

**TOWNSHIP OF LOWER  
MUNICIPAL UTILITIES AUTHORITY  
REPORT ON AUDIT OF  
FINANCIAL STATEMENTS  
YEARS ENDED NOVEMBER 30, 2014 AND 2013**

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## **FINANCIAL SECTION**



# FORD - SCOTT

& ASSOCIATES, L.L.C.

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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 (a component unit of the Township of Lower), Township of Lower, New Jersey, as of and for the years ended November 30, 2014 and 2013, 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 (a component unit of the Township of Lower), Township of Lower, New Jersey, as of November 30, 2014 and 2013, 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 March 27, 2015 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

March 27, 2015

## **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 ended November 30, 2014.

### OVERVIEW OF ANNUAL FINANCIAL REPORT:

Management's Discussion and Analysis (MD&A) serves as an introduction to, and should be read in conjunction with, the basic audited financial statements and supplemental information. The MD&A represents management's examination and analysis of the Authority's financial condition and performance. Summary financial statement data, key financial and operational indicators used in the Authority's capital plan, budget bond resolutions and other management tools were used for this analysis.

The financial statements report information about the Authority using full accrual accounting methods as utilized by similar business activities in the private sector. However, rate-regulated accounting principles applicable to private sector utilities are not used by government utilities. The financial statements include a statement of net position; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; and notes to the financial statements.

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

While the statement of net position provides information about the nature and amount of resources and obligations at year-end, the **statement of changes in net position** presents the results of the business activities over the course of the fiscal year and information as to how the net position changed during the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. This statement also provides certain information about the Authority's recovery of its costs.

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 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** 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 Position

The Authority's Net Position of \$30,744,772 is comprised of the following:

(1) Net Investment in Capital Assets of \$18,614,243 includes restricted cash, 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 Position of \$1,984,370 restricted for the purpose of forthcoming debt service payments.

(3) Net Position of \$1,984,370 restricted for the purpose of providing a Debt Service Reserve Fund, in accordance with the Authority's debt covenants.

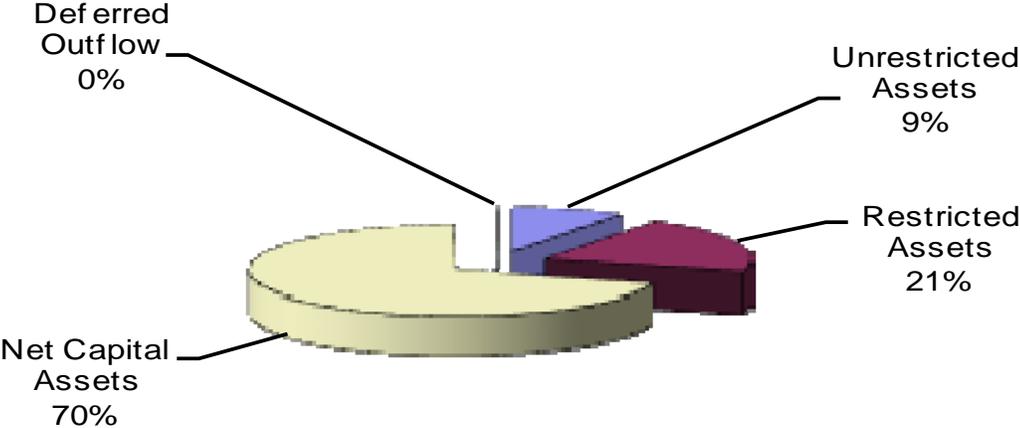
(4) Unrestricted Net Position of \$8,161,789 represents the portion available to maintain the Authority's continuing obligations to its creditors and current liabilities. Of the \$8,161,789 the Authority has designated \$2,128,421 for future capital expenditures, \$687,947 has been designated for expenditure in the subsequent year's Sewer and Water Budgets, leaving \$5,345,421 undesignated.

The Total Net Position increased by \$3,128,354 or about 11%.

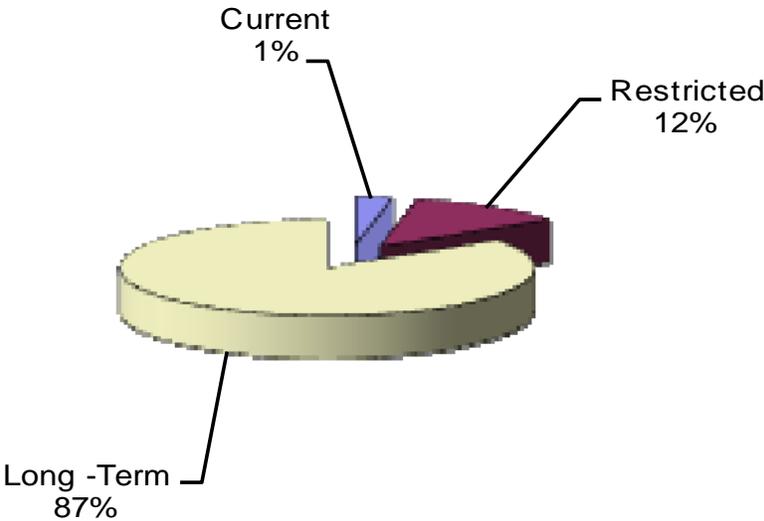
### Comparative Statement of Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total Unrestricted Assets	\$ 4,494,456	\$ 2,534,763	\$ 2,052,421
Total Restricted Assets	10,353,433	10,523,965	15,000,596
Net Capital Assets	34,853,716	35,560,517	30,866,933
Deferred Costs	-	-	-
Total Assets	<u>49,701,605</u>	<u>48,619,245</u>	<u>47,919,950</u>
Deferred Outflow of Resources			
Deferred Loss on Defeasance of Debt	<u>78,077</u>	<u>102,579</u>	<u>118,243</u>
Total Asset and Deferred Outflows	<u>\$ 49,779,682</u>	<u>\$ 48,721,824</u>	<u>\$ 48,038,193</u>
Total Current Liabilities			
Payable from Current Assets	\$ 528,860	\$ 315,793	\$ 268,588
Total Current Liabilities			
Payable from Restricted Assets	2,414,037	2,462,877	14,259,562
Long-Term Obligations	<u>16,092,013</u>	<u>18,326,736</u>	<u>12,076,451</u>
Total Liabilities	19,034,910	21,105,406	26,604,601
Net Position	<u>30,744,772</u>	<u>27,616,418</u>	<u>21,433,592</u>
Total Liabilities and Net Position	<u>\$ 49,779,682</u>	<u>\$ 48,721,824</u>	<u>\$ 48,038,193</u>

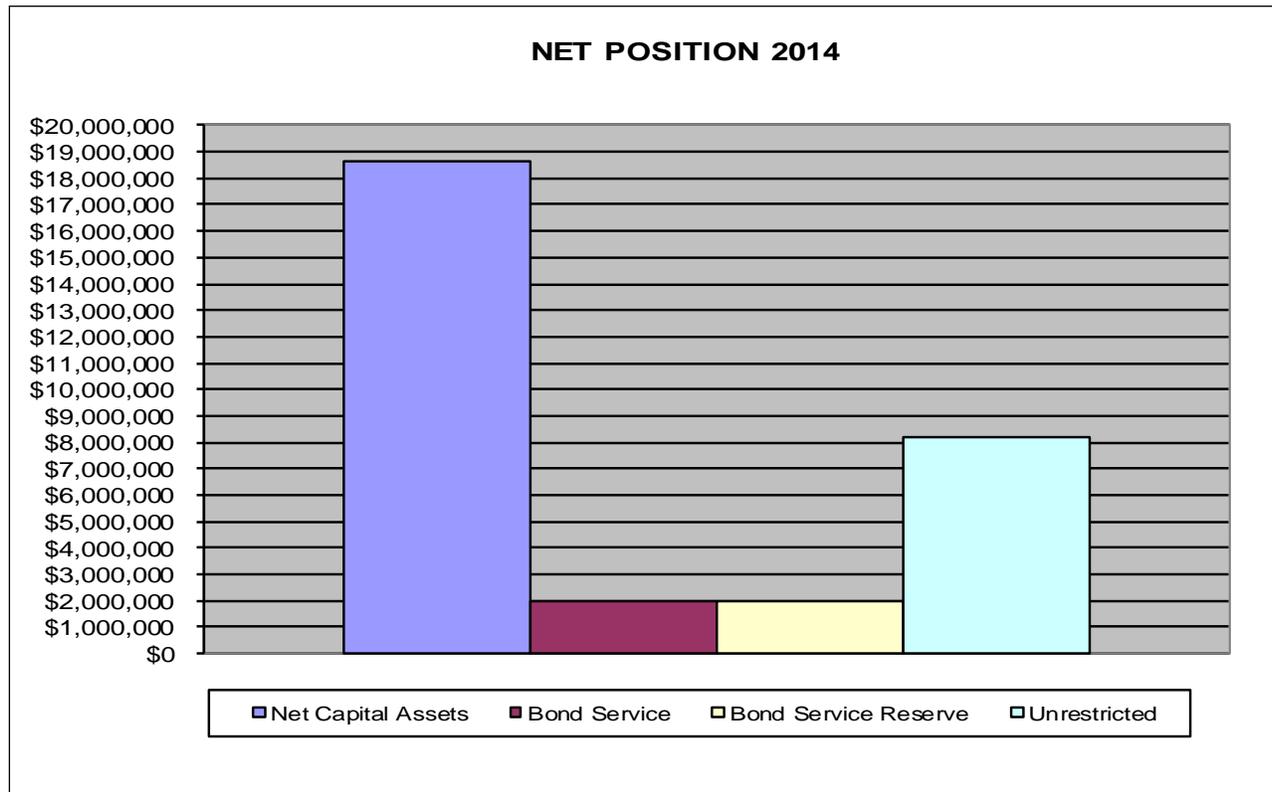
# TOTAL ASSETS 2014



# TOTAL LIABILITIES 2014



Statement of Net Position



Comparative Statement of Revenues, Expenses and Changes in Net Position

There was an increase in Operating Revenues of the Authority of \$276,831 or 3.5%. This increase was primarily due to the fact that user charges, service agreements, fees and penalties, as well as hydrant and sprinkler fees, and lease revenues all increased.

Operating Expenses increased \$159,933 from the prior year.

Total Operating Revenues exceeded Total Operating Expenses by \$2,318,498. This is an increase of operating revenues over operating expenses when compared to 2013 of \$116,898 or a 5.3% increase.

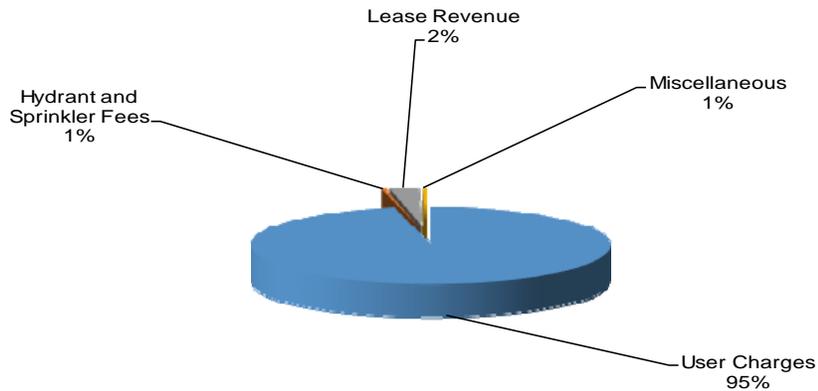
Non Operating Revenues/Expenses is comprised of Interest Income, Connection Fee Income, Interest Expense, Expenses paid from Capital Reserves, and Amortization of the Bond Issue Costs. There was a \$454,278 decrease in Connection Fee Income. There were no Capital Contributions. Interest Expense decreased by \$41,096. Net Capital Project Expenses decreased by \$51,040. Amortization increased by \$9,930. Bond issuance costs increased by \$150,970.

Net Position at November 30, 2014 increased by \$3,128,354 from 2013.

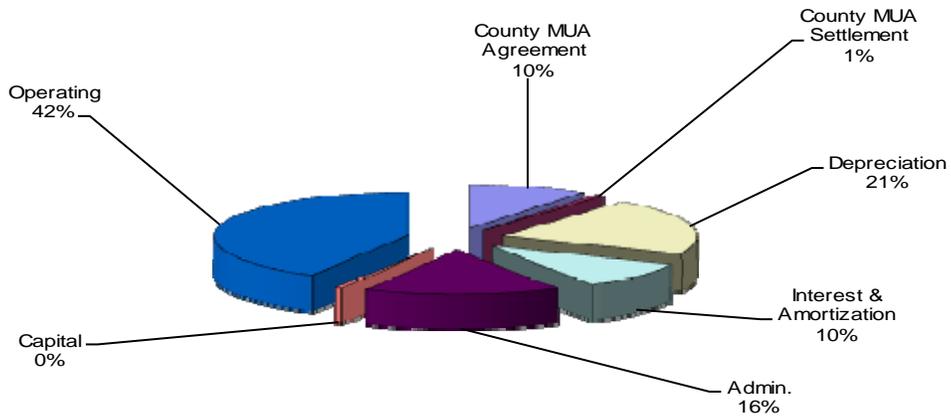
Comparative Statement of Revenues, Expenses and Changes in Net Position

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total Operating Revenues	\$ 8,182,235	\$ 7,905,404	\$ 8,096,154
Total Operating Expenses	5,863,737	5,703,804	5,538,869
Operating Income	<u>2,318,498</u>	<u>2,201,600</u>	<u>2,557,285</u>
Non Operating Revenues / (Expenses)	809,856	3,981,226	(881,019)
Net Income	<u>3,128,354</u>	<u>6,182,826</u>	<u>1,676,266</u>
Net Assets, December 1	27,616,418	21,433,592	19,757,326
Net Assets, November 30	<u>\$ 30,744,772</u>	<u>\$ 27,616,418</u>	<u>\$ 21,433,592</u>

**TOTAL OPERATING REVENUES 2014**



**TOTAL EXPENSES 2014**



## CAPITAL ASSETS AND LONG-TERM DEBT

Capital assets increased \$670,895 during 2014.

### CAPITAL ASSETS

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Land and Improvements	\$ 97,234	\$ 97,234	97,234
Buildings and Improvements	13,334,002	13,334,002	13,323,875
Machinery and Equipment	4,409,616	4,179,298	3,855,570
Infrastructure	54,128,778	54,048,287	41,812,499
Other	14,835	9,425	-
Construction in Progress	357,176	2,500	6,705,113
	<u>\$ 72,341,641</u>	<u>71,670,746</u>	<u>65,794,291</u>

**Long-term Debt.** At the end of the current fiscal year, the Authority had total bonded debt outstanding of \$17,796,154.

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Revenue Bonds	\$ 7,980,000	\$ 10,090,000	11,765,000
USDA Loans	9,816,154	9,969,932	1,824,552
	<u>\$ 17,796,154</u>	<u>20,059,932</u>	<u>13,589,552</u>

### REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Authority, LTMUA, at 2900 Bayshore Road, Villas, NJ, 08251. The telephone number is 609-886-7146. The LTMUA Administration offices are located at 2900 Bayshore Road, Villas, NJ, 08251.

## **FINANCIAL STATEMENTS**

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY  
COMPARATIVE STATEMENT OF NET POSITION  
NOVEMBER 30, 2014 AND 2013**

<b><u>ASSETS</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Current Assets - Unrestricted:		
Cash and Cash Equivalents	\$ 2,283,986	\$ 1,307,972
Accounts Receivable (net of Allowance of \$77,454 and \$105,307 in 2014 and 2013 respectively)	851,512	372,664
Connection Fees Receivable	413,469	294,203
	<hr/>	<hr/>
Total Current Assets - Unrestricted	3,548,967	1,974,839
Current Assets Restricted:		
Cash and Cash Equivalents	10,353,433	9,117,753
Due from the USDA	-	1,406,212
	<hr/>	<hr/>
Total Current Assets Restricted	10,353,433	10,523,965
Non Current Assets - Unrestricted:		
Connection Fees Receivable	945,489	559,924
	<hr/>	<hr/>
Total Non Current Assets - Unrestricted	945,489	559,924
Capital Assets:		
Items not being Depreciated:		
Land and Construction in Progress	454,410	99,734
Property, Plant and Equipment	71,887,231	71,571,013
Less: Accumulated Depreciation	(37,487,925)	(36,110,230)
	<hr/>	<hr/>
Net Capital Assets	34,853,716	35,560,517
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	<b>49,701,605</b>	<b>48,619,245</b>
	<hr/>	<hr/>
<b><u>DEFERRED OUTFLOW OF RESOURCES</u></b>		
Net Deferred Loss on Defeasance of Debt	78,077	102,579
	<hr/>	<hr/>
<b>TOTAL ASSETS AND DEFERRED OUTFLOW OF RESOURCES</b>	<b>\$ 49,779,682</b>	<b>\$ 48,721,824</b>
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**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
**COMPARATIVE STATEMENT OF NET POSITION**  
**NOVEMBER 30, 2014 AND 2013**  
**(CONTINUED)**

<b><u>LIABILITIES</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Current Liabilities Payable from Current Assets:		
Accounts Payable	\$ 509,451	\$ 306,036
Deposits and Reserves	19,409	9,757
	<hr/>	<hr/>
Total Current Liabilities Payable from Current Assets	528,860	315,793
Current Liabilities Payable from Restricted Assets:		
Escrow Deposits	1,187	12,301
Construction Contracts Payable	307,136	293,485
Accrued Interest on Bonds & Notes Payable	183,223	243,313
Current Portion of Long - Term Debt	1,922,491	1,913,778
	<hr/>	<hr/>
Total Current Liabilities Payable from Restricted Assets:	2,414,037	2,462,877
Noncurrent Liabilities:		
Accrued Vacation and Sick Pay	97,796	155,054
Long - Term Portion of Bonds and Loans Payable (Net of (Unamortized Bond Premium of \$120,554 and \$25,528 in 2014 and 2013, respectively)	15,994,217	18,171,682
	<hr/>	<hr/>
Total Noncurrent Liabilities	16,092,013	18,326,736
<b>TOTAL LIABILITIES</b>	<b>\$ 19,034,910</b>	<b>\$ 21,105,406</b>
	<hr/>	<hr/>
<b><u>NET POSITION</u></b>		
Net Investment in Capital Assets	\$ 18,614,243	\$ 17,288,516
Restricted for:		
Bond Service Fund	1,984,370	2,101,019
Bond Service Reserve Fund	1,984,370	2,106,944
Unrestricted	8,161,789	6,119,939
	<hr/>	<hr/>
<b>TOTAL NET POSITION</b>	<b>30,744,772</b>	<b>27,616,418</b>
	<hr/>	<hr/>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 49,779,682</b>	<b>\$ 48,721,824</b>
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**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED NOVEMBER 30, 2014 AND 2013**

Operating Revenues:	<u>2014</u>	<u>2013</u>
User Charges, Service Agreements, Fees, Penalties and Provision for Doubtful Accounts	\$ 7,924,651	\$ 7,629,792
Hydrant and Sprinkler Fees	28,585	25,209
Lease Revenue	206,825	200,904
Miscellaneous	<u>22,174</u>	<u>49,499</u>
<b>Total Operating Revenues</b>	<u>8,182,235</u>	<u>7,905,404</u>
<b>Operating Expenses:</b>		
Administrative Expenses:		
Salaries	167,496	318,996
Benefits	122,199	139,368
Other Expenses	774,112	610,546
Plant Operations and Maintenance Expenses:		
Salaries	961,320	983,981
Benefits	733,228	707,861
Other Expenses:		
Buildings and Grounds	2,355	17,324
Cape May County MUA Agreement	642,963	630,356
Cape May County MUA Settlement	50,000	50,000
Chemicals - Treatment Plant	89,678	110,911
Collection System Maintenance	71,417	70,774
Fuel and Transportation	90,908	103,825
Laboratory Analysis	21,264	2,940
Lease Agreements	2,665	2,222
Water Distribution Supplies	104,474	37,606
Materials & Supplies	83,883	85,904
Miscellaneous	16,358	59,993
Sludge Handling	172,325	187,333
Permits and Other Fees	44,900	43,007
Repairs and Maintenance - Water Operations	23,003	21,499
Safety	6,596	6,121
Uniforms	6,233	7,571
Utilities	298,665	309,540
Depreciation	<u>1,377,695</u>	<u>1,196,126</u>
<b>Total Operating Expenses</b>	<u>\$ 5,863,737</u>	<u>\$ 5,703,804</u>

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**FOR THE YEARS ENDED NOVEMBER 30, 2014 AND 2013**  
**(CONTINUED)**

	<u>2014</u>	<u>2013</u>
Operating Income	\$ 2,318,498	\$ 2,201,600
Non - Operating Revenues / (Expenses):		
Interest Income	42	966
Interest Expense	(511,157)	(552,253)
Connection Fees	1,382,936	1,837,214
Capital Contributions	-	2,686,000
Capital Project Reserve Transactions	36,451	(14,589)
Amortization of Premium	29,155	19,225
Bad Debt Expense Recaptured	27,834	9,098
Bond Issuance Costs	(155,405)	(4,435)
Total Non - Operating Revenues / (Expenses)	<u>809,856</u>	<u>3,981,226</u>
Change in Net Position	3,128,354	6,182,826
Net Position, December 1	<u>27,616,418</u>	<u>21,433,592</u>
Net Position, November 30	<u>\$ 30,744,772</u>	<u>\$ 27,616,418</u>

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEARS ENDED NOVEMBER 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from Customers and Users	\$ 7,735,428	\$ 7,594,548
Payments to Employees	(1,186,074)	(1,286,689)
Payments to Suppliers	(3,187,314)	(3,167,516)
	<u>3,362,040</u>	<u>3,140,343</u>
Net Cash Provided by Operating Activities		
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
None		
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Purchase of Capital Assets	(611,828)	(5,617,691)
Refunding Bonds Issued (Including Premium Received)	4,543,051	-
Bonds Refunded	(4,750,000)	-
Debt Issuance Costs	(155,405)	-
USDA Grant Proceeds	1,406,212	1,279,788
USDA Bonds Issued		8,167,000
Principal Paid on Project Note		(12,250,000)
Principal Paid on Capital Debt	(1,913,778)	(1,696,620)
Interest Paid on Capital Debt	(546,745)	(572,357)
	<u>(2,028,493)</u>	<u>(10,689,880)</u>
Net Cash Provided / (Used) by Capital and Related Financing Activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest Income	42	966
Connection Fees	878,105	1,837,214
	<u>878,147</u>	<u>1,838,180</u>
Net Cash Provided by Investing Activities		
Net Increase (Decrease) in Cash and Cash Equivalents	2,211,694	(5,711,357)
Cash and Cash Equivalents, December 1	<u>10,425,725</u>	<u>16,137,082</u>
Cash and Cash Equivalents, November 30	<u>\$ 12,637,419</u>	<u>\$ 10,425,725</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Operating Income	\$ 2,318,498	\$ 2,201,600
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation Expense	1,377,695	1,196,126
(Increase) Decrease in Accounts Receivable	(478,848)	(310,856)
Increase (Decrease) in:		
Deposits and Reserves	43,155	9,757
Accounts Payable	169,912	37,448
Escrow Deposits	(11,114)	(10,020)
Accrued Vacation and Sick Pay	(57,258)	16,288
	<u>\$ 3,362,040</u>	<u>\$ 3,140,343</u>

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2014 AND 2013**

**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.

The Authority, as a component unit of the Township of Lower, is financially accountable to the Township. As set forth in Government Accounting Standards Board (GASB) 14, financial accountability is defined as appointment of a voting majority of the component unit’s board and either the ability to impose will by the primary government or the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. The Authority, as a component unit, issues separate financial statements from the Township.

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

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

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2014 AND 2013**

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The following is a summary of the more significant accounting policies:

**Basis of Financial Statements**

The Authority's financial statements are presented on the full accrual basis in accordance with accounting principles generally accepted in the United States of America.

The Authority has adopted GASB No. 1 through 71 and related interpretations issued through November 30, 2014.

All activities of the Authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accounting and financial reporting treatment applied to the Authority is determined by its measurement focus. The transactions of the Authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the statement of net position. Net position (i.e. total assets net of total liabilities) are segregated into "net investment in capital assets"; "restricted for capital activity and debt service"; and "unrestricted" components.

**Recent Accounting Pronouncements Not Yet Effective**

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68 "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27". This statement, which is effective for fiscal periods beginning after June 15, 2014, will have an effect on the entity's financial reporting. The provisions of this statement will require significant modifications to the disclosure requirements related to the entity's proportionate share of the cost-sharing defined benefit plans reported at the State of New Jersey level.

In January 2013, the Governmental Accounting Standards Board (GASB) issued Statement No. 69 "Government Combinations and Disposals of Government Operations". This statement, which is effective for fiscal periods beginning after December 15, 2013, will not have any effect on the entity's financial reporting.

In November 2013, Governmental Accounting Standards Board (GASB) issued Statement No. 71 "Pension Transition for Contributions Made Subsequent to the Measurement Date-an amendment of GASB Statement No. 68". The provisions of this statement are required to be applied simultaneously with the provisions of Statement 68 which is effective for periods beginning after June 15, 2014. The impact of this statement on the net position of the entity is not presently determinable.

**Budgets and Budgetary Accounting**

An annual operating budget is required to be adopted and integrated into the accounting system to provide budgetary control over revenues and expenditures in accordance with NJSA 40A:5A. The current operating budget details the Authority's plans to earn and expend funds for charges incurred for the operation, maintenance, certain interest and general functions, and other charges for the fiscal year.

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2014 AND 2013**

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**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 certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet date, and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense, the allowance for doubtful accounts and certain claims and judgment liabilities, among other accounts. Actual results may differ from those estimates.

**Risks of Loss**

The Authority purchases commercial insurance policies on an annual basis to handle risks of loss associated with property, auto, liability, workers compensation, flood damage, and employee crime coverage. Any potential liability of the Authority with respect to loss claims would be equal to the deductibles associated with the policies and an event, which may exceed policy coverage limits.

**Cash and Cash Equivalents**

Cash and cash equivalents include various checking and money market accounts, U.S. obligations and certificates of deposit with maturities of three months or less.

**Investments**

Investments are carried at fair market value with associated premiums and discounts amortized over the term of the investment held.

Purchase of investments is limited by N.J.S.A. 40A:5-15.1 to bonds or obligations of or guaranteed by the federal government and to bonds or other obligations of federal or local units. These investments are required to have a maturity date not more than 397 days from the date of purchase.

The Authority did not hold any investments at November 30, 2014 or 2013.

**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.

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2014 AND 2013**

**NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Accounts Required by the 2003 Bond Resolution**

In accordance with the 2003 Bond Resolution, the Authority has established the following cash and 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 annual 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 for 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, 2014, bonds payable consisted of the following issues:

\$3,725,000 principal amount of Revenue Refunding Bonds, Series 2012 dated May 3, 2012, due in annual installments through December 1, 2021, bearing interest at rates of 2.375% through 3.000% 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, 2014 is \$3,580,000.

\$4,400,000 principal amount of Revenue Refunding Bonds, Series 2014 dated March 14, 2014, due in annual installments through December 1, 2017, bearing interest at rates of 2.000% to 3.000% per annum. The balance remaining as of November 30, 2014 is \$4,400,000.

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2014 AND 2013**

**NOTE 4 – BONDS AND LOANS PAYABLE - Continued**

\$8,167,000 principal amount of USDA Loans dated 2013, due in semi-annual installments beginning March 19, 2014, through September 19, 2053, bearing interest at a rate of 2.125% per annum. The balance remaining as of November 30, 2014 is \$8,035,715.

\$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, 2014 is \$1,780,439.

The following schedule summarizes the changes in Long – Term Debt for the year ended November 30, 2014:

	<u>2013</u>	<u>Additions</u>	<u>Decreases</u>	<u>Refunded</u>	<u>2014</u>
Revenue Refunding Bonds - 2003A	\$ 490,000	\$	\$ 490,000	\$	\$ -
Revenue Refunding Bonds - 2003C	1,390,000		445,000	945,000	-
Revenue Bonds - 2003D	4,490,000		685,000	3,805,000	-
Revenue Refunding Bonds - 2012	3,720,000		140,000		3,580,000
Revenue Refunding Bonds - 2014	-	4,400,000			4,400,000
USDA Loan - 2010	1,802,932		22,493		1,780,439
USDA Loan - 2013	8,167,000		131,285		8,035,715
Total Bonds & Loans Payable	<u>20,059,932</u>	<u>4,400,000</u>	<u>1,913,778</u>	<u>4,750,000</u>	<u>17,796,154</u>
Unamortized Bond Premium	25,528	143,051	48,025		120,554
Total Bonds & Loans Payable, Net of Premiums	<u>20,085,460</u>	<u>4,543,051</u>	<u>1,961,803</u>	<u>4,750,000</u>	<u>17,916,708</u>
Accrued Sick and Vacation Pay	155,054		57,258		97,796
Total Long Term Liabilities	<u>\$ 20,240,514</u>	<u>\$ 4,543,051</u>	<u>\$ 2,019,061</u>	<u>\$ 4,750,000</u>	<u>\$ 18,014,504</u>

The following schedule combines the Total Bonds & Loans, net of unamortized premiums:

	<u>2014</u>	<u>2013</u>
Current Portion of Long Term Debt	\$ 1,922,491	\$ 1,913,778
Noncurrent Portion of Debt	<u>15,873,663</u>	<u>18,146,154</u>
Total Net Debt of the Authority	<u>\$ 17,796,154</u>	<u>\$ 20,059,932</u>

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2014 AND 2013**

**NOTE 4 – BONDS AND LOANS PAYABLE - Continued**

Debt service requirements on bonds and loans payable at November 30, 2014 are as follows:

Year Ended November 30,	Principal	Interest	Total
2015	\$ 1,922,491	\$ 460,406	\$ 2,382,897
2016	1,591,301	401,176	1,992,477
2017	1,660,211	359,817	2,020,028
2018	474,222	328,805	803,027
2019	333,339	317,714	651,053
2020 - 2024	1,802,346	1,453,764	3,256,110
2025 - 2029	2,067,906	1,184,147	3,252,053
2030 - 2034	2,130,547	867,228	2,997,775
2035 - 2039	1,347,970	644,667	1,992,637
2040 - 2044	1,528,354	464,284	1,992,638
2045 - 2049	1,735,438	257,198	1,992,636
2050 - 2053	1,202,029	58,342	1,260,371
	<u>\$ 17,796,154</u>	<u>\$ 6,797,548</u>	<u>\$ 24,593,702</u>

**Refunding Bonds Issued**

On March 14, 2014, the Authority issued Refunding Bonds in the amount of \$4,400,000 to refund the callable Series 2003C and 2003D Bonds. The Debt retired in the amount of \$4,750,000 was replaced with the Refunding Issue. The required cash flow for the 2003C and 2003D Bonds for Principal and Interest prior to the refunding was \$5,165,738 and the cash flow requirements after the refunding is \$4,593,395 resulting in net savings in the amount of \$572,343. 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**

Substantially all of the Authority's employees are covered by the Public Employees' Retirement System cost-sharing multiple-employer defined benefit pension plan which has been established by state statute and is 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 or the report can be accessed on the internet at – <http://www.state.nj.us/treasury/pensions/annrpts.shtml>

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2014 AND 2013**

**NOTE 5 – PENSION PLAN - Continued**

*Public Employees' Retirement System*

The Public Employees' Retirement System was established in January, 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 or any county, municipality, school Authority 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.

Funding Policy

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 provide for employee contributions of 6.5% of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in PERS. The current PERS rate is 6.78% of covered payroll. The Authority's contribution to PERS for the years ending November 30, 2014 and 2013 were \$123,023 and \$130,488, respectively, equal to the required contributions for the year.

Significant Legislation

Chapter 78, P.L. 2011, effective June 28, 2011 made various changes to the manner in which the Public Employees' Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS) operate and to the benefit provisions of those systems.

Chapter 78's provisions impacting employee pension and health benefits include:

- New members of the PERS hired on or after June 28, 2011 (Tier 5 members) will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of  $\frac{1}{4}$  of 1% for each month that the member is under age 65.
- The eligibility age to qualify for a service retirement in the PERS is increased from age 63 to 65 for Tier 5 members.
- Increases in active member contribution rates. PERS active member rates increase from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years. The phase-in of the additional incremental member contribution rates for PERS members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.
- New employee contribution requirements towards the cost of employer-provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary.
- In addition, this new legislation changes the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay).

Chapter 1, P.L. 2010, effective May 21, 2010, made a number of changes to the State-administered retirement systems concerning eligibility, the retirement allowance formula, the definition of compensation, the positions eligible for service credit, the non-forfeitable right to a pension, the prosecutor's part of the PERS, special retirement under the PFRS, and employer contributions to the retirement systems.

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2014 AND 2013**

**NOTE 5 – PENSION PLAN - Continued**

Also, Chapter 1, P.L. 2010 changed the membership eligibility criteria for new members of PERS from the amount of annual compensation to the number of hours worked weekly. Also, it returned the benefit multiplier for new members of PERS to 1/60<sup>th</sup> from 1/55<sup>th</sup>, and it provided that new members of PERS have the retirement allowance calculated using the average annual compensation for the last five years of service instead of the last three years of service. New members of PERS will no longer receive pension service credit from more than one employer. Pension service credit will be earned for the highest paid position only. For new members of the PERS, the law capped the maximum compensation that can be used to calculate a pension from these plans at the annual wage contribution base for social security, and requires the pension to be calculated using a three year average annual compensation instead of the last year's salary. This law also closed the Prosecutors Part of the PERS to new members and repealed the law for new members that provided a non-forfeitable right to receive a pension based on the laws of the retirement system in place at the time 5 years of pension service credit is attained. The law also requires the State to make its full pension contribution, defined a 1/7<sup>th</sup> of the required amount, beginning in fiscal year 2012.

Chapter 3, P.L. 2010, effective May 21, 2010, replaced the accidental and ordinary disability retirement for new members of the PERS with disability insurance coverage similar to that provided by the State to individuals enrolled in the State's Defined Contribution Retirement Program.

Chapter 92, P.L. 2007 implemented certain recommendations contained in the December 1, 2006 report of the Joint Legislative Committee on Public Employee Benefits Reform; established a DCRP for elected and certain appointed officials, effective July 1, 2007; the new pension loan interest rate became 4.69% per year, and an \$8.00 processing fee per loan was charged, effective January 1, 2008. The legislation also removed language from existing law that permits the State Treasurer to reduce employer pension contributions needed to fund the Funds and Systems when excess assets are available.

Three Year Trend Information for PERS					
Year		Annual	Percentage		Net
Funding		Pension	of APC		Pension
		Cost (APC)	Contributed		Obligation
11/30/2014	\$	123,023	100%	\$	-
11/30/2013		130,488	100%		-
11/30/2012		147,543	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, 2014.

**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, 2014, the carrying amount of the Authority's deposits was \$12,636,620 and the bank balance was \$12,636,744. Of the bank balance, \$500,000 was insured with Federal Deposit Insurance Corporation (FDIC), \$12,136,744 was covered by the Governmental Unit Deposit Protection Act (GUDPA).

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2014 AND 2013**

**NOTE 6 – CASH AND CASH EQUIVALENTS AND INVESTMENTS - Continued**

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, 2014, 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, 2014 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, 2014 and 2013 was \$357,176 and \$2,500, 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, 2014 and 2013, accumulated sick and vacation time amounted to \$97,796 and \$155,054 respectively, and have been included as an accrued expense on the financial statements.

**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, 2015 through 2016	\$50,000
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The total amount paid through November 30, 2014 is \$920,000.

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2014 AND 2013**

**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. Participating employers are contractually required to contribute based on the amount of the amount of the premiums attributable to their retirees.

Post – retirement medical benefits under the plan have been funded on a pay – as – you – go basis since 1994. Prior to 1994, medical benefits were funded on an actuarial basis. During the fiscal years ended November 30, 2014, 2013 and 2012, the Authority expended \$208,865, \$192,958 and \$199,902, respectively, which equaled the required contributions for each year. There were approximately 12, 10 and 10 retired participants eligible at November 30, 2014, 2013 and 2012, 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](http://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 should not have a material effect on the Authority's Financial Position.

**NOTE 12 – PROPERTY, PLANT AND EQUIPMENT**

Property, Plant and Equipment consisted of the following at November 30, 2014 and 2013:

	<u>2013</u>	<u>Increases</u>	<u>2014</u>
Land and Improvements	\$ 97,234	\$	\$ 97,234
Buildings and Improvements	13,334,003		13,334,003
Machinery and Equipment	4,179,298	230,318	4,409,616
Infrastructure	54,048,287	80,490	54,128,777
Other	9,425	5,410	14,835
Construction in Progress	2,500	354,676	357,176
	<u>71,670,747</u>	<u>670,894</u>	<u>72,341,641</u>
Less: Accumulated Depreciation	(36,110,230)	(1,377,695)	(37,487,925)
	<u>\$ 35,560,517</u>	<u>\$ (706,801)</u>	<u>\$ 34,853,716</u>

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
NOVEMBER 30, 2014 AND 2013**

**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 POSITION**

As of November 30, 2014 the Authority's unrestricted net position is \$8,161,789. Of the \$8,161,789 the Authority has designated \$2,128,421 for future capital expenditures, \$687,947 has been designated for expenditure in the subsequent year's Sewer and Water Budgets, leaving \$5,345,421 undesignated.

**NOTE 16 – SUBSEQUENT EVENTS**

The Authority has evaluated subsequent events for potential recognition and/or disclosure through March 27, 2015, the date the financial statements were available to be issued and no additional items, except as noted above, were noted for disclosure or adjustment.

## **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, 2014**

	<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	\$ 3,188,186	\$	\$ 3,188,186	\$ 2,862,760	\$ (325,426)
Delinquent Penalties	20,000		20,000	23,862	3,862
Hydrant and Sprinkler Fees	25,348		25,348	28,585	3,237
Lease Revenue	173,654		173,654	206,825	33,171
Miscellaneous			-	11,558	11,558
<b>Total Operating Revenues</b>	<u>3,407,188</u>	<u>-</u>	<u>3,407,188</u>	<u>3,133,590</u>	<u>(273,598)</u>
Operating Expenses:					
Administrative:					
Salaries	194,540		194,540	83,748	110,792
Benefits	162,250		162,250	50,769	111,481
Other Expenses	477,933		477,933	366,984	110,949
Plant Operations and Maintenance:					
Salaries	346,500		346,500	346,782	(282)
Benefits	374,550		374,550	210,495	164,055
Other Expenses:					
Chemicals - Treatment Plant	20,500		20,500	2,766	17,734
Fuel and Transportation	19,000		19,000	3,245	15,755
Laboratory Analysis	10,000		10,000	5,940	4,060
Lease Agreements	3,000		3,000	2,665	335
Water Distribution Supplies	250,000		250,000	104,474	145,526
Miscellaneous	4,500		4,500	2,196	2,304
Permits and Other Fees	25,000		25,000	18,744	6,256
Well Parts & Supplies	40,000		40,000	20,241	19,759
Well / Tank Maintenance	250,000		250,000	3,324	246,676
Uniforms	3,000		3,000		3,000
Safety	2,000		2,000	1,032	968
Tools	2,000		2,000		2,000
Utilities	142,500		142,500	117,054	25,446
<b>Total Operating Expenses</b>	<u>2,327,273</u>	<u>-</u>	<u>2,327,273</u>	<u>1,340,459</u>	<u>986,814</u>
<b>Operating Income</b>	<u>1,079,915</u>	<u>-</u>	<u>1,079,915</u>	<u>1,793,131</u>	<u>713,216</u>
Non - Operating Revenues / (Expenses):					
Interest Income	500		500	21	(479)
Interest Payments on Debt - Bonds	(459,592)		(459,592)	(408,742)	50,850
Connection Fees	409,600		409,600	1,352,036	942,436
Principal Payments on Debt	(1,262,578)		(1,262,578)	(1,262,578)	-
Capital Revenues & Expenditures:					
Capital Improvement Fund	(192,500)		(192,500)	(396,300)	(203,800)
<b>Total Non - Operating Revenues / (Expenses)</b>	<u>(1,504,570)</u>	<u>-</u>	<u>(1,504,570)</u>	<u>(715,563)</u>	<u>789,007</u>
<b>Net Income / (Loss)</b>	<u>\$ (424,655)</u>	<u>\$ -</u>	<u>\$ (424,655)</u>	<u>\$ 1,077,568</u>	<u>\$ 1,502,223</u>

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY**  
**BUDGETARY BASIS**  
**SEWER DIVISION**  
**SCHEDULE OF REVENUES AND COSTS COMPARED TO BUDGET**  
**FOR THE YEAR ENDED NOVEMBER 30, 2014**

	<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	\$ 4,926,560	\$	\$ 4,926,560	\$ 4,994,865	\$ 68,305
Delinquent Penalties	35,000		35,000	43,164	8,164
Miscellaneous			-	10,616	10,616
<b>Total Operating Revenues</b>	<u>4,961,560</u>	<u>-</u>	<u>4,961,560</u>	<u>5,048,645</u>	<u>87,085</u>
Operating Expenses:					
Administrative:					
Salaries	194,540		194,540	83,748	110,792
Benefits	162,250		162,250	71,430	90,820
Other Expenses	523,100		523,100	407,128	115,972
Plant Operations and Maintenance:					
Salaries	750,500		750,500	614,538	135,962
Benefits	716,950		716,950	522,733	194,217
Other Expenses:					
Buildings and Grounds	28,500		28,500	2,355	26,145
Cape May County MUA Agreement	700,000		700,000	642,963	57,037
Cape May County MUA Settlement	50,000		50,000	50,000	-
Chemicals - Treatment Plant	165,000		165,000	89,442	75,558
Collection Materials & Supplies	500,000		500,000	71,631	428,369
Fuel and Transportation	166,000		166,000	87,663	78,337
Laboratory Analysis	20,000		20,000	15,324	4,676
Materials & Supplies	300,000		300,000	83,883	216,117
Miscellaneous	32,000		32,000	14,162	17,838
Sludge Handling	180,000		180,000	172,325	7,675
Permits and Other Fees	30,000		30,000	26,156	3,844
Uniforms	6,500		6,500	6,233	267
Safety	15,000		15,000	5,564	9,436
Utilities	306,500		306,500	181,611	124,889
<b>Total Operating Expenses</b>	<u>4,846,840</u>	<u>-</u>	<u>4,846,840</u>	<u>3,148,889</u>	<u>1,697,951</u>
<b>Operating Income</b>	<u>\$ 114,720</u>	<u>\$ -</u>	<u>\$ 114,720</u>	<u>\$ 1,899,756</u>	<u>\$ 1,785,036</u>
Non - Operating Revenues / (Expenses):					
Interest Income	500		500	21	(479)
Interest Payments on Debt - Bonds	(126,177)		(126,177)	(96,783)	29,394
Connection Fees				30,900	30,900
Principal Payments on Debt	(651,200)		(651,200)	(651,200)	-
Capital Revenues & Expenditures:					
Capital Improvement Fund	(500,000)		(500,000)	(211,495)	288,505
<b>Total Non - Operating Revenues / (Expenses)</b>	<u>(1,276,877)</u>	<u>-</u>	<u>(1,276,877)</u>	<u>(928,557)</u>	<u>348,320</u>
<b>Net Income / (Loss)</b>	<u>\$ (1,162,157)</u>	<u>\$ -</u>	<u>\$ (1,162,157)</u>	<u>\$ 971,199</u>	<u>\$ 2,133,356</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, 2014**

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	\$ 4,474,089	\$ 5,068,950	\$ 9,543,039
Non - Operating Revenues	11,558	10,616	22,174
Difference - budget to GAAP:			
Items not recorded under the budgetary basis: recovery of prior year bad debt expense	2,626	25,208	27,834
Total revenues as reported on the statement of revenues, expenditures and changes in net assets			9,593,047
Uses / outflows of resources			
Actual amounts (budgetary basis) from the budgetary comparison schedule	1,340,459	3,148,889	4,489,348
Items not recorded under the GAAP basis: encumbrances			(3,306)
Non - Operating Expenses	2,067,620	959,478	3,027,098
Difference - budget to GAAP:			
Items not recorded under the budgetary basis:			
depreciation			1,377,695
bond issue costs			155,405
payment of bond principal is not an expenditure under GAAP			(1,913,778)
amortization of premiums and discounts			(29,155)
amortization of gains & losses on defeased bonds			5,632
fixed assets charged to budget			(644,246)
Total expenditures as reported on the statement of revenues, expenditures and changes in net assets			6,464,693
Net Income - GAAP Basis			\$ 3,128,354

## **GENERAL COMMENTS AND RECOMMENDATIONS**



# FORD - SCOTT

& ASSOCIATES, L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Township of Lower Municipal Utilities Authority, as of and for the year ended November 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 27, 2015.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control.

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*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

**March 27, 2015**

**TOWNSHIP OF LOWER MUNICIPAL UTILITIES AUTHORITY  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDING NOVEMBER 30, 2014**

**I. SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued: **Unmodified Opinion dated March 27, 2015.**

Internal control over financial reporting:

- |   |                      |
|---|----------------------|
| 1) Material Weakness identified?        | <b>NO</b>            |
| 2) Significant Deficiencies identified? | <b>None Reported</b> |

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, 2014**

**Findings - None**