expenses, changes in net assets and cash flows for years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Middlesex County Utilities Authority - Solid Waste Division at December 31, 2011 and 2010 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 27, 2012 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.

The Management Discussion and Analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 this information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Authority taken as a whole. The supplementary information (other than the Management Discussion and Analysis) listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain other 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 information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Parente Beard LLC

Clark, New Jersey
April 27, 2012

Middlesex County Utilities Authority - Solid Waste Division

Management's Discussion and Analysis
Year Ended December 31, 2011
(Unaudited)

This section presents management's discussion and analysis of the Solid Waste Division's financial condition and activities for the fiscal year ending December 31, 2011. This information should be read in conjunction with the basic financial statements.

Financial Highlights

- The Authority's total net assets decreased by 8.2% due to an increase in the rate used to calculate amortization of landfill costs, and an overall decrease in restricted assets.
- Service revenues increased slightly over the prior year, due to a small increase in rates.
- Operating expenses showed a small decrease mainly due to professional fees, maintenance costs and heavy equipment.
- Excluding depreciation and amortization, operating income was \$6,122,849 for 2011.

Overview of the Financial Statements

The Authority is a body politic and corporate and an instrumentality of the State of New Jersey. The Solid Waste Division is supported by tipping fees from waste generated and disposed of in Middlesex County. The basic financial statements report information using full accrual accounting methods. The Authority has been subject to GAAP (generally accepted accounting principals) since 1986 as promulgated by GASB; hence, the depreciation and amortization schedules are now and have been an integral part of the financial statements enumerated below.

The **statement of net assets** presents the financial position of the Authority on a full accrual historical cost basis. The statement of net assets presents information on all of the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases and decreases in net assets are one indicator of whether the financial position of the Authority is improving or deteriorating.

The **statement of revenues and expenses and the statement of changes in net assets** present the results of the business activities over the course of the fiscal year and information as to how the net assets changed during the year. All changes in net assets are reported as soon as the underlying event giving to the change occurs, regardless of the timing of the related cash flows.

The **statement of cash flows** presents changes in cash and cash equivalents, resulting from operational, financing, and investing activities. This statement presents cash receipts and cash disbursement information without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The **notes to the basic financial statements** provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Authority's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies, and subsequent events, if any.

Supplementary information comparing the budget to actual expenses, as well as important debt coverage data, is provided.

Middlesex County Utilities Authority - Solid Waste Division

Management's Discussion and Analysis
Year Ended December 31, 2011
(Unaudited)

The basic financial statements were prepared by the Authority's staff from the detailed books and records of the Authority. The basic financial statements were audited and adjusted, if material, during the independent external audit process.

Financial Analysis of the Authority

The following comparative condensed analyses should be used in conjunction with the complete exhibits included in the basic financial statements.

Net Assets

	December 31,	
	2011	2010
Current unrestricted assets	\$ 6,940,385	\$ 6,649,392
Capital assets	139,298,794	151,378,268
Restricted assets	117,550,501	122,167,797
Bond issue costs	65,783	70,843
Total assets	<u>263,855,463</u>	<u>280,266,300</u>
Current liabilities	10,417,323	11,202,779
Long-term debt	62,310,007	69,580,691
Fund held in trust	1,731,954	1,644,878
Unamortized original issues premiums	798,979	872,326
Closure and post-closure liabilities	62,388,153	60,789,881
Other post-employment benefits	4,257,505	3,242,308
Total liabilities	<u>141,903,921</u>	<u>147,332,863</u>
Total net assets	<u>\$ 121,951,542</u>	<u>\$ 132,933,437</u>

Capital Assets

	December 31,	
	2011	2010
Land	\$ 55,366,747	\$ 55,366,747
Landfill expansion	225,530,885	223,087,804
Building and improvements	10,748,812	10,748,637
Improvements other than buildings	6,749,500	6,748,055
Machinery and equipment	4,232,055	5,543,652
Furniture and fixture	12,594	20,021
Total cost of capital assets	<u>302,640,593</u>	<u>301,514,916</u>
Less: accumulated depreciation and amortization	<u>163,341,799</u>	<u>150,136,648</u>
Net capital assets	<u>\$ 139,298,794</u>	<u>\$ 151,378,268</u>

Amortization for the landfill itself is based on estimated "air space" remaining before the landfill has to be closed and capped.

Middlesex County Utilities Authority - Solid Waste Division

Management's Discussion and Analysis
Year Ended December 31, 2011
(Unaudited)

Outstanding Debt

	December 31,	
	2011	2010
2007 NJEIT bonds	\$ 48,037,430	\$ 53,500,990
2009A NJEIT bonds	21,312,761	22,987,744
Total outstanding principal	\$ 69,350,191	\$ 76,488,734

Other Financial Information

- Incoming tonnage has decreased due to an overall downturn in the economy over the past 4 years. Although this downturn has resulted in a decrease of waste, the resultant gain in the life expectancy of the landfill and a decrease in certain related operating costs will enable the Authority to operate a more efficient landfill for an extended period of time.
- Hurricane Irene caused significant damage to parts of the landfill. Costs incurred for the restoration of the liner in Cell 7 (\$1.5 million) were paid out of an insurance reserve; about 75% of these costs will be reimbursed by FEMA.

Financial Contact

The Authority's financial statements are designed to present users (citizens, taxpayers, investors, and creditors) with a general overview of the Authority's finances and to demonstrate the Authority's accountability for its resources. If you have questions about this report or need additional information, contact the Authority's Comptroller at Middlesex County Utilities Authority, P.O. Box 159, 2571 Main Street, Sayreville, New Jersey, 08872.

Middlesex County Utilities Authority - Solid Waste Division

Statement of Net Assets

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Unrestricted Current Assets		
Cash and cash equivalents	\$ 2,806,068	\$ 2,727,117
Accounts receivable	1,744,718	1,602,276
Interest receivable	69,600	-
MCIA loan receivable	2,319,999	2,319,999
	<u>6,940,385</u>	<u>6,649,392</u>
Total unrestricted current assets		
Restricted Current Assets		
Cash and cash equivalents	83,668,440	85,784,343
Investments	19,709,721	20,747,969
Due from NJ Environmental Infrastructure Trust	-	461,002
Loan receivable, Wastewater Division	14,100,000	15,100,000
Interest receivable	72,340	74,483
	<u>117,550,501</u>	<u>122,167,797</u>
Total restricted current assets		
Total current assets	124,490,886	128,817,189
Capital Assets, net	139,298,794	151,378,268
Other Assets		
Bond issuance costs, net of accumulated amortization of \$10,120 in 2011 and \$5,060 in 2010	<u>65,783</u>	<u>70,843</u>
Total assets	<u>\$ 263,855,463</u>	<u>\$ 280,266,300</u>

See notes to financial statements

Middlesex County Utilities Authority - Solid Waste Division

Statement of Net Assets

December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Liabilities and Net Assets		
Current Liabilities Payable from Unrestricted Assets		
Accounts payable	\$ 2,020,416	\$ 2,455,247
Accrued liabilities	51,785	90,408
Unearned service revenue	<u>664,281</u>	<u>1,047,015</u>
Total current liabilities payable from unrestricted assets	2,736,482	3,592,670
Current Liabilities Payable from Restricted Assets		
Accrued interest payable	640,657	698,958
Accounts payable	-	3,108
Current portion of bonds payable	<u>7,040,184</u>	<u>6,908,043</u>
Total current liabilities	10,417,323	11,202,779
Long-Term Liabilities		
Bonds payable net of discount and current portion	62,310,007	69,580,691
Liability for other post employment benefits	4,257,505	3,242,308
Closure and postclosure liabilities	62,388,153	60,789,881
Unamortized original issue premium	798,979	872,326
Funds held in escrow	<u>1,731,954</u>	<u>1,644,878</u>
Total liabilities	<u>141,903,921</u>	<u>147,332,863</u>
Net Assets		
Invested in capital assets, net of related debt	69,948,603	74,889,534
Unrestricted net assets	27,155,420	32,335,285
Restricted net assets - funded reserves:		
Environmental self-insurance	20,165,384	19,991,781
Public liability insurance	1,986,797	1,969,672
Auto, workers compensation and genreal liability insurance	<u>2,695,338</u>	<u>3,747,165</u>
Total net assets	<u>121,951,542</u>	<u>132,933,437</u>
Total liabilities and net assets	<u>\$ 263,855,463</u>	<u>\$ 280,266,300</u>

See notes to financial statements

Middlesex County Utilities Authority - Solid Waste Division

Statement of Revenue and Expenses

Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Revenues		
Service revenues	\$ 32,992,545	\$ 31,474,515
Miscellaneous income	119,371	938,265
	<u>33,111,916</u>	<u>32,412,780</u>
Operating Expenses	<u>26,989,067</u>	<u>28,403,560</u>
Operating income before depreciation and amortization	6,122,849	4,009,220
Depreciation and Amortization	<u>14,989,337</u>	<u>7,187,396</u>
Operating loss	(8,866,488)	(3,178,176)
Nonoperating Income (expense)		
Interest income	534,053	809,325
Interest expense	<u>(1,215,637)</u>	<u>-</u>
	<u>(681,584)</u>	<u>809,325</u>
Net loss	<u>\$ (9,548,072)</u>	<u>\$ (2,368,851)</u>

See notes to financial statements

Middlesex County Utilities Authority - Solid Waste Division

Statement of Changes in Net Assets
 Years Ended December 31, 2011 and 2010

	Invested in Capital Assets Net of Related Debt	Unrestricted Net Assets	Restricted Net Assets	Total
Balance, January 1, 2010	\$ 69,849,975	\$ 40,052,391	\$ 25,468,526	\$ 135,370,892
Net income (loss)	(7,255,682)	4,578,135	308,696	(2,368,851)
Net transfers from reserves	12,295,241	(12,295,241)	-	-
Net claim reimbursements from restricted funded reserves	-	-	(68,604)	(68,604)
Balance, December 31, 2010	74,889,534	32,335,285	25,708,618	132,933,437
Net income (loss)	(15,057,624)	5,286,828	222,724	(9,548,072)
Net transfers from reserves	10,116,693	(10,466,693)	350,000	-
Net claims paid from restricted funded reserves	-	-	(1,433,823)	(1,433,823)
Balance, December 31, 2011	<u>\$ 69,948,603</u>	<u>\$ 27,155,420</u>	<u>\$ 24,847,519</u>	<u>\$ 121,951,542</u>

See notes to financial statements

Middlesex County Utilities Authority - Solid Waste Division

Statement of Cash Flows

Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Cash received from customers	\$ 30,174,203	\$ 29,996,122
Miscellaneous income from customers and vendors	3,409,483	2,301,690
Cash payments for goods and services	(23,454,502)	(26,704,340)
Cash payments to employees	(2,307,528)	(2,320,842)
	<u>7,821,656</u>	<u>3,272,630</u>
Net cash provided by operating activities		
Cash Flows from Capital and Related Financing Activities		
Funds received from NJ Environmental Infrastructure Trust	461,002	6,255,304
Additions to capital assets	(2,978,150)	(4,799,613)
Repayment to Wastewater Division construction fund	-	(2,891,434)
Interest paid including capitalized interest of \$1,215,636 in 2011 and \$1,505,137 in 2010	(1,273,938)	(1,505,137)
Claims reimbursed to (paid from) funded reserves	(1,433,823)	(68,604)
Repayments of bonds payable	(7,138,543)	(5,886,310)
	<u>(12,363,452)</u>	<u>(8,895,794)</u>
Net cash used in capital and related financing activities		
Cash Flows from Investing Activities		
Purchase of investment securities	(26,577,296)	(35,975,445)
Proceeds from sale and maturities of investments	27,615,544	28,888,596
Loan repayments (advances) to Wastewater Division	1,000,000	(600,000)
Repayment of MCIA loan receivable	-	773,333
Interest income received on investments	466,596	1,435,069
	<u>2,504,844</u>	<u>(5,478,447)</u>
Net cash provided by (used in) investing activities		
Decrease in cash and cash equivalents	(2,036,952)	(11,101,611)
Cash and Cash Equivalents, Beginning of Year	<u>88,511,460</u>	<u>99,613,071</u>
Cash and Cash Equivalents, End of Year	<u>\$ 86,474,508</u>	<u>\$ 88,511,460</u>
Summary of Cash and Cash Equivalents at End of Year		
Unrestricted assets	\$ 2,806,068	\$ 2,727,117
Restricted assets	83,668,440	85,784,343
	<u>\$ 86,474,508</u>	<u>\$ 88,511,460</u>

See notes to financial statements

Middlesex County Utilities Authority - Solid Waste Division

Statement of Cash Flows

Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (8,866,488)	\$ (3,178,176)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	14,989,337	7,187,396
Changes in operating assets and liabilities		
Accounts receivable	(142,442)	714,532
Accounts payable, accrued liabilities and retainage payable	(476,562)	(1,346,604)
Unearned service revenue	(382,734)	195,700
Liability for other post employment benefits	1,015,197	927,415
Accrued closure and postclosure liabilities	1,598,272	(558,526)
Funds held in trust	87,076	(669,107)
	<u>87,076</u>	<u>(669,107)</u>
Net cash provided by operating activities	<u>\$ 7,821,656</u>	<u>\$ 3,272,630</u>

See notes to financial statements

Middlesex County Utilities Authority - Solid Waste Division

Notes to Financial Statements
December 31, 2011 and 2010

1. Organization

The Middlesex County Utilities Authority (the "Authority") is a public body, politic and corporate of the State of New Jersey. As a public body under existing statute, the Authority is exempt from both federal and state income taxes.

The Authority has two divisions: the Solid Waste Division and the Wastewater Division. The two divisions are operated as separate enterprises with the assets, liabilities, net assets, revenues and expenses of each segregated from the other. Certain common expenses are allocated between the divisions. Each division prepares separate sets of financial statements.

The Solid Waste Division

The Solid Waste Division (the "Division") commenced landfill operations on January 1, 1988, and is responsible for the implementation of the principal elements of the County's Solid Waste Management Plan.

The Wastewater Division

The Wastewater Division is authorized and empowered to construct, maintain and operate sewage and sludge treatment facilities and to issue revenue bonds payable from the annual charges collected from the Authority's participants. Such sewer revenue bonds are secured solely by revenues derived from the operation of the Wastewater Division and have no lien or claim upon any of the assets or revenues of the Solid Waste Division.

2. Summary of Significant Accounting Policies

These financial statements include the operations of the landfill and the Division's activities relative to the implementation of the principal elements of the County's Solid Waste Management Plan, but exclude the assets, liabilities, net assets and operations of the Wastewater Division.

Basis of Presentation

The operations of the Solid Waste Division are accounted for as a proprietary fund. The accompanying financial statements of the Solid Waste Division have been prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America applicable to proprietary funds as defined by the Governmental Accounting Standards Board ("GASB").

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Middlesex County Utilities Authority - Solid Waste Division

Notes to Financial Statements
December 31, 2011 and 2010

Subsequent Events

The Authority has evaluated subsequent events through April 27, 2012, which is the date the financial statements were available to be issued.

Operating Revenues and Expenses

Operating revenues, which result from providing landfill facilities, are principally derived from receipts of funds from customers. Operating expenses for these operations include all costs related to providing the services. All other revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Cash Equivalents

Cash equivalents include certificates of deposit and a cash management fund. The Solid Waste Division considers investments with original maturities of three months or less at the date of purchase to be cash equivalents.

Accounts Receivable

Accounts receivable consist of receivables at original invoice amounts. Credit is generally extended on a short-term basis; thus, receivables do not bear interest. Receivables are periodically evaluated for collectability based on past credit history with customers and their current financial condition. Changes in the estimated collectability of receivables are recorded in the results of operations for the period in which the estimate is revised. No allowance for doubtful accounts was required at December 31, 2011 or 2010.

Restricted Assets

Restricted assets consist of funds provided from issuance of bonds and/or revenues and are restricted for specific purposes under the resolution authorizing the issuance of the bonds or the Authority budget. Restricted assets were as follows at:

<u>Purpose</u>	<u>2011</u>	<u>2010</u>
Acquisition or construction of property, plant and equipment and related improvements	\$ 26,613,528	\$ 31,611,041
Landfill closure and post-closure	62,388,153	60,789,881
Future contingencies	26,816,866	27,660,995
Due from NJEIT - Landfill expansion cells 7, 8 & 9	-	461,002
Funds held in escrow	1,731,954	1,644,878
	<u>\$ 117,550,501</u>	<u>\$ 122,167,797</u>

Middlesex County Utilities Authority - Solid Waste Division

Notes to Financial Statements
December 31, 2011 and 2010

Investments

Investments are purchased with the intent to hold to maturity. Investments consist of certificates of deposit and U.S. Government obligations which are stated at cost (adjusted for accumulated amortization/accretion of any premium or discounts) which approximates fair value.

Capital Assets

Property, plant and equipment are stated at cost or estimated historical cost. Cost includes interest expense, net of related interest income on tax-exempt borrowings obtained to finance construction projects. Landfill improvements are amortized based on the units of airspace used during the year.

Depreciation is computed on a straight-line basis over the following estimated useful lives:

	<u>Years</u>
Building and improvements	3 - 20
Machinery and equipment	3 - 10
Furniture and fixtures	3 - 10

Closure and Post-Closure Liabilities

Landfill site closure and post-closure cost liabilities are funded based on estimates of closure and post-closure costs to be incurred and units of airspace filled during the period.

Insurance Reserves

The Authority self insures for a portion of the losses that could arise during the normal course of its operations and has set up reserves to fund any claims that may arise.

Middlesex County Utilities Authority - Solid Waste Division

Notes to Financial Statements

December 31, 2011 and 2010

3. Cash and Cash Equivalents

The components of cash and cash equivalents are as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
December 31, 2011			
Cash on deposit	\$ 2,806,068	\$ 82,877,881	\$ 85,683,949
Cash equivalents	-	790,559	790,559
	<u>\$ 2,806,068</u>	<u>\$ 83,668,440</u>	<u>\$ 86,474,508</u>
December 31, 2010			
Cash on deposit	\$ 2,727,117	\$ 84,863,270	\$ 87,590,387
Cash equivalents	-	921,073	921,073
	<u>\$ 2,727,117</u>	<u>\$ 85,784,343</u>	<u>\$ 88,511,460</u>

The cash on deposit is partially insured by Federal deposit insurance in the amount of \$250,000 in each depository. At December 31, 2011 the Authority had on deposit, bank balances of approximately \$89,954,661 in five commercial banks, \$1,005,223 of which was covered by Federal deposit insurance. Balances above the Federal deposit insurance amount were insured by the Governmental Unit Deposit Protection Act ("GUDPA"), N.J.S.A. 17:9-41, et seq., which insures all New Jersey governmental units' deposits in excess of the Federal deposit insurance maximums. See Note 4 for risk disclosures.

4. Investments

The Authority's investment policy permits the investing of monies in the following types of investments:

- a) Any direct and general obligation of the United States of America.
- b) Negotiable or non-negotiable certificates of deposit issued by any bank, savings and loan association, or national banking association if qualified to serve as a depository for public funds under the provisions of the Governmental Unit Deposit Protection Act, N.J.S.A. 17:9-41 et seq.
- c) Deposits in the State of New Jersey Cash Management Fund.

Middlesex County Utilities Authority - Solid Waste Division

Notes to Financial Statements
December 31, 2011 and 2010

The Authority's investments which are held in the Authority's name on the records of the various financial institutions are summarized below:

Type	December 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Certificates of deposit	\$ 4,170,000	\$ 4,170,000	\$ 5,949,000	\$ 5,949,000
United States Government obligations:				
Short-term	108,626	110,662	425,078	424,328
Long-term	15,431,095	15,338,855	14,373,891	14,331,978
Total	<u>\$ 19,709,721</u>	<u>\$ 19,619,517</u>	<u>\$ 20,747,969</u>	<u>\$ 20,705,306</u>

Pursuant to Governmental Accounting Standards Board Statement No. 40, *Deposits and Investment Risk Disclosures* ("GASB 40"), the Authority's accounts are profiled in order to determine exposure, if any, to Custodial Credit Risk (risk that in the event of a failure of the counterparty, the Authority would not be able to recover the value of its deposits or investments.) Deposits are considered to be exposed to Custodial Credit Risk if they are: uncollateralized (securities not pledged to the depositor), collateralized with securities held by the pledging financial institution, or collateralized with securities held by the financial institution's trust department or agent but not in the government's name. At December 31, 2011, all of the Authority's deposits were collateralized by securities held by the GUDPA collateral pool and, accordingly, are not exposed to Custodial Credit Risk.

Credit Risk: The Authority does not have an investment policy regarding the management of credit risk, because it is the Authority's policy to only invest in securities that are obligations of the U.S. Government or securities guaranteed by the U.S. Government. GASB 40 requires that disclosure be made as to the credit rating of all debt security investments, except for obligations of the U.S. Government or investments guaranteed by the U.S. Government.

Interest Rate Risk: The Authority only invests in securities of, or guaranteed by, the U.S. Government, which it generally holds until maturity. As such, management believes that they do not have a significant exposure to interest rate risk, therefore, the Authority does not have a policy to limit interest rate risk.

5. MCIA Loan Receivable

The Authority loaned money to the Middlesex County Improvement Authority ("MCIA") under a renewable one year agreement. Through 2011, the loan bears interest at 3.0% per annum. The current agreement expires in December 2012, with an interest rate of 2%.

Middlesex County Utilities Authority - Solid Waste Division

Notes to Financial Statements
December 31, 2011 and 2010

6. Capital Assets

Property, plant and equipment consist of the following:

Purpose	2011	2010
Landfill and landfill expansion, including initial preparatory cost and construction in progress.	\$ 279,532,138	\$ 188,448,740
Construction in progress	1,365,494	90,005,811
Buildings, machinery and equipment	21,742,961	23,060,365
	<u>302,640,593</u>	<u>301,514,916</u>
Less accumulated depreciation and amortization	163,341,799	150,136,648
	<u>\$ 139,298,794</u>	<u>\$ 151,378,268</u>

Depreciation expense on buildings, machinery and equipment amounted to \$1,692,583 and \$2,005,363 for the years ended December 31, 2011 and 2010, respectively. The amortization expense on landfill and landfill expansion was \$13,365,041 and \$5,250,319 for the years ended December 31, 2011 and 2010, respectively.

	Balance January 1, 2011	Increase	Decrease	Balance December 31, 2011
Landfill and landfill expansion	\$ 188,448,740	\$ 91,083,398	\$ -	\$ 279,532,138
Construction in progress	90,005,811	1,224,121	89,864,438	1,365,494
Other assets	23,060,365	535,069	1,852,473	21,742,961
	<u>\$ 301,514,916</u>	<u>\$ 92,842,588</u>	<u>\$ 91,716,911</u>	<u>\$ 302,640,593</u>
	Balance January 1, 2010	Increase	Decrease	Balance December 31, 2010
Landfill and landfill expansion	\$ 188,448,740	\$ -	\$ -	\$ 188,448,740
Construction in progress	84,829,546	5,176,265	-	90,005,811
Other assets	23,459,464	132,097	561,195	20,060,365
	<u>\$ 296,737,749</u>	<u>\$ 5,308,362</u>	<u>\$ 531,195</u>	<u>\$ 301,514,916</u>

Middlesex County Utilities Authority - Solid Waste Division

Notes to Financial Statements
December 31, 2011 and 2010

7. Long-Term Debt

In 2007 the Authority borrowed \$64,962,245 from the New Jersey Environmental Infrastructure Trust. The bonds are payable in two separate portions. The Federal portion is payable in semi-annual principal amounts of approximately \$2,888,000 per year without interest. The State portion bears interest at rates ranging from 3.4% to 5.0% per annum and is payable in annual installments ranging from a current amount of \$2,700,000 to \$3,640,000 through August 2019.

In 2009 the Authority borrowed \$23,537,398 in supplemental bond financing from the New Jersey Environmental Infrastructure Trust. The bonds are payable in two separate portions. The Federal portion is payable in semi-annual principal amounts aggregating approximately \$824,500 per year without interest. The State portion bears interest at rate ranging from 2.0% to 5.0% per annum and is payable in annual installments ranging from a current amount of \$630,000 to \$1,055,000 through August 2024.

During the year ended December 31, 2011, the following changes occurred in long-term debt obligations:

	Balance January 1, 2011	Increase	Decrease	Balance December 31, 2011
Bonds payable	\$ 76,488,734	\$ -	\$ 7,138,543	\$ 69,350,191
	Balance January 1, 2010	Increase	Decrease	Balance December 31, 2010
Bonds payable	\$ 82,375,044	\$ -	\$ 5,886,310	\$ 76,488,734

Annual repayments are due as follows:

	Principal	Interest	Total Debt Service
Years ended December 31:			
2012	\$ 7,040,183	\$ 1,551,065	\$ 8,591,248
2013	7,157,623	1,440,365	8,597,988
2014	7,285,469	1,310,040	8,595,509
2015	7,421,201	1,171,750	8,592,951
2016	7,611,392	986,250	8,597,642
2017 through 2021	27,541,379	2,095,250	29,636,629
2022 through 2024	5,292,944	242,100	5,535,044
	\$ 69,350,191	\$ 8,796,820	\$ 78,147,011

Middlesex County Utilities Authority - Solid Waste Division

Notes to Financial Statements
December 31, 2011 and 2010

8. Disclosures About Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Short-term investments: The carrying amount approximates fair value because of the short maturity of those instruments.

Long-term investments: The fair value of long-term investments are estimated based on quoted market prices for those or similar investments. Additional information pertinent to the value of these investments is provided in Note 4.

Long-term debt: The Authority's long-term debt is stated at face value, which management believes approximates fair value based on the current rates available to the Authority and the remaining terms of the obligations.

9. Reservations on Net Assets

Under its budget practices, the Authority reserves the use of unexpended funds for Solid Waste Division's appropriations specifically earmarked for acquisition of property, plant and equipment and for future contingencies and liabilities. Certain of these reserves are restricted fund reserves and others are funded reserves of unrestricted net assets.

10. Service Revenues

Service revenues are generated from solid waste disposal activities at the Middlesex County Landfill site. Pre-approved municipal and private haulers that collect Middlesex County solid waste are the only haulers authorized to dispose of waste at the Middlesex County Landfill site. Private haulers are required to pay their tipping fees in advance and the Authority records these payments as unearned service revenue until such time as it receives waste from the haulers.

Solid waste is classified into three categories. Regular and contract waste consists of conventional residential, commercial or industrial waste. Special waste requires special testing or handling. Mixed waste which consists of transfer station residual waste, and waste from construction and demolition materials, is classified as I.D. 13.

The landfill rate structure per ton as adopted in the Authority's original 2011 budget is as follows:

Middlesex County Utilities Authority - Solid Waste Division

Notes to Financial Statements
December 31, 2011 and 2010

	<u>Contract (Tier I)</u>	<u>Contract (Tier II)</u>	<u>Regular</u>	<u>C&D</u>	<u>Special</u>
Rates to cover operating costs, capital costs and reserves	<u>\$ 45.98</u>	<u>\$ 48.98</u>	<u>\$ 54.98</u>	<u>\$ 57.98</u>	<u>\$ 97.98</u>
Mandated taxes:					
DEP closure tax	1.00	1.00	1.00	1.00	1.00
State closure and contingency tax	0.50	0.50	0.50	0.50	0.50
State solid waste service tax	3.00	3.00	3.00	3.00	3.00
Host community tax	5.15	5.15	5.15	5.15	5.15
County tax	0.77	0.77	0.77	0.77	0.77
Adjoining host community tax	<u>3.60</u>	<u>3.60</u>	<u>3.60</u>	<u>3.60</u>	<u>3.60</u>
Total mandated taxes	<u>14.02</u>	<u>14.02</u>	<u>14.02</u>	<u>14.02</u>	<u>14.02</u>
Total rate per ton	<u>\$ 60.00</u>	<u>\$ 63.00</u>	<u>\$ 69.00</u>	<u>\$ 72.00</u>	<u>\$ 112.00</u>
2010 rates	<u>\$ 58.00</u>	<u>\$ 61.00</u>	<u>\$ 67.00</u>	<u>\$ 102.00</u>	<u>\$ 112.00</u>

11. Related Party Transactions

Management Fee

The operating expenses for the Solid Waste Division include management fees to the Wastewater Division, which amounted to \$1,843,404 and \$1,834,608 for the years ended December 31, 2011 and 2010, respectively.

Note Receivable

The Solid Waste Division has loaned the Wastewater Division \$14,100,000. The note bears interest at the rate of 2.75% per annum and requires the Wastewater Division to make principal repayments at the discretion of the Board of Commissioners. There is no stated maturity date for the note. Interest income for the years ended December 31, 2011 and 2010 was \$394,983 and \$413,939, respectively.

Middlesex County Utilities Authority - Solid Waste Division

Notes to Financial Statements
December 31, 2011 and 2010

12. Pension and Retirement Plans

Pension Plan

The Authority participates in the Public Employees' Retirement System of New Jersey, which is administered by the Division of Pensions in the Department of Treasury, State of New Jersey. This multiple-employer defined benefit pension plan is funded annually based on the projected benefit method with aggregate level normal cost and frozen initial unfunded accrued liability. The plan, which covers public employees throughout the state, does not maintain separate records for each reporting unit and, accordingly, the actuarial data specific to the employees of the Authority who are members of the plan is not available. Contributions for the years ended December 31, 2011 and 2010 aggregated \$254,813 and \$190,890, respectively.

The Authority has adopted the provisions of the revision to Governmental Accounting Standards Board Statement No. 32, "Accounting for Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans" ("GASB 32"), for both the deferred compensation and the discretionary supplemental retirement plans mentioned below, and has complied with the provisions of the Small Business Job Protection Act of 1996 (the "Act"). The Act requires that amounts deferred under this plan are to be held for the exclusive benefit of participating employees and are not accessible by the Authority or its creditors.

Deferred Compensation

The Authority's deferred compensation program is offered to all Authority employees. The program was created in accordance with Sections 403(b) and 457 of the Internal Revenue Code. The program is offered by the Authority, through a program administrator, The Variable Annuity Life Insurance Company ("VALIC").

Other Post Employment Benefits ("OPEB") - Retiree Welfare Plan

The Authority maintains a Retiree Welfare Plan which provides post retirement medical benefits to eligible retirees as described under the plan. During the year ended December 31, 2008 the Authority adopted the provisions of Statement of Governmental Accounting Standards No. 45 ("GASB 45") which requires that the Authority record an actuarially calculated liability and record its annual OPEB cost. The major actuarial assumptions, among others, were the use of a 4.5% discount rate and a computed Health Care Trend Rate ("HCTR") which ranged from 5% to 12% depending on the type of coverage. Tables were used for mortality, morbidity and disability variables in computing the HCTR. The Authority does not fund the actuarial cost of the plan and only contributes the amount necessary to pay for benefits of current retirees.

Middlesex County Utilities Authority - Solid Waste Division

Notes to Financial Statements
December 31, 2011 and 2010

The Authority's annual OPEB cost is calculated based on the Annual Required Contribution ("ARC"), which represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of time not to exceed thirty years. Also, the Authority elected to compute the Net OPEB Obligation ("NOO") at transition on a prospective rather than retroactive basis. The following table shows the components of the Authority's annual OPEB cost for the year ended December 31, 2011 and 2010, the amount actually contributed to the plan, and changes in the Authority's net OPEB obligation:

	<u>2011</u>	<u>2010</u>
Annual required contribution	\$ 1,143,191	\$ 1,040,980
Interest on Net OPEB obligation	-	-
Amortization on Net OPEB obligation	-	-
Annual OPEB cost	1,143,191	1,040,980
Contributions made	<u>127,994</u>	<u>113,565</u>
Increase in Net OPEB obligation	1,015,197	927,415
Net OPEB obligation - beginning of year	<u>3,242,308</u>	<u>2,314,893</u>
Net OPEB obligation - end of year	<u>\$ 4,257,505</u>	<u>\$ 3,242,308</u>

Funded Status and Funding Progress

The funded status of the plan as of January 1, 2011, the date of the most recent actuarial valuation, is as follows:

Actuarial Accrued Liability ("AAL")	\$ 11,252,291
Actuarial Value of Plan Assets	<u>-</u>
Unfunded Actuarial Accrued Liability ("UAAL")	<u>\$ 11,252,291</u>
Funded Ratio - Actuarial Value of Plan Assets/AAL	<u>0.0%</u>
Covered Payroll	<u>\$ 2,307,528</u>
UAAL as a percentage of covered payroll	<u>487.63%</u>

Discretionary Supplemental Retirement Plan

The Authority's discretionary supplemental retirement plan is offered to all Authority permanent employees who have accrued the number of sick leave days, as determined by the Authority, provided that such employee is credited with at least 1,000 hours of service during the plan period. The program was created in accordance with Sections 401(a) and 403(b) of the Internal Revenue Code. The program is offered by the Authority through VALIC, which acts as its agent.

Middlesex County Utilities Authority - Solid Waste Division

Notes to Financial Statements
December 31, 2011 and 2010

13. Commitments and Contingencies

Acquisition of Property Interests in Edgeboro II

Pursuant to the County Solid Waste Management Plan, the Authority has undertaken the development and operation of an integrated solid waste management system, the principal long-term component of which is currently Edgeboro I. On May 10, 1991, the DEP issued a solid waste facility permit for Edgeboro II for five periods, the maximum allowable period under applicable law. As permitted, Edgeboro II was projected by the Authority to meet the County's landfill requirements at least through the period 2016. The renewal for the next five years is being negotiated with the DEP and the landfill has been permitted to remain in operation during the negotiation.

In May 1994, after a series of condemnation hearings and negotiations, the Authority acquired an easement on certain sections "over the top" of the closed Edgeboro I and approximately 80 acres of vacant property for other public purposes.

Host Community Benefit Agreements

Township of East Brunswick: Under the Host Community Benefit Statute, the Township of East Brunswick is entitled to host benefits in consideration for the location of an operating landfill within its borders. The benefits provided to the Township of East Brunswick, under the agreement currently in effect, are based on solid waste accepted at the landfill, at the per ton rate of \$5.15 with a minimum annual payment of \$3,500,000 and an annual basic payment of \$910,000, increased by the percentage increase on tipping for the period over that of 1988.

Boroughs of Sayreville, South River and the Township of Edison: Under the adjoining Host Community Benefit Statute, the Boroughs of Sayreville and South River and the Township of Edison are entitled to host benefits in consideration of these communities being located in close proximity to the landfill. The benefits under the agreements which are expensed as incurred are based on the following per ton rates applied to the previous period's total solid waste accepted for disposal in the landfill:

- For the Borough of Sayreville: \$1.20 per ton for the years 2003 - 2013.
- For the Borough of South River: \$1.50 per ton for the years 2003 - 2013.
- For the Township of Edison: \$0.90 per ton in 2003 - 2013.

MCIA Agreement

On January 1, 2011, the Middlesex County Utilities Authority renewed a five-year agreement, to be renegotiated annually, with the MCIA allowing operation of an Interim Bulky Waste Recycling Program by the Improvement Authority. Under the renegotiated agreement dated January 1, 2011 the MCIA subsidizes the County of Middlesex Recycling Program in the amount of \$2,750,000 annually.

Middlesex County Utilities Authority - Solid Waste Division

Notes to Financial Statements

December 31, 2011 and 2010

Closure and Post-Closure Care Cost

In 1991 the Department of Environmental Protection ("DEP") and the Board of Public Utilities issued an order requiring Edgeboro Disposal Inc. ("EDI") to close the Edgeboro I landfill. The Authority and EDI share responsibility for the closure and post-closure work at Edgeboro I based on an agreement executed on October 10, 1991. Under the 1991 master plan developed for the facility permitting a comprehensive environmental management of the landfill, the closure and post-closure liabilities of Edgeboro I shall be funded principally by escrowed funds established by the owners of Edgeboro I under the terms of the rates (tipping fees) approved by the then Board of Public Utilities.

Federal and state laws and regulations require the Authority to place a final cover on each utilized area of the landfill site when the respective area stops accepting waste and to perform certain maintenance and monitoring functions at each site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that these landfill areas stop accepting waste, the Authority reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used each year. The \$62.4 million reported as landfill closure and post-closure care liability at December 31, 2011 represents the cumulative amount reported to date based on the use of approximately 83% of the estimated capacity of the landfill. Total costs are estimated to be approximately \$75 million.

The Authority has expensed \$738,128 and \$901,180 for closure and post-closure care costs for the years ended December 31, 2011 and 2010, respectively. These amounts are based on what it would cost to perform all closure and post-closure care for the Authority's share of closure costs. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The Authority also provides funding for closure and post-closure liabilities to meet regulatory requirements from tipping fee revenues. At December 31, 2011, investments with a cost of \$62,388,153, which approximates fair value, are held for these purposes. These are reported as restricted assets on the balance sheet. The Authority expects that future inflation costs will be paid from interest earnings on these annual contributions; however, if interest earnings are inadequate or additional post-closure care requirements are determined, due to changes in technology or applicable laws or regulations, for example, these costs may need to be covered by charges to future landfill users or from future tax revenues.

Long-Term Contracts

The Authority has entered into several contracts for construction and expansion of the landfill, some of which extend beyond the balance sheet date. Funding for these projects has been substantially secured through the New Jersey Environmental Infrastructure Trust ("NJEIT"). Amounts receivable from the NJEIT were fully received during year ended December 31, 2011.

Litigation

The Authority is a defendant in a number of legal proceedings. If these cases are decided against the Authority, the Authority will pay such amounts from future user fees and specific reserves. The Authority expects such amounts, if any, will not have a material adverse effect on the Authority's financial statements.

Middlesex County Utilities Authority - Solid Waste Division

Notes to Financial Statements
December 31, 2011 and 2010

Environmental Regulations

The Authority operates its landfill, subject to extensive Federal and state environmental regulations. Accordingly, the Authority is subject to the administrative directives, rule and regulations of the Federal and state regulatory agencies. Such administrative directives, rules and regulations are subject to change by acts of the Federal and state legislatures. Such changes may occur with little or no notice or inadequate funding to pay for the related costs, including the additional administrative burden, to comply with the change. The Authority's management is not aware of any violations or administrative changes that may have a material effect on the financial statements.

The Environmental Protection Agency ("EPA") issued a Finding of Violation in February of 2007 to the Authority and former owners and operators of the Middlesex County Landfill Gas Collection System. The EPA and the New Jersey Department of Environmental Protection ("NJDEP") presented a joint penalty assessment for this violation seeking approximately \$2,168,000. In April 2008, the EPA and parties agreed to penalties in the amount of \$1,300,000. This penalty is to be allocated between the Authority and the former owners and operators of the Middlesex County Landfill Gas Collection System. This matter settled in 2010 with the MCUA paying \$240,150 of the penalty.

14. Reservations of Unrestricted Net Assets

The Authority, under its budgetary practice, has established the following reservations of its unrestricted net assets as of December 31:

	<u>2011</u>	<u>2010</u>
Land acquisition and improvements	\$ 20,944,309	\$ 24,592,117
Reconstruction and replacement	3,688,502	3,259,791
Future contingencies	<u>1,969,349</u>	<u>1,952,374</u>
Total	<u>\$ 26,602,160</u>	<u>\$ 29,804,282</u>

Middlesex County Utilities Authority - Solid Waste Division

Schedule of Changes in Unrestricted Cash and Cash Equivalents

Year Ended December 31, 2011

	<u>Operating Fund</u>
Sources	
Service revenues	\$ 30,174,203
Interest income	48,121
Soil program income	1,522,832
Miscellaneous receipts	20,133
Enrollment fees	12,935
Service fee income	54,647
Expense reimbursement	8,604
Budgetary income from restricted funds	3,772,100
Transfer from restricted funds	<u>1,798,936</u>
Total sources	<u>37,412,511</u>
Uses	
Vouchers paid	28,772,107
Transfers to debt service, net	8,561,453
Transfers to restricted funds	<u>-</u>
Total uses	<u>37,333,560</u>
Increase for the Year	78,951
Balance, Beginning of Year	<u>2,727,117</u>
Balance, End of Year	<u>\$ 2,806,068</u>
Balance comprised of	
Cash	<u>\$ 2,806,068</u>

Middlesex County Utilities Authority - Solid Waste Division

Schedule of Changes in Restricted Cash, Cash Equivalents and Investments

Year Ended December 31, 2011

	General Liability Insurance Fund	Collision Insurance Reserve	Workers Compensation Insurance	Land Acquisition and Improvement Reserve
Sources				
Interest income	\$ 22,092	\$ 1,638	\$ 8,272	\$ 97,503
Escrow deposits	-	-	-	-
Due to Wastewater Division	-	-	-	-
Expense reimbursement	-	-	18,839	-
Transfer - interfund	-	-	-	-
Budget Appropriation	250,000	-	100,000	-
Transfers - unrestricted funds	-	-	-	-
Debt proceeds	-	-	-	-
Total sources	272,092	1,638	127,111	97,503
Uses				
Bond principal paid	-	-	-	-
Bond interest paid	-	-	-	-
Vouchers paid	-	-	-	-
Claims paid	1,355,054	1,876	95,738	-
NJEIT administrative fee	-	-	-	-
Trustee fee	-	-	-	-
Transfer - unrestricted funds	-	-	-	-
Miscellaneous loss	-	-	-	-
Escrow withdrawals	-	-	-	-
DEP fee	-	-	-	-
Total uses	1,355,054	1,876	95,738	-
Increase (Decrease)	(1,082,962)	(238)	31,373	97,503
Balance, Beginning of Year	2,588,389	190,179	968,596	14,093,889
Balance, End of Year	\$ 1,505,427	\$ 189,941	\$ 999,969	\$ 14,191,392
Balance comprised of				
Cash	\$ 1,505,427	\$ 189,941	\$ 999,969	\$ 14,191,392
Cash equivalents	-	-	-	-
Investments:				
Certificates of deposit	-	-	-	-
Treasury notes	-	-	-	-
Other government obligations	-	-	-	-
	\$ 1,505,427	\$ 189,941	\$ 999,969	\$ 14,191,392

Middlesex County Utilities Authority - Solid Waste Division

Schedule of Changes in Restricted Cash, Cash Equivalents and Investments

Year Ended December 31, 2011

	DEP Closure Phase I	Environmental Self Insurance	Closure/ Post- Closure I	Closure/ Post- Closure II
Sources				
Interest income	\$ 72,254	\$ 173,787	\$ 27,440	\$ 231,092
Escrow deposits	-	-	-	259,258
Due to Wastewater Division	-	-	-	1,400,000
Expense reimbursement	-	-	-	-
Transfer - interfund	-	-	-	-
Budget Appropriation	-	-	-	-
Transfers - unrestricted funds	-	-	-	-
Debt proceeds	-	-	-	-
	<u>72,254</u>	<u>173,787</u>	<u>27,440</u>	<u>1,890,350</u>
Uses				
Bond principal paid	-	-	-	-
Bond interest paid	-	-	-	-
Vouchers paid	-	-	-	-
Claims paid	-	-	-	-
NJEIT administrative fee	-	-	-	-
Trustee fee	-	188	-	5
Transfer - unrestricted funds	-	-	-	-
Miscellaneous loss	-	-	-	-
Escrow withdrawals	-	-	-	-
DEP fee	-	-	-	-
	<u>-</u>	<u>188</u>	<u>-</u>	<u>5</u>
Increase (Decrease)	72,254	173,599	27,440	1,890,345
Balance, Beginning of Year	<u>8,310,220</u>	<u>19,991,784</u>	<u>3,155,969</u>	<u>18,429,819</u>
Balance, End of Year	<u>\$ 8,382,474</u>	<u>\$ 20,165,383</u>	<u>\$ 3,183,409</u>	<u>\$ 20,320,164</u>
Balance comprised of				
Cash	\$ 8,382,474	\$ 20,165,383	\$ 3,183,409	\$ 20,320,164
Cash equivalents	-	-	-	-
Investments:				
Certificates of deposit	-	-	-	-
Treasury notes	-	-	-	-
Other government obligations	-	-	-	-
	<u>\$ 8,382,474</u>	<u>\$ 20,165,383</u>	<u>\$ 3,183,409</u>	<u>\$ 20,320,164</u>

Middlesex County Utilities Authority - Solid Waste Division

Schedule of Changes in Restricted Cash, Cash Equivalents and Investments
Year Ended December 31, 2011

	Supplemental Fund	Public Liability Insurance Reserve	Aforce Escrow	Construction Reserve
Sources				
Interest income	\$ 16,975	\$ 17,125	\$ 4,511	\$ 26,785
Escrow deposits	-	-	-	-
Due to Wastewater Division	-	-	-	-
Expense reimbursement	-	-	-	-
Transfer - interfund	-	-	-	-
Budget Appropriation	-	-	-	-
Transfers - unrestricted funds	-	-	-	-
Debt proceeds	-	-	-	-
Total sources	16,975	17,125	4,511	26,785
Uses				
Bond principal paid	-	-	-	-
Bond interest paid	-	-	-	-
Vouchers paid	-	-	-	-
Claims paid	-	-	-	-
NJEIT administrative fee	-	-	-	-
Trustee fee	-	-	-	-
Transfer - unrestricted funds	-	-	-	3,772,100
Miscellaneous loss	-	-	-	-
Escrow withdrawals	-	-	-	-
DEP fee	-	-	-	-
Total uses	-	-	-	3,772,100
Increase (Decrease)	16,975	17,125	4,511	(3,745,315)
Balance, Beginning of Year	1,952,374	1,969,673	518,865	8,292,331
Balance, End of Year	\$ 1,969,349	\$ 1,986,798	\$ 523,376	\$ 4,547,016
Balance comprised of				
Cash	\$ 1,969,349	\$ 1,986,798	\$ 523,376	\$ 4,547,016
Cash equivalents	-	-	-	-
Investments:				
Certificates of deposit	-	-	-	-
Treasury notes	-	-	-	-
Other government obligations	-	-	-	-
	\$ 1,969,349	\$ 1,986,798	\$ 523,376	\$ 4,547,016

Middlesex County Utilities Authority - Solid Waste Division

Schedule of Changes in Restricted Cash, Cash Equivalents and Investments
Year Ended December 31, 2011

	Service Fee Escrow	Reconstruction Replacement Reserve	HMC Assoc., Inc. Escrow	Ozark Environmental Escrow
Sources				
Interest income	\$ 5,659	\$ 28,712	\$ 2,986	\$ 4,478
Escrow deposits	1,881,100	-	-	-
Due to Wastewater Division	-	-	-	-
Expense reimbursement	-	-	-	-
Transfer - interfund	-	-	-	-
Budget Appropriation	-	400,000	-	-
Transfers - unrestricted funds	-	-	-	-
Debt proceeds	-	-	-	-
Total sources	1,886,759	428,712	2,986	4,478
Uses				
Bond principal paid	-	-	-	-
Bond interest paid	-	-	-	-
Vouchers paid	-	-	-	-
Claims paid	-	-	-	-
NJEIT administrative fee	-	-	-	-
Trustee fee	-	-	-	-
Transfer - unrestricted funds	-	-	-	-
Miscellaneous loss	-	-	-	-
Escrow withdrawals	1,811,660	-	-	-
DEP fee	-	-	-	-
Total uses	1,811,660	-	-	-
Increase (Decrease)	75,099	428,712	2,986	4,478
Balance, Beginning of Year	267,426	3,259,791	343,475	515,112
Balance, End of Year	\$ 342,525	\$ 3,688,503	\$ 346,461	\$ 519,590
Balance comprised of				
Cash	\$ 342,525	\$ 3,688,503	\$ 346,461	\$ 519,590
Cash equivalents	-	-	-	-
Investments:				
Certificates of deposit	-	-	-	-
Treasury notes	-	-	-	-
Other government obligations	-	-	-	-
	\$ 342,525	\$ 3,688,503	\$ 346,461	\$ 519,590

Middlesex County Utilities Authority - Solid Waste Division

Schedule of Changes in Restricted Cash, Cash Equivalents and Investments
 Year Ended December 31, 2011

	<u>DEP Closure Phase II</u>	<u>2009 Debt Service</u>
Sources		
Interest income	\$ 295,180	\$ -
Escrow deposits	487,544	-
Due to Wastewater Division	-	-
Expense reimbursement	-	-
Transfer - Interfund	-	-
Budget Appropriation	-	-
Transfers - unrestricted funds	-	1,787,228
Debt proceeds	-	230,501
	<u>782,724</u>	<u>2,017,729</u>
Uses		
Bond principal paid	-	1,444,481
Bond interest paid	-	478,451
Vouchers paid	-	-
Claims paid	-	-
NJEIT administrative fee	-	-
Trustee fee	36,949	34,335
Transfer - unrestricted funds	-	-
Miscellaneous loss	135,536	-
Escrow withdrawals	-	-
DEP fee	-	60,462
	<u>172,485</u>	<u>2,017,729</u>
Increase (Decrease)	610,239	-
Balance, Beginning of Year	<u>15,720,042</u>	<u>-</u>
Balance, End of Year	<u>\$ 16,330,281</u>	<u>\$ -</u>
Balance comprised of		
Cash	\$ -	\$ -
Cash equivalents	790,560	-
Investments:		
Certificates of deposit	-	-
Treasury notes	108,625	-
Other government obligations	15,431,096	-
	<u>\$ 16,330,281</u>	<u>\$ -</u>

Middlesex County Utilities Authority - Solid Waste Division

Schedule of Changes in Restricted Cash, Cash Equivalents and Investments
Year Ended December 31, 2011

	2007 Debt Service	2007 Construction Fund (Trustee)	Total
Sources			
Interest income	\$ -	\$ 23,768	\$ 1,060,257
Escrow deposits	-	-	2,627,902
Due to Wastewater Division	-	-	1,400,000
Expense reimbursement	-	-	18,839
Transfer - interfund	-	-	-
Budget Appropriation	-	-	750,000
Transfers - unrestricted funds	6,774,226	-	8,561,454
Debt proceeds	-	-	230,501
Total sources	6,774,226	23,768	14,648,953
Uses			
Bond principal paid	5,463,560	-	6,908,041
Bond interest paid	1,213,766	-	1,692,217
Vouchers paid	-	3,108	3,108
Claims paid	-	-	1,452,668
NJEIT administrative fee	96,900	-	96,900
Trustee fee	-	-	71,477
Transfer - unrestricted funds	-	1,798,936	5,571,036
Miscellaneous loss	-	-	135,536
Escrow withdrawals	-	-	1,811,660
DEP fee	-	-	60,462
Total uses	6,774,226	1,802,044	17,803,105
Increase (Decrease)	-	(1,778,276)	(3,154,152)
Balance, Beginning of Year	-	5,964,378	106,532,312
Balance, End of Year	\$ -	\$ 4,186,102	\$ 103,378,160
Balance comprised of			
Cash	\$ -	\$ 16,102	\$ 82,877,879
Cash equivalents	-	-	790,560
Investments:			
Certificates of deposit	-	4,170,000	4,170,000
Treasury notes	-	-	108,625
Other government obligations	-	-	15,431,096
	\$ -	\$ 4,186,102	\$ 103,378,160

Middlesex County Utilities Authority - Solid Waste Division

Schedule of Revenues - Budget and Actual

Year Ended December 31, 2011

Description	Annual Budget	Actual	Unrealized (Excess Over) Under Budget
Service revenues	\$ 30,024,000	\$ 30,638,532	\$ (614,532)
Unreserved retained earnings (1)	5,902,500	-	5,902,500
Interest income (2)	400,000	534,053	(134,053)
Soil program income	550,000	1,553,331	(1,003,331)
Reserve transfer (Cells 7, 8 &9)	-	800,682	(800,682)
Escrow transfer (1)	380,000	-	380,000
MICA loan repayment	770,000	-	770,000
Miscellaneous income	114,200	119,371	(5,171)
	<u>\$ 38,140,700</u>	<u>\$ 33,645,969</u>	<u>\$ 4,494,731</u>

(1) Not a revenue for GAAP purposes.

(2) Includes non-budgeted interest earned on restricted funds.

Middlesex County Utilities Authority - Solid Waste Division

Schedule of Expenses - Budget and Actual
Year Ended December 31, 2011

Description	Annual Budget	Actual	Unrealized (Excess Over) Under Budget
Salaries and Wages			
Administration	\$ 794,100	\$ 792,263	\$ 1,837
Operations	1,698,200	1,515,265	182,935
Total salaries and wages	<u>2,492,300</u>	<u>2,307,528</u>	<u>184,772</u>
Administration			
Public Employee Retirement System	254,800	254,814	(14)
Social Security tax	190,600	177,296	13,304
Employee benefits	874,000	1,838,772	(964,772)
Insurance	215,600	115,264	100,336
Professional fees	1,139,500	952,942	186,558
Regulatory fees and permits	222,000	43,796	178,204
General administrative expenses	1,953,400	1,964,388	(10,988)
Implementing agency fee	3,500,000	3,500,000	-
Total administration	<u>8,349,900</u>	<u>8,847,272</u>	<u>(497,372)</u>
Landfill Operations			
Host community benefits	6,174,000	6,300,843	(126,843)
Utilities	704,000	633,348	70,652
Waste and environmental testing	170,000	108	169,892
Maintenance	557,000	290,067	266,933
Operations	5,811,000	5,679,161	131,839
Transportation	61,000	50,621	10,379
Mandated charges	2,402,300	2,442,379	(40,079)
Total landfill operations	<u>15,879,300</u>	<u>15,396,527</u>	<u>482,773</u>
Budget subtotal	26,721,500	26,551,327	170,173
NJ - WWT and DEP - administrative fee	-	191,697	(191,697)
Budget total before debt service capital outlay and reserves	<u><u>\$ 26,721,500</u></u>	<u><u>\$ 26,743,024</u></u>	<u><u>\$ (21,524)</u></u>

Middlesex County Utilities Authority - Solid Waste Division

Schedule of Expenses - Budget and Actual

Year Ended December 31, 2011

<u>Description</u>	<u>Annual Budget</u>	<u>Actual</u>	<u>Unrealized (Excess Over) Under Budget</u>
Debt Service			
Bond principal	6,908,000	7,138,543	(230,543)
Interest on bonds	1,692,200	1,273,938	418,262
Total debt service	8,600,200	8,412,481	187,719
Capital Outlay			
Landfill - capital	2,174,000	1,759,191	414,809
Reserves	645,000	646,043	(1,043)
Total budgetary expenses	<u>\$ 38,140,700</u>	<u>\$ 37,560,739</u>	<u>\$ 579,961</u>

Middlesex County Utilities Authority - Solid Waste Division

Roster of Officials

As of December 31, 2011

Authority Member	Position	Term	Amount of Surety
Ted H. Light, P.E.	Chairman	1/31/2012	None
John F. Wiley, Esq.	Vice Chairman	1/31/2013	None
Edward Cohen	Commissioner	1/31/2016	None
Antonio L. Cruz, Esq.	Commissioner	1/31/2014	None
Robert Karabinchak	Commissioner	1/31/2014	None
Joseph Juliano	Commissioner	1/31/2015	None
James M. Zullo	Commissioner	1/31/2016	None
The Honorable Linda Carter	Commissioner	1/31/2015	None
Jerome Convery, Esq.	Commissioner	1/31/2015	None
Wayne Hamilton	Commissioner	1/31/2013	None
Raymond Murray	Commissioner	6/30/2016	None

Other Officials

Richard L. Fitamant, P.E.	Executive Director	1/31/2012	*
Paul Clark	Division Manager		*
Margaret M. Brennan, CPA	Comptroller/Treasurer	1/31/2012	\$1,000,000
Judith McCabe	Secretary	1/31/2012	*
John A. Hoffman, Esq.	Construction Counsel	Annual	
Camp, Dresser & McKee	Consulting Engineers	Annual	

Surety Company

Fidelity and Deposit Co. of Maryland

* Employer blanket policy for a total of \$1,000,000 for all employees. Comptroller's coverage is separate from the blanket coverage.

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 Board of Commissioners of
Middlesex County Utilities Authority - Solid Waste Division
Sayreville, New Jersey

We have audited the basic financial statements of the Middlesex County Utilities Authority - Solid Waste Division (the "Authority") as of and for the year ended December 31, 2011 and have issued our report thereon dated April 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective 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 Middlesex County Utilities Authority - Solid Waste Division'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 Authority'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 over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 the Board of Commissioners and the Authority's management, and for filing with 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 those specified parties.

Parente Beard LLC

Clark, New Jersey
April 27, 2012