

**TOWNSHIP OF LOWER
MUNICIPAL UTILITIES AUTHORITY
REPORT ON AUDIT OF
FINANCIAL STATEMENTS
YEARS ENDED NOVEMBER 30, 2012 AND 2011**

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FINANCIAL SECTION



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INDEPENDENT AUDITOR'S REPORT

Members of the Board of Directors
of the Township of Lower Municipal
Utilities Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the Township of Lower Municipal Utilities Authority, Township of Lower, New Jersey, as of and for the years ended November 30, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and audit requirements as prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion.

Auditor's Responsibility – Continued

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Township of Lower Municipal Utilities Authority, Township of Lower, New Jersey, as of November 30, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* as identified in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements.

We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Township of Lower Municipal Utilities Authority's basic financial statements. The schedules of revenues and costs compared to budget and the note to the supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of revenues and costs compared to budget and the note to the supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of revenues and costs compared to budget is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 1, 2013 on our consideration of the Township of Lower Municipal Utilities Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Township of Lower Municipal Utilities Authority's internal control over financial reporting and compliance.

Ford, Scott & Associates, L.L.C.
FORD, SCOTT & ASSOCIATES, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Leon P. Costello
Leon P. Costello
Certified Public Accountant
Registered Municipal Accountant
No. 393

April 1, 2013

REQUIRED SUPPLEMENTARY INFORMATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Within this section of the Township of Lower Municipal Utilities Authority's (the Authority or the LTMUA) annual financial report, the management of the Authority provides narrative discussion and analysis of the financial activities of the Authority for the audit year ending November 30, 2012.

The Authority's financial performance is discussed and analyzed within the context of the accompanying financial statements and notes following this section.

Discussion of Financial Statements Included in Annual Audit

The financial statements, which consist of the Comparative Statement of Net Assets, the Comparative Statement of Revenues, Expenses, and Changes in Net Assets, and the Comparative Statement of Cash Flows is prepared on an accrual basis and is in accordance with generally accepted accounting principles (GAAP) applicable to enterprise funds of state and local governments. These statements are the official financial statements of the Township of Lower Municipal Utilities Authority.

The Schedules of Revenues and Costs Compared to Budget are a very important statement to the Authority management staff, because it is how we measure our financial performance, particularly as it compares to the approved and adopted annual budget and how it relates to the operational performance.

Comparative Statement of Net Assets

The Total Net Assets increased by \$1,771,775 primarily due to fact that the Investment in Capital Assets, Net of Related Debt increased by \$1,981,544.

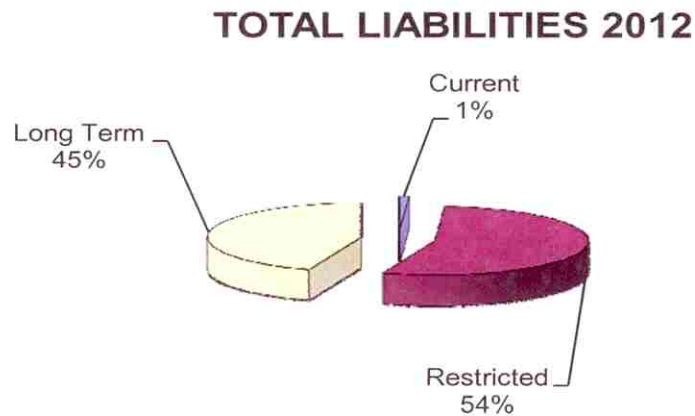
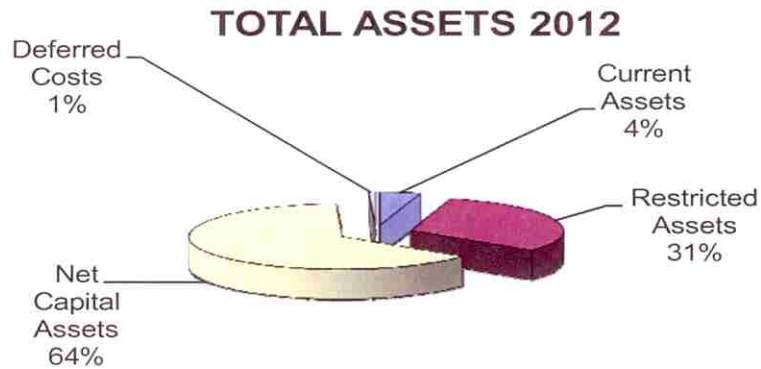
The Authority's Net Assets of \$21,753,699 are comprised of the following:

- (1) Investment in Capital Assets, Net of Related Debt of \$13,649,041 includes property plant and equipment, net of accumulated depreciation, and net of long-term debt and short-term debt related to the purchase or construction of capital assets.
- (2) Net Assets of \$2,182,757 restricted for the purpose of forthcoming debt service payments.
- (3) Net Assets of \$2,201,332 restricted for the purpose of providing a Debt Service Reserve Fund, in accordance with the Authority's debt covenants.
- (4) Unrestricted Net Assets of \$3,720,569 represents the portion available to maintain the Authority's continuing obligations to its creditors and current liabilities.

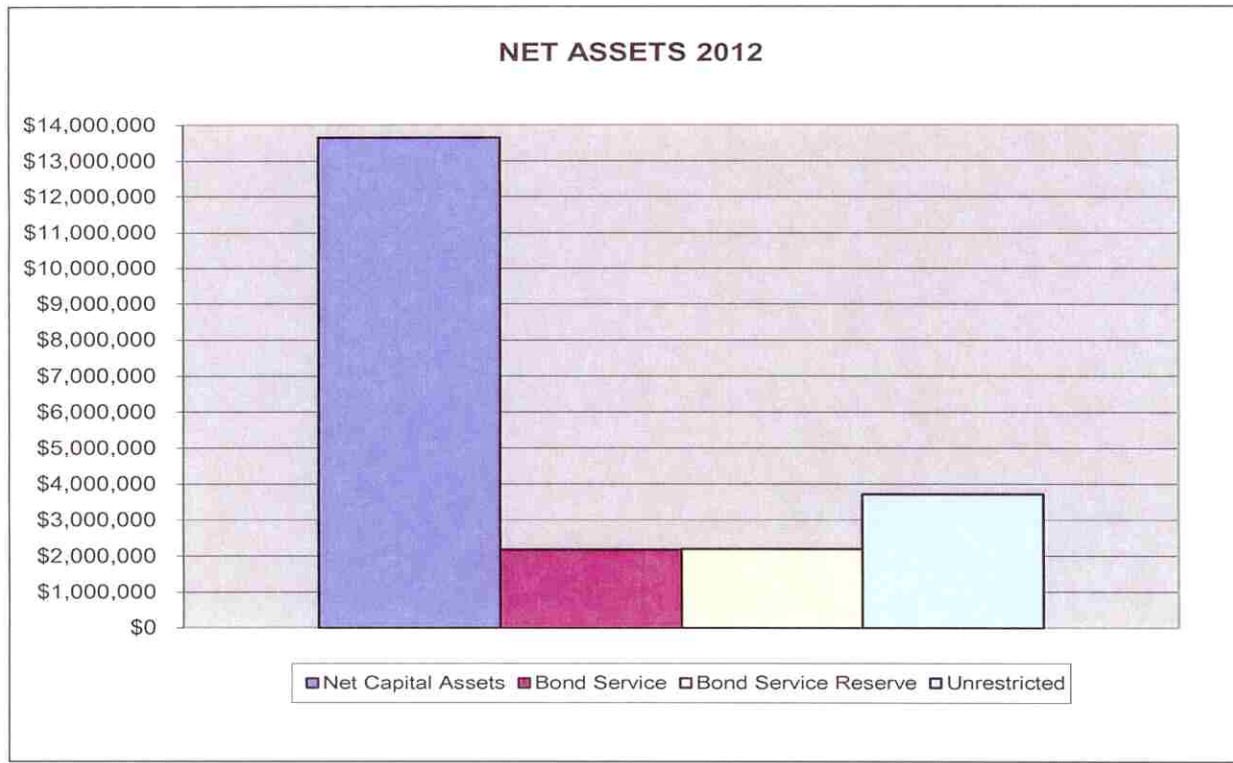
The Total Fund Equity increased by \$1,771,775 or about 9%.

Comparative Statement of Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total Current Assets	\$ 2,052,421	\$ 2,695,873	\$ 3,281,129
Total Restricted Assets	15,000,596	19,285,930	14,010,867
Net Capital Assets	30,866,933	27,833,818	26,254,844
Deferred Costs	259,535	271,175	293,827
Total Assets	<u>\$ 48,179,485</u>	<u>\$ 50,086,796</u>	<u>\$ 43,840,667</u>
Total Current Liabilities			
Payable from Current Assets	\$ 268,588	\$ 707,274	\$ 518,552
Total Current Liabilities			
Payable from Restricted Assets	14,398,329	15,984,199	9,950,040
Long-Term Obligations	<u>11,758,869</u>	<u>13,413,399</u>	<u>15,054,145</u>
Total Liabilities	26,425,786	30,104,872	25,522,737
Net Assets	<u>21,753,699</u>	<u>19,981,924</u>	<u>18,317,930</u>
Total Liabilities and Net Assets	<u>\$ 48,179,485</u>	<u>\$ 50,086,796</u>	<u>\$ 43,840,667</u>



Comparative Statement of Net Assets



Comparative Statement of Revenues, Expenses and Changes in Net Assets

There was a decrease in Operating Revenues of the Authority of \$99,961 or 1.2%, this decrease was primarily due to the fact that miscellaneous revenue was realized to a greater extent in 2011 as compared to 2012.

Operating Expenses decreased \$17,647 from the prior year.

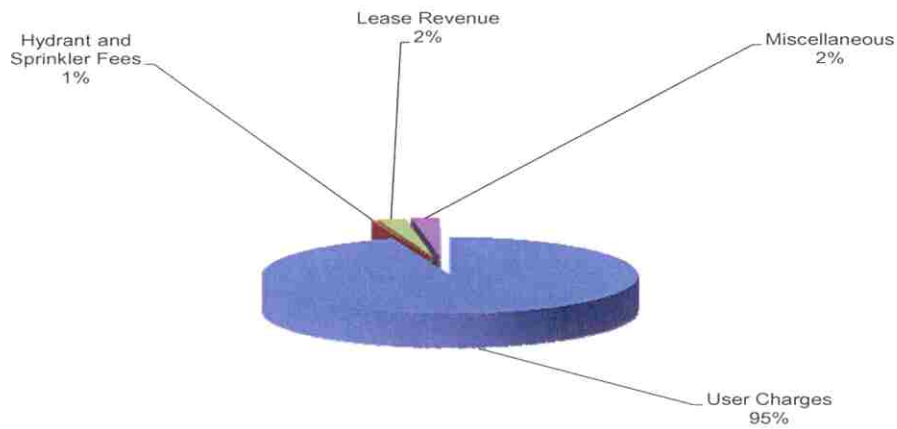
Total Operating Revenues exceeded Total Operating Expenses by \$2,533,092. This is a decrease of operating revenues over operating expenses when compared to 2011 of \$82,314 or a 3.14% decrease.

Non Operating Revenues/Expenses is comprised of Interest Income, Connection fee Income, Interest Expense, Expenses paid from Capital Reserves and Amortization of the Loss on Defeased Bonds. There was a \$9,470 decrease in Interest Income and a \$28,041 decrease in Connection Fee Income. Interest Expense increased by \$3,328. Net Capital Project Expenses decreased by \$235,580. Amortization increased by \$4,646. These changes resulted in a net decrease in the amount of \$190,095 in Net Non – Operating Expenses over Revenues.

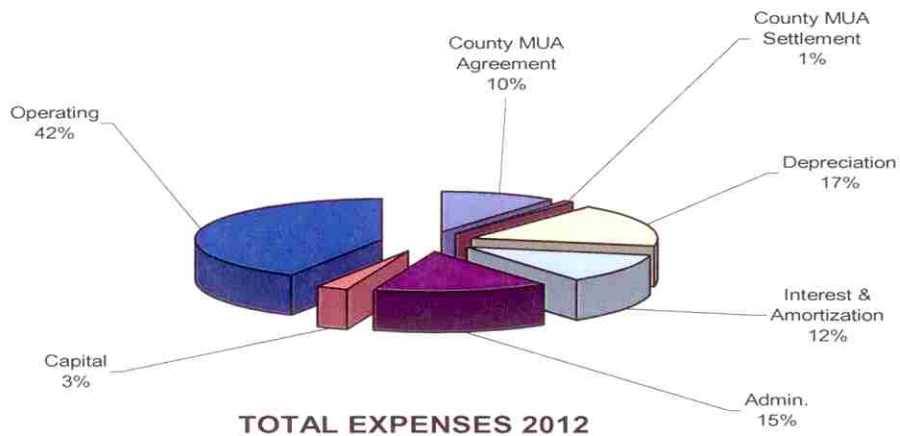
Net Income for the year 2012 increased by \$107,781 from 2011.

Comparative Statement of Revenues, Expenses and Changes in Net Assets

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total Operating Revenues	\$ 8,096,154	\$ 8,196,115	8,127,985
Total Operating Expenses	5,563,062	5,580,709	5,582,041
Operating Income	2,533,092	2,615,406	2,545,944
Non Operating Revenues / (Expenses)	(761,317)	(951,412)	76,228
Net Income	1,771,775	1,663,994	2,622,172
Net Assets, December 1	19,981,924	18,317,930	15,695,758
Net Assets, November 30	\$ <u>21,753,699</u>	\$ <u>19,981,924</u>	<u>18,317,930</u>



TOTAL REVENUES 2012



FINANCIAL STATEMENTS

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
NOVEMBER 30, 2012 AND 2011

<u>ASSETS</u>	<u>2012</u>	<u>2011</u>
Current Assets:		
Cash and Cash Equivalents	\$ 1,136,486	\$ 1,568,357
Accounts Receivable (net of Allowance of \$114,405 and \$75,568 in 2012 and 2011 respectively)	664,814	722,738
Connection Fees Receivable	251,121	404,778
	<hr/>	<hr/>
Total Current Assets	2,052,421	2,695,873
Noncurrent Assets:		
Restricted Assets:		
Cash and Cash Equivalents	15,000,596	19,285,930
	<hr/>	<hr/>
Total Noncurrent Assets	15,000,596	19,285,930
Capital Assets:		
Items not being Depreciated:		
Land and Construction in Progress	6,802,347	2,918,709
Property, Plant and Equipment	58,991,944	58,717,608
Less: Accumulated Depreciation	(34,927,358)	(33,802,499)
	<hr/>	<hr/>
Net Capital Assets	30,866,933	27,833,818
Deferred Costs:		
Unamortized Discount on Bonds	-	46,577
Unamortized Bond Issue Costs	259,535	224,598
	<hr/>	<hr/>
Total Deferred Costs	259,535	271,175
TOTAL ASSETS	\$ 48,179,485	\$ 50,086,796

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
COMPARATIVE STATEMENT OF NET ASSETS
NOVEMBER 30, 2012 AND 2011
(CONTINUED)

<u>LIABILITIES</u>	<u>2012</u>	<u>2011</u>
Current Liabilities Payable from Current Assets:		
Accounts Payable	\$ 268,588	\$ 586,502
Water and Sewer Overpayments	-	4,526
Deposits and Reserves	-	116,246
	<hr/>	<hr/>
Total Current Liabilities Payable from Current Assets	268,588	707,274
Current Liabilities Payable from Restricted Assets:		
Escrow Deposits	11,541	45,038
Construction Contracts Payable	22,321	88,912
Accrued Vacation and Sick Pay	138,766	123,761
Project Notes Payable	12,250,000	13,730,000
Accrued Interest on Bonds & Notes Payable	279,081	370,708
Current Portion of Long - Term Debt	1,696,620	1,625,780
	<hr/>	<hr/>
Total Current Liabilities Payable from Restricted Assets:	14,398,329	15,984,199
Noncurrent Liabilities:		
Long - Term Portion of Bonds and Loans Payable (Note 4)		
(Net of Unamortized Bond Premium and Loss on Refunding		
of \$44,753 and \$60,876, in 2012 and 2011		
and \$178,816 and \$32,029 in 2012 and 2011, respectively)	11,758,869	13,413,399
	<hr/>	<hr/>
Total Noncurrent Liabilities	11,758,869	13,413,399
TOTAL LIABILITIES	\$ 26,425,786	\$ 30,104,872
<u>NET ASSETS</u>		
Investment in Capital Assets, Net of Related Debt	\$ 13,649,041	\$ 11,667,497
Restricted for:		
Bond Service Fund	2,182,757	2,227,362
Bond Service Reserve Fund	2,201,332	2,227,362
Unrestricted	3,720,569	3,859,703
	<hr/>	<hr/>
TOTAL NET ASSETS	21,753,699	19,981,924
TOTAL LIABILITIES AND NET ASSETS	\$ 48,179,485	\$ 50,086,796

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011**

	2012	2011
Operating Revenues:		
User Charges, Service Agreements, Fees, Penalties and Provision for Doubtful Accounts	\$ 7,697,786	\$ 7,647,587
Hydrant and Sprinkler Fees	20,086	17,472
Lease Revenue	189,593	181,426
Miscellaneous	188,689	349,630
Total Operating Revenues	8,096,154	8,196,115
Operating Expenses:		
Administrative Expenses:		
Salaries	314,965	382,842
Benefits	194,864	240,707
Other Expenses	483,177	474,061
Plant Operations and Maintenance Expenses:		
Salaries	979,379	925,609
Benefits	744,342	607,566
Other Expenses:		
Buildings and Grounds	13,985	21,203
Cape May County MUA Agreement	650,156	640,912
Cape May County MUA Settlement	50,000	50,000
Chemicals - Treatment Plant	110,733	101,843
Collection System Maintenance	182,278	140,546
Fuel and Transportation	103,402	81,518
Laboratory Analysis	6,482	21,760
Lease Agreements	2,569	2,320
Miscellaneous	320	5,502
Distribution Supplies	33,268	19,937
Sludge Handling	166,284	159,171
Permits and Other Fees	44,834	41,703
Repairs and Maintenance - Water Operations	38,180	44,153
Safety	4,018	10,257
Uniforms	9,180	10,538
Utilities	281,594	439,733
Depreciation	1,124,859	1,139,542
Amortization of Bond Issue Costs	24,193	19,286
Total Operating Expenses	5,563,062	5,580,709

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011
(CONTINUED)

	<u>2012</u>	<u>2011</u>
Operating Income	\$ <u>2,533,092</u>	\$ <u>2,615,406</u>
Non - Operating Revenues / (Expenses):		
Interest Income	4,371	13,841
Interest Expense	(711,545)	(708,217)
Connection Fees	159,476	187,517
Capital Project Reserve Transactions	(177,712)	(413,292)
Amortization of Loss on Defeased Bonds	(35,907)	(31,261)
Total Non - Operating Revenues / (Expenses)	<u>(761,317)</u>	<u>(951,412)</u>
Net Income	1,771,775	1,663,994
Net Assets, December 1	<u>19,981,924</u>	<u>18,317,930</u>
Net Assets, November 30	\$ <u><u>21,753,699</u></u>	\$ <u><u>19,981,924</u></u>

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from Customers and Users	\$ 8,303,209	\$ 8,594,289
Payments to Employees	(1,294,344)	(1,319,075)
Payments to Suppliers	(3,566,974)	(2,835,893)
	<u>3,441,891</u>	<u>4,439,321</u>
Net Cash Provided by Operating Activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
None		
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of Capital Assets	(4,402,277)	(3,131,809)
Project Note Issued	12,250,000	13,730,000
Principal Paid on Project Note	(13,730,000)	(7,480,000)
Principal Paid on Capital Debt	(1,625,780)	(1,929,974)
Interest Paid on Capital Debt	(814,886)	(735,498)
	<u>(8,322,943)</u>	<u>452,719</u>
Net Cash Provided / (Used) by Capital and Related Financing Activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Income	4,371	13,841
Connection Fees	159,476	187,517
	<u>163,847</u>	<u>201,358</u>
Net Cash Provided by Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	(4,717,205)	5,093,398
Cash and Cash Equivalents, December 1	<u>20,854,287</u>	<u>15,760,889</u>
Cash and Cash Equivalents, November 30	<u>\$ 16,137,082</u>	<u>\$ 20,854,287</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$ 2,533,092	\$ 2,615,406
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense	1,124,859	1,139,542
Amortization of Bond Issuance Costs	24,193	19,286
Decrease in Accounts Receivable	211,581	398,174
Increase (Decrease) in:		
Deposits and Reserves	(148,925)	(279,188)
Accounts and Other Payables	(302,909)	546,101
	<u>\$ 3,441,891</u>	<u>\$ 4,439,321</u>

The accompanying Notes to the Financial Statements are an integral part of this statement

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011**

NOTE 1 – AUTHORITY DESCRIPTION AND GENERAL INFORMATION

The Township of Lower Municipal Utilities Authority (the "Authority") is a public body corporate and politic created by virtue of an ordinance of the Township of Lower entitled "Ordinance creating the Township of Lower Municipal Utilities Authority," adopted by its governing body on July 24, 1968.

The Authority was created for the purpose of acquiring, constructing, maintaining, and operating water facilities for accumulating, supplying and distributing water, and acquiring, constructing, maintaining, improving, and operating sewage facilities for collecting, treating, purifying and disposing of sewage and other wastes.

NOTE 2 – BASIS OF PRESENTATION

The financial statements of the Authority have been prepared on the accrual basis and in accordance with generally accepted accounting principles ("GAAP") applicable to enterprise funds of state and local governments.

The Authority's financial statements include all the accounts of all the Authority's operations. The primary criterion for including activities within a reporting entity, as set forth in Section 2100 of the Governmental Accounting Standards Board ("GASB") Codification of Governmental Accounting and Financial Reporting Standards, is whether:

- the organization is legally separate (can sue or be sued in their own name);
- the primary government holds the corporate powers of the organization;
- the primary government appoints a voting majority of the organization's board;
- the primary government is able to impose its will on the organization;
- the organization has the potential to impose a financial benefit/burden on the primary government;
- there is a fiscal dependency by the organization on the primary government;

Based on the above criterion, the Authority is a component unit of the Township. The Authority does issue separate financial statements from the Township. However, if the Township presented its financial statements in accordance with GAAP, these financial statements would be included with the Township's on a blended basis.

Based on the aforementioned criteria, the Authority has no component units.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. As permitted by accounting principles generally accepted in the United States of America, the Authority has elected to apply only Financial Accounting Standards Board ("FASB") Statements and Interpretations issued on or before November 30, 1989.

The Authority implemented the requirements of Statement No. 34, effective November 1, 2003. The Authority has also implemented GASB Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*. The Authority has also adopted GASB Statement No. 33, *Accounting and Financial Reporting for Non-Exchange Transactions*.

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011
(CONTINUED)**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The more significant of the Authority's accounting policies are described below.

Financial Statement Presentation and Basis of Accounting

The Authority prepares its financial statements on an Enterprise Fund Basis. Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private businesses where the intent is that all costs of providing certain goods and services to the general public be financed or recovered primarily through user charges, or where it has been deemed that periodic determination of net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Accordingly, the Authority's financial statements are presented on the accrual basis of accounting. Revenues from operations, investments and other sources are recorded when earned and expenses are recorded when liabilities are incurred.

Non – exchange transactions, in which the Authority receives value without directly giving equal value in return, include grants. Deferred Revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Authority must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Authority on a reimbursement basis.

Property, Plant and Equipment And Other Capitalized Costs

Accounting principles generally accepted in the United States of America require that property, plant and equipment be stated at cost, and that depreciation expense be recorded each year.

Property, Plant and Equipment is stated at cost, which includes direct construction costs and other expenditures related to construction. Construction costs are charged to construction in progress until such time as projects are completed and put into operation. Interest incurred on debt during the course of construction is capitalized as part of the project.

Depreciation is determined on a straight-line basis for all Plant and Equipment. Depreciation is provided over the following estimated useful lives:

Land Improvements	20 years
Buildings	50 years
Machinery and Equipment	5 to 15 years
Water and Sewer Lines	50 years

The cost and related accumulated depreciation of all Property, Plant and Equipment retired or otherwise disposed of is removed from the accounts and any resulting gain or loss is included in income.

Investments

The Authority invests available funds in interest bearing securities as prescribed by its various bond resolutions and applicable law. Investments are intended to be held to maturity, the timing of which is based on anticipated cash flow requirements.

Investments are obligations of the United States Government and are stated at cost, which approximates market. Investments are not considered cash equivalents for purposes of the Statement of Cash Flows.

The Authority did not hold any investments at November 30, 2012 or 2011.

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011
(CONTINUED)**

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Unamortized Debt Issue Costs

Debt issue costs are being amortized using the bonds outstanding method over the life of the issues.

Accounts Required by the 2003 Bond Resolution

In accordance with the 2003 Bond Resolution, the Authority has established the following cash investment accounts for the deposit of Authority funds.

<u>Account</u>	<u>Amount</u>	<u>Use for Which Restricted</u>
Revenue	The amount shown by the annual budget to be required for operating expenses for the period of three consecutive calendar months beginning on said date.	Operating expenses.
Bond Service	The amount needed to meet the bond service requirement.	Principal and interest on bonds.
Sinking	The amount needed to meet the aggregate amount of all sinking fund installments payable during the next ensuing fiscal year.	Principal and interest sinking fund installments.
Bond Reserve	The amount needed to meet the bond reserve requirement, which is the amount of money equal to the maximum bond service.	Transfers to meet minimum levels required on the bond service fund.
General	Amounts determined by the Authority after meeting requirements of the other accounts.	Funds may be used by any lawful purpose.
Construction	Amount specifically designated by bond resolution for payment of construction costs.	Construction costs and acquisition of the system.

NOTE 4 – BONDS AND LOANS PAYABLE

Description of Bonds and Loans Payable

At November 30, 2012 temporary financing in the form of project notes payable consisted of the following issues:

\$12,250,000 Project Note (Series B) dated September 23, 2012, due September 11, 2013, bearing interest at 1.50% per annum. The Authority anticipates refunding this note with permanent financing at a future date.

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011
(CONTINUED)**

NOTE 4 – BONDS AND LOANS PAYABLE - Continued

At November 30, 2012, bonds payable consisted of the following issues:

\$5,040,000 Revenue Refunding Bonds dated September 1, 1998, due in annual installments through December 1, 2012, bearing interest at rates of 4.00% through 4.50% per annum. The balance remaining as of November 30, 2012 is \$485,000.

\$4,340,000 principal amount of Revenue Refunding Bonds, Series 2003A dated April 10, 2003, due in annual installments through December 1, 2013, bearing interest at rates of 1.45% through 4.00% per annum. The balance remaining as of November 30, 2012 is \$970,000.

\$4,420,000 principal amount of Revenue Bonds, Series 2003B dated April 10, 2003, due in annual installments through December 1, 2012, bearing interest at the rate of 1.45% per annum. \$3,520,000 of these bonds were refunded in May of 2012. The balance remaining as of November 30, 2012 is \$110,000.

\$4,680,000 principal amount of Revenue Refunding Bonds, Series 2003C dated April 10, 2003, due in annual installments through December 1, 2015, bearing interest at rates of 2.00% through 5.00% per annum. The balance remaining as of November 30, 2012 is \$1,815,000.

\$5,625,000 principal amount of Revenue Bonds, Series 2003D dated April 10, 2003, due in annual installments through November 1, 2017, bearing interest at rates of 3.625% through 5.000% per annum. The balance remaining as of November 30, 2012 is \$4,660,000.

\$3,725,000 principal amount of Revenue Refunding Bonds, Series 2012 dated May 3, 2012, due in annual installments through November 1, 2021, bearing interest at rates of 3.000% through 2.875% per annum. This issue also contains Term Bonds in the amounts of \$1,165,000 and \$1,155,000 bearing interest at 3.250% and 3.375% per annum due December 1, 2027 and 2032 respectively. The balance remaining as of November 30, 2012 is \$3,725,000.

\$1,875,000 principal amount of USDA Loans dated 2010, due in semi-annual installments beginning August 25, 2010, through February 25, 2049, bearing interest at a rate of 4.00% per annum. The balance remaining as of November 30, 2012 is \$1,824,552.

The following schedule summarizes the changes in Bonds and Loans Payable for the year ended November 30, 2012.

	<u>2011</u>	<u>Additions</u>	<u>Decreases</u>	<u>Refunded</u>	<u>2012</u>
Revenue Refunding Bonds - 1998	\$ 935,000	\$	\$ 450,000	\$	\$ 485,000
Revenue Refunding Bonds - 2003A	1,425,000		455,000		970,000
Revenue Bonds - 2003B	3,740,000		110,000	3,520,000	110,000
Revenue Refunding Bonds - 2003C	2,220,000		405,000		1,815,000
Revenue Bonds - 2003D	4,845,000		185,000		4,660,000
Revenue Refunding Bonds - 2012		3,725,000			3,725,000
USDA Loan	1,845,332		20,780		1,824,552
	<u>15,010,332</u>	<u>3,725,000</u>	<u>1,625,780</u>	<u>3,520,000</u>	<u>13,589,552</u>
Unamortized Loss on Refunding	(32,029)	(182,694)	(35,907)		(178,816)
Unamortized Bond Premium	60,876	7,927	24,050		44,753
Total	<u>\$ 15,039,179</u>	<u>\$ 3,550,233</u>	<u>\$ 1,613,923</u>	<u>\$ 3,520,000</u>	<u>\$ 13,455,489</u>

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011
(CONTINUED)**

NOTE 4 – BONDS AND LOANS PAYABLE - Continued

The following schedule combines the Total Debt, net of unamortized premiums:

Current Portion of Long Term Debt	\$	1,696,620
Project Notes Payable		12,250,000
Noncurrent Portion of Debt		11,892,932
Total Net Debt of the Authority	\$	<u>25,839,552</u>

Debt service requirements on bonds and loans payable at November 30, 2012 are as follows:

Year Ended November 30,	Principal	Interest	Total
2013	\$ 1,696,620	\$ 486,137	\$ 2,182,757
2014	1,782,493	412,914	2,195,407
2015	1,858,402	342,930	2,201,332
2016	1,524,347	283,500	1,807,847
2017	1,620,331	217,408	1,837,739
2018 - 2022	1,222,856	775,622	1,998,478
2023 - 2027	1,129,141	606,368	1,735,509
2028 - 2032	1,327,276	398,325	1,725,601
2033 - 2037	508,764	217,390	726,154
2038 - 2042	315,432	156,512	471,944
2043 - 2047	384,510	87,426	471,936
2048 - 2049	219,380	13,205	232,585
	<u>\$ 13,589,552</u>	<u>\$ 3,997,737</u>	<u>\$ 17,587,289</u>

Refunding Bonds Issued

On May 3, 2012, the Authority issued Refunding Bonds in the amount of \$3,725,000 to refund the callable Series 2003B Bonds. The Debt retired in the amount of \$3,520,000 was replaced with the Refunding Issue. The required cash flow for the 2003B Bonds for Principal and Interest prior to the refunding was \$5,498,375 and the cash flow requirements after the refunding is \$5,168,725 resulting in net savings in the amount of \$329,650. The economic gain on this transaction is \$246,433. The economic gain is the difference between the present value of the old debt service requirements and the present value of the new debt service requirements, discounted at the effective interest rate and adjusted for additional cash paid.

NOTE 5 – PENSION PLAN

Description of Plans - All required employees of the Authority are covered by the Public Employees' Retirement System which has been established by state statute and are administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the System terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirement System. This report may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625.

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011
(CONTINUED)

NOTE 5 – PENSION PLAN - Continued

Public Employees' Retirement System (PERS) - The Public Employees' Retirement System (PERS) was established as of January 1, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full-time employees of the State of New Jersey or any county, municipality, school district, or public agency, provided the employee is not required to be a member of another state-administered retirement system or other state or local jurisdiction.

Defined Contribution Retirement Program (DCRP) The Defined Contribution Retirement Program was established July 1, 2008, under the provisions of Chapter 92, P.L. 2008 and Chapter 103, P.L. 2008, and expanded under the provisions of Chapter 89, P.L. 2009. The DCRP provides eligible employees and their beneficiaries with a tax-sheltered, defined contribution retirement benefit, along with life insurance coverage and disability coverage. Newly elected or appointed officials that have an existing DCRP account, or are a member of another State-administered retirement system are immediately invested in the DCRP. For newly elected or appointed officials that do not qualify for immediate vesting in the DCRP, employee and employer contributions are held during the initial year of membership. Upon commencing the second year of DCRP membership, the member is fully invested. However, if a member is not eligible to continue in the DCRP for a second year of membership, the member may apply for a refund of the employee contributions from the DCRP, while the employer contributions will revert back to the employer.

Vesting and Benefit Provisions - The vesting and benefit provisions for PERS are set by N.J.S.A. 43:15A and 43.3B, and N.J.S.A. 18A:6C for TPAF. All benefits vest after eight to ten years of service, except for medical benefits that vest after 25 years of service. Retirement benefits for age and service are available at age 60 and are generally determined to be 1/60 of the final average salary for each year of service credit, as defined. Final average salary equals the average salary for the final three years of service prior to retirement (or highest three years' compensation if other than the final three years). Members may seek early retirement after achieving 25 years of service credit or they may elect deferred retirement after achieving eight to ten years of service in which case benefits would begin the first day of the month after the member attains normal retirement age. The PERS provides for specified medical benefits for members who retire after achieving 25 years of qualified service, as defined, or under the disability provisions of the System.

Members are always fully vested for their own contributions and, after three years of service credit, become vested for 2% of related interest earned on the contributions. In the case of death before retirement, members' beneficiaries are entitled to full interest credited to the members' accounts.

Significant Legislation - During the year ended June 30, 1997, legislation was enacted (Chapter 114, P.L. 1997) that changed the asset valuation method from market related value to full-market value. The legislation also provided that the Authority's normal contributions to the Fund may be reduced based on the revaluation of assets.

Contribution Requirements - The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and N.J.S.A. 18:66, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provides for employee contributions of 6.5% (6.64% as of July 1, 2012) of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate for the PERS. The actuarially determined contribution includes funding for cost-of-living adjustments, noncontributory death benefits, and post-retirement medical premiums.

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011
(CONTINUED)**

NOTE 5 – PENSION PLAN - Continued

Year Funding	Three Year Trend Information for PERS		
	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
11/30/2012	\$ 147,543	100%	\$ -
11/30/2011	137,252	100%	-
11/30/2010	123,850	100%	-

For the DCRP, members contribute at a uniform rate of 5.5% of their base salary. Employers are required to contribute at a set rate of 3.0% of base salary. There were no employees enrolled in the DCRP for the year ended November 30, 2012.

NOTE 6 – CASH AND CASH EQUIVALENTS AND INVESTMENTS

Operating cash, in the form of checking, savings and money market savings accounts, is held in the Authority's name by several commercial banking institutions. At November 30, 2012, the carrying amount of the Authority's deposits was \$16,137,082 and the bank balance was \$16,196,716. Of the bank balance, \$500,000 was insured with Federal Deposit Insurance Corporation (FDIC), \$15,696,716 was covered by the Governmental Unit Deposit Protection Act (GUDPA).

Pursuant to GASB Statement No. 40, "Deposit and Investment Risk Disclosures" ("GASB 40"), the Authority's bank accounts are profiled in order to determine exposure, if any, 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 deposits or investment). 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 November 30, 2012, all of the Authority's deposits were covered by either FDIC or GUDPA and therefore not exposed to custodial credit risk. The Authority does not have a policy for custodial credit risk.

Investments

Pursuant to the Enabling Act, the funds of the Authority may be invested in any direct obligations of, or obligations as to which the principal and interest thereof is guaranteed by, the United States of America or other obligations as the Authority may approve. It invests pooled monies from various State and non-State agencies in primarily short-term investments.

As of November 30, 2012, the Authority did not have any investments.

NOTE 7 – CONSTRUCTION IN PROGRESS

The Authority classifies all fixed asset projects currently uncompleted as construction in progress. Upon completion, the amounts are reclassified as property, plant and equipment. The Authority's construction in progress as of November 30, 2012 and November 30, 2011 are \$6,705,113 and \$2,821,475 respectively.

NOTE 8 – ACCRUED VACATION AND SICK TIME

Authority employees earn sick and vacation time depending on their length of service. Employees are permitted to carryover the earned and unused sick and vacation time to future periods and upon termination may receive payment for any accrued time, although that payout is capped at \$15,000 per employee for sick time. At November 30, 2012, accumulated sick and vacation time amounted to \$138,766 and has been included as an accrued expense on the financial statements.

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011
(CONTINUED)**

NOTE 9 – CAPE MAY COUNTY MUA SETTLEMENT

The Lower Township Municipal Utilities Authority (LTMUA) has been treating sewage from the Schellenger's Landing area of Lower Township. However, the New Jersey Department of Environmental Protection (NJDEP) rendered a decision that the Cape May County Municipal Utilities Authority (CMCMUA) is the appropriate entity to treat this sewage. In a settlement reached November 17, 1998, CMCMUA agreed to transfer the treatment of this area's sewage to LTMUA in exchange for a total dollar amount of \$1,020,000 to be paid each January 1 as follows:

January 1, 2013 through 2016	\$50,000
------------------------------	----------

The total amount paid through November 30, 2012 is \$820,000.

NOTE 10 – POST-RETIREMENT BENEFITS

The Authority contributes to the State Health Benefits Program (SHBP), a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. 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.

All Authority retirees with at least 25 years of service or who retire upon or after the age of 62 with 15 or more years of service as regular full-time employees shall receive 100% of the cost of health insurance premiums until death. For eligible Police Department employees, upon death of the employee, the post-retirement benefit is provided to the surviving spouse until death.

As of June 30, 2011, there were 93,323 retirees eligible for post-retirement medical benefits. The cost of these benefits is funded through contributions by the State in accordance with Chapter 62, P.L. 1994. Funding of post-retirement medical premiums changed from a pre-funding basis to a "pay-as-you-go" basis beginning in fiscal year 1994, with an additional contribution beginning in fiscal year 1996 to maintain a medical reserve of one-half of 1% of the active State payroll. During the fiscal years ended November 30, 2012, 2011 and 2010 the Authority expended \$199,902, \$178,315 and \$126,398, respectively, which equaled the required contributions for each year. There were approximately 10, 10 and 9 retired participants eligible at November 30, 2012, 2011 and 2010, respectively.

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/pension/gasb-43-sept2009.pdf.

NOTE 11 – LITIGATION

The Authority is a defendant in a legal proceeding that is in the early state of litigation, as of the date of this report the outcome of this case cannot be determined. The Authority's Insurance carrier is handling the litigation and the Authority believes that the potential liability in this case does not exceed insurance limits.

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEARS ENDED NOVEMBER 30, 2012 AND 2011
(CONTINUED)**

NOTE 12 – PROPERTY, PLANT AND EQUIPMENT

Property, Plant and Equipment consisted of the following at November 30, 2012 and 2011.

	<u>2011</u>	<u>Increases</u>	<u>2012</u>
Land and Improvements	\$ 97,234	\$	\$ 97,234
Buildings and Improvements	13,323,875		13,323,875
Machinery and Equipment	3,653,524	202,046	3,855,570
Infrastructure	41,740,209	72,290	41,812,499
Construction in Progress	2,821,475	3,883,638	6,705,113
	<u>61,636,317</u>	<u>4,157,974</u>	<u>65,794,291</u>
Less: Accumulated Depreciation	(33,802,499)	(1,124,859)	(34,927,358)
	<u>\$ 27,833,818</u>	<u>\$ 3,033,115</u>	<u>\$ 30,866,933</u>

NOTE 13 – RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Property and Liability Insurance - The Authority maintains insurance coverage for property, liability and surety bonds. There has been no significant decrease in insurance coverage and there have been no claims in excess of the coverage.

NOTE 14 – DEFERRED COMPENSATION ACCOUNT

The Authority offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all eligible regular employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All regulatory, operational, administrative and fiduciary responsibilities have been assumed by the Plan Administrator, Nationwide Retirement Solutions, on behalf of the Authority. The amounts of compensation deferred under the plan, all property and rights associated with those amounts, and all income attributable to those amounts, property, or rights are not reported in the financial statements of the Authority as they are not the property or rights of the Authority.

NOTE 15 – UNRESTRICTED NET ASSETS

As of November 30, 2012 the Authority's unrestricted net assets are \$3,720,569, of this amount \$1,526,405 has been designated by the Authority to fund capital projects. The remaining balance in the amount of \$2,194,164 is undesignated.

NOTE 16 – SUBSEQUENT EVENTS

The Authority has evaluated subsequent events for potential recognition and/or disclosure through April 1, 2013, the date the financial statements were available to be issued.

OTHER SUPPLEMENTARY INFORMATION

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
BUDGETARY BASIS
WATER DIVISION
SCHEDULE OF REVENUES AND COSTS COMPARED TO BUDGET
FOR THE YEAR ENDED NOVEMBER 30, 2012

	Original Budget	Budget Transfers	Final Budget	Actual	Variance
Operating Revenues:					
User Charges, Service Agreements and Fees	\$ 2,713,974	\$ -	\$ 2,713,974	\$ 2,704,687	\$ (9,287)
Delinquent Penalties	25,000		25,000	28,688	3,688
Hydrant and Sprinkler Fees	21,059		21,059	20,086	(973)
Lease Revenue	188,307		188,307	189,593	1,286
Miscellaneous			-	116,225	116,225
Total Operating Revenues	2,948,340	-	2,948,340	3,059,279	110,939
Operating Expenses:					
Administrative:					
Salaries	158,900		158,900	157,482	1,418
Benefits	129,250		129,250	84,424	44,826
Other Expenses	245,400	-	245,400	188,778	56,622
Plant Operations and Maintenance:					
Salaries	337,500		337,500	318,353	19,147
Benefits	330,000		330,000	277,207	52,793
Other Expenses:					
Chemicals - Treatment Plant	11,000		11,000	4,166	6,834
Fuel and Transportation	8,500	9,100	17,600	16,710	890
Laboratory Analysis	7,000		7,000	6,482	518
Lease Agreements	3,000		3,000	2,569	431
Miscellaneous	2,000		2,000	320	1,680
Permits and Other Fees	25,000		25,000	19,875	5,125
Well Parts & Supplies	40,000	(840)	39,160	38,180	980
Well / Tank Maintenance	1,000		1,000		1,000
Distribution Supplies	30,000	1,000	31,000	33,268	(2,268)
Safety	3,500		3,500	3,127	373
Uniforms	3,000		3,000	2,791	209
Utilities	124,700	(9,260)	115,440	93,590	21,850
Total Operating Expenses	1,459,750	-	1,459,750	1,247,322	212,428
Operating Income	1,488,590	-	1,488,590	1,811,957	323,367
Non - Operating Revenues / (Expenses):					
Interest Income	7,500		7,500	2,185	(5,315)
Interest Payments on Debt - Notes	(258,639)		(258,639)	(2,748)	255,891
Interest Payments on Debt - Bonds	(434,000)		(434,000)	(559,089)	(125,089)
Connection Fees	128,000		128,000	143,976	15,976
Principal Payments on Debt	(1,306,750)		(1,306,750)	(1,261,880)	44,870
Capital Revenues & Expenditures:					
Water Meters	(75,000)		(75,000)	(121,968)	(46,968)
Water Reconditioning	(75,000)		(75,000)	(100,814)	(25,814)
Water Capital Reserve			-		-
Total Non - Operating Revenues / (Expenses)	(2,013,889)	-	(2,013,889)	(1,900,338)	113,551
Net Income / (Loss)	\$ (525,299)	\$ -	\$ (525,299)	\$ (88,381)	\$ 436,918

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
 BUDGETARY BASIS
 SEWER DIVISION
 SCHEDULE OF REVENUES AND COSTS COMPARED TO BUDGET
 FOR THE YEAR ENDED NOVEMBER 30, 2012

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Revenues:					
User Charges, Service Agreements and Fees	\$ 5,016,268	\$	\$ 5,016,268	\$ 4,963,503	\$ (52,765)
Delinquent Penalties	44,000		44,000	39,746	(4,254)
Miscellaneous			-	72,464	72,464
Total Operating Revenues	<u>5,060,268</u>	<u>-</u>	<u>5,060,268</u>	<u>5,075,713</u>	<u>15,445</u>
Operating Expenses:					
Administrative:					
Salaries	158,900		158,900	157,483	1,417
Benefits	158,612		158,612	110,440	48,172
Other Expenses	388,000	-	388,000	294,399	93,601
Plant Operations and Maintenance:					
Salaries	678,000		678,000	661,026	16,974
Benefits	494,150		494,150	467,135	27,015
Other Expenses:					
Buildings and Grounds	22,500		22,500	13,985	8,515
Cape May County MUA Agreement	700,000		700,000	650,156	49,844
Cape May County MUA Settlement	50,000		50,000	50,000	-
Chemicals - Treatment Plant	136,000		136,000	106,567	29,433
Collection Materials & Supplies	189,000	(8,000)	181,000	182,278	(1,278)
Fuel and Transportation	64,000	27,000	91,000	86,692	4,308
Miscellaneous	1,000		1,000		1,000
Sludge Handling	168,000		168,000	166,284	1,716
Permits and Other Fees	25,000		25,000	24,959	41
Safety	3,000		3,000	891	2,109
Uniforms	7,000		7,000	6,389	611
Utilities	323,500	(19,000)	304,500	188,004	116,496
Total Operating Expenses	<u>3,566,662</u>	<u>-</u>	<u>3,566,662</u>	<u>3,166,688</u>	<u>399,974</u>

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
SEWER DIVISION
SCHEDULE OF REVENUES AND COSTS COMPARED TO BUDGET
FOR THE YEAR ENDED NOVEMBER 30, 2012
(CONTINUED)

	<u>Original Budget</u>	<u>Budget Transfers</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Operating Income	\$ 1,493,606	\$ -	\$ 1,493,606	\$ 1,909,025	\$ 415,419
Non - Operating Revenues / (Expenses):					
Interest Income	7,500		7,500	2,186	(5,314)
Interest Payments on Debt - Notes	(7,174)		(7,174)	(1,614)	5,560
Interest Payments on Debt - Bonds	(209,000)		(209,000)	(172,144)	36,856
Connection Fees				15,500	15,500
Principal Payments on Debt	(728,900)		(728,900)	(728,900)	-
Capital Revenues & Expenditures:					
Sewer Plant Equipment	(400,000)		(400,000)	(133,588)	266,412
Sewer Reconditioning	(500,000)		(500,000)	(234,517)	265,483
Replacement Vehicles	(20,000)		(20,000)	(17,559)	2,441
Total Non - Operating Revenues / (Expenses)	<u>(1,857,574)</u>	<u>-</u>	<u>(1,857,574)</u>	<u>(1,270,636)</u>	<u>586,938</u>
Net Income / (Loss)	<u>\$ (363,968)</u>	<u>\$ -</u>	<u>\$ (363,968)</u>	<u>\$ 638,389</u>	<u>\$ 1,002,357</u>

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
 SUPPLEMENTARY INFORMATION
 SCHEDULE OF REVENUES AND COSTS COMPARED TO BUDGET
 NOTE TO SUPPLEMENTARY INFORMATION
 FOR THE YEAR ENDED NOVEMBER 30, 2012

Note A - Explanation of Differences Between Budgetary Inflows and Outflows GAAP Revenue and Expenditures

	Water Division	Sewer Division	Total
Sources / inflows of resources			
Actual amounts (budgetary basis) "revenue" from the budgetary comparison schedule	\$ 3,059,279	\$ 5,075,713	\$ 8,134,992
Non - Operating Revenues	2,185	2,186	4,371
Difference - budget to GAAP:			
Items not recorded under the budgetary basis:			88,843
capital contributions			(38,838)
bad debt expense	(6,127)	(32,711)	
Total revenues as reported on the statement of revenues, expenditures and changes in net assets			8,189,368
Uses / outflows of resources			
Actual amounts (budgetary basis) from the budgetary comparison schedule	1,247,322	3,166,688	4,414,010
Non - Operating Expenses	2,046,499	1,288,322	3,334,821
Difference - budget to GAAP:			
Items not recorded under the budgetary basis:			1,124,859
depreciation			24,193
amortization of bond issue costs			
payment of bond principal is not an expenditure under GAAP			(1,990,780)
amortization of premiums and discounts			(24,050)
amortization of loss on defeased bonds			35,907
fixed assets charged to budget			(341,891)
Total expenditures as reported on the statement of revenues, expenditures and changes in net assets			6,577,069
Net Income / (Loss) - GAAP Basis			\$ 1,612,299

GENERAL COMMENTS AND RECOMMENDATIONS



FORD - SCOTT

& ASSOCIATES, L.L.C.

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INDEPENDENT AUDITOR'S REPORT

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 of Directors
Of the Township of Lower Municipal
Utilities Authority

We have audited, in accordance with auditing standards generally accepted in the United States of America, and standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), the financial statements of the Township of Lower Municipal Utilities Authority (the "Authority"), as of and for the year ended November 30, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated April 1, 2013.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free 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* and audit requirements as prescribed by the Division.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ford, Scott & Associates, L.L.C.
FORD, SCOTT & ASSOCIATES, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

Leon P. Costello
Leon P. Costello
Certified Public Accountant
Registered Municipal Accountant
No. 393

April 1, 2013

LOWER TOWNSHIP MUNICIPAL UTILITIES AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDING NOVEMBER 30, 2012

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unqualified Opinion dated April 1, 2013.**

Internal control over financial reporting:

- | | |
|---|----------------------|
| 1) Material Weakness identified? | NO |
| 2) Significant Deficiencies identified? | None Reported |

Non-Compliance material to Financial Statements? **NO**

II. FINDINGS RELATING TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

None

MANAGEMENT RESPONSES

Not Applicable

STATUS OF PRIOR YEAR FINDINGS

There were no findings in the prior year.

TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY
GENERAL COMMENTS AND FINDINGS
FOR THE YEAR ENDED NOVEMBER 30, 2012

Findings - None