

LAKESIDE TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

FINANCIAL STATEMENTS  
WITH SUPPLEMENTAL INFORMATION

YEARS ENDED OCTOBER 31, 2012 AND 2011

AND

INDEPENDENT AUDITOR'S REPORT

**LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**  
**FINANCIAL STATEMENTS WITH SUPPLEMENTAL INFORMATION**  
**YEARS ENDED OCTOBER 31, 2012 AND 2011**

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**Independent Auditor's Report**

**Chairman and Commissioners of  
Lakewood Township Municipal Utilities Authority**

We have audited the accompanying financial statements of The Lakewood Township Municipal Utilities Authority as of October 31, 2012 and 2011, as listed in the Table of Contents. These financial statements are the responsibility of the Lakewood Township Municipal Utilities Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Lakewood Township Municipal Utilities Authority as of October 31, 2012 and 2011, and the results of its operations, and the changes in its fund balances and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated March 5, 2013 on our consideration of the The Lakewood Township Municipal Utilities Authority internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



**Chairman and Commissioners of  
Lakewood Township Municipal Utilities Authority**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations", and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

The management's discussion and analysis and supplementary schedules on pages 3 through 5 and pages 20 through 25, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Lakewood Township Municipal Utilities Authority taken as a whole. The accompanying schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

March 5, 2013

*Mohe Elliott Bauer & Gass*

## LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

### MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED OCTOBER 31, 2012

Our discussion and analysis of Lakewood Township Municipal Utilities Authority financial performance provides an overview of the Authorities financial activities for the year ended October 31, 2012. Please review it in conjunction with the Authorities basic financial statements which begin on Page 6.

#### Financial Highlights

- Total net assets increased \$1,201,824 which represents a 2.50 percent increase from 2011.
- Operating revenues, accounted for 98.76 percent of all revenues, and increased \$493,002 which represents a 6.25 percent increase from 2011.
- Operating expenses, accounted for 92.25 percent of all expenses, and increased \$85,092 which represents a 1.13 percent increase from 2011. The largest increase was in the areas of personnel and employee benefits.
- Other expenses, accounted for 7.75 percent of all expenses and increased \$509,053 from 2011. The largest increase was in the area of Bond interest expense of \$525,051.

#### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets (on page 6 through 8) provide information about the activities of the Authority as a whole.

#### Reporting the District as a Whole

##### The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets

Our analysis of the Authority as a whole begins on page 6. One of the most important questions asked about the Authorities finances is, "Is the Authority as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authorities *net assets* and changes in them. You can think of the Authorities net assets - the difference between assets and liabilities-as one way to measure the Authorities financial health, or *financial position*. Over time, *increases or decreases* in the Authorities net assets are one indicator of whether its *financial health* is improving or deteriorating.

(Continued)



## **LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**(Continued)**

**FOR THE YEAR ENDED OCTOBER 31, 2012**

#### **USING THIS ANNUAL REPORT (Continued)**

##### **The Authorities Funds**

In accordance with the 1997 bond resolution and the 1986 and 1993 supplemental bond resolutions, the Authority has established the cash and investment funds for the deposit of all revenues received by the Authority as described on page 13.

##### **The District as a Whole**

The Authorities total net assets increased \$1,201,824 to \$49,269,476 or 2.50 percent. Details of the changes are reflected on page 8.

##### **Original Versus Final Budget**

Pages 17 and 18 reflects the variances between the original and final budgeted amounts.

##### **Capital Assets**

At year end, the District had \$73,350,919 in total capital assets - an increase of \$10,698,219 from 2011, the largest increase in capital assets was the construction costs of well 17, and the construction costs of the Airport road storage tank, and the construction costs of the administration office renovation, costs of the New Hampshire Avenue Treatment Plant and the Metering Project.

##### **Debt Administration**

On November 6, 2008, the Lakewood Township Municipal Utilities Authority authorized the issuance of Series 2008 Revenue Bonds of 16,369,580 for the purpose of providing funds for the replacement of Airport Road water storage tank, upgrade and the expansion of the New Hampshire Avenue treatment plant, construction of well no. 17 with ASR capability, install well pump and motor in well no. 4, construction of Cedar Bridge raw water main and renovation of the Authority's administration building. Interest on the 2008 Revenue Bonds will be capitalized during the period of construction.

On May 3, 2012, the Lakewood Township Municipal Utilities Authority authorized the issuance of Series 2012 Revenue Bonds of \$1,995,430 for the purpose of providing supplemental additional funds for the replacement of the Airport Road water storage tank, upgrade and the expansion of the New Hampshire Avenue treatment plant, construction of well no. 17 with ASR capability, install well pump and motor in well no. 4, construction of Cedar Bridge raw water main and renovation of the Authority's administration building.

On May 3, 2012, the Lakewood Township Municipal Utilities Authority authorized the issuance of Series 2012 Revenue Bonds of \$3,205,781 for the purpose of providing funds for the replacement and upgrading the utility billing meters through out the Authorities service area.

**(Continued)**

## **LAKWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**(Continued)**

**FOR THE YEAR ENDED OCTOBER 31, 2012**

#### **USING THIS ANNUAL REPORT (Continued)**

##### **Economic Factors and Next Year's Budget and Rates**

The Authorities governing body considered many factors when setting the 2013 budget and water and sewer rates including the economy, the rate of inflation, planned future capital projects and debt service requirements. The Authorities water and sewer rates increased 5.00 percent and 5.00 percent respectively, effective February 1, 2012; 3.00 percent and 1.50 percent respectively, effective November 1, 2012; 3.00 percent and 1.50 percent respectively, effective November 1, 2013.

##### **CONTACTING THE AUTHORITIES FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Authorities finances and to show the Authorities accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrative Assistant at 390 New Hampshire Avenue, Lakewood, New Jersey 08701.

# LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

## STATEMENT OF NET ASSETS OCTOBER 31, 2012 AND 2011

|   | <u>2012</u>          | <u>2011</u>          |
|---|----------------------|----------------------|
| <b>ASSETS</b>                                   |                      |                      |
| <b>Unrestricted assets:</b>                     |                      |                      |
| Cash and interest bearing accounts              | \$ 14,307,152        | \$ 12,243,651        |
| Investments, at fair value - Note 8             | 464,954              | 1,779,965            |
| Accounts receivable                             | 1,224,042            | 1,338,979            |
| Accrued interest receivable                     | 8,941                | 8,944                |
| Other receivables                               | 348,681              | -                    |
| Prepaid expenses                                | 8,667                | 8,222                |
| <b>Total unrestricted assets</b>                | <u>16,362,437</u>    | <u>15,379,761</u>    |
| <b>Restricted assets:</b>                       |                      |                      |
| Construction Fund:                              |                      |                      |
| Cash  | 833,015              | 765,230              |
| Investments, at fair value - Note 8             | 4,284,842            | 8,765,564            |
| Bond Service Fund:                              |                      |                      |
| Investments, at fair value - Note 8             | 1,684,530            | 1,120,513            |
| Bond Reserve Fund:                              |                      |                      |
| Investments, at fair value - Note 8             | 441,984              | 441,985              |
| Renewal and Replacement Fund:                   |                      |                      |
| Investments, at fair value - Note 8             | 49,876               | 49,876               |
| <b>Total restricted assets</b>                  | <u>7,294,247</u>     | <u>11,143,168</u>    |
| <b>Property, plant and equipment</b>            |                      |                      |
| Less: accumulated depreciation - Notes 2 & 6    | <u>55,413,421</u>    | <u>46,153,602</u>    |
| <b>Other assets:</b>                            |                      |                      |
| Unamortized bond issue costs, net - Note 2      | 456,556              | 445,825              |
| <b>Total other assets</b>                       | <u>456,556</u>       | <u>445,825</u>       |
| <b>Total unrestricted and restricted assets</b> | <u>\$ 79,526,661</u> | <u>\$ 73,122,356</u> |

(Continued)



# LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

## STATEMENT OF NET ASSETS (Continued) OCTOBER 31, 2012 AND 2011

|   | <u>2012</u>                 | <u>2011</u>                 |
|---|-----------------------------|-----------------------------|
| <b>LIABILITIES</b>  |                             |                             |
| <b>Current liabilities payable from</b>                         |                             |                             |
| <b>unrestricted assets:</b>                                     |                             |                             |
| Accounts payable  | \$ 137,248                  | \$ 231,576                  |
| Accrued liabilities   | 582,356                     | 558,824                     |
| Deferred revenue assignment of cell tower leases - Note 10      | 18,125                      | -                           |
| Accrued post-employment benefit plan - Note 9                   | 327,500                     | 166,200                     |
| Deferred billings   | 354,021                     | 335,880                     |
| Advanced project funds  | 752,389                     | 643,078                     |
| Customers deposits - Note 2                                     | 105,966                     | 105,966                     |
| Escrow fund - Note 2  | <u>564,625</u>              | <u>567,327</u>              |
| <b>Total current liabilities payable from</b>                   |                             |                             |
| <b>unrestricted assets</b>                                      | <u>2,842,230</u>            | <u>2,608,851</u>            |
| <b>Current liabilities payable from restricted assets</b>       |                             |                             |
| Accrued interest payable on revenue bond                        | 285,737                     | 298,737                     |
| Revenue bonds payable - current portion Note 5                  | 1,307,817                   | 1,094,762                   |
| Construction cost payable                                       | <u>246,239</u>              | <u>860,795</u>              |
| <b>Total current liabilities payable from restricted assets</b> | <u>1,839,793</u>            | <u>2,254,294</u>            |
| <br>Accrued unfunded post-employment benefit plan - Note 9      | <br>1,072,800               | <br>588,500                 |
| Deferred revenue assignment of cell tower leases - Note 10      | 703,854                     | -                           |
| Long-term portion of revenue bonds payable - Note 5             | 23,256,078                  | 19,362,684                  |
| Premium on revenue bonds payable, net - Note 2                  | <u>542,430</u>              | <u>240,375</u>              |
| <b>Total liabilities</b>  | <u>30,257,185</u>           | <u>25,054,704</u>           |
| <b>NET ASSETS</b>   |                             |                             |
| <b>Contributed capital</b>                                      |                             |                             |
| Less: accumulated depreciation - Note 3                         | 17,642,566                  | 16,813,416                  |
| <b>Restricted for:</b>  |                             |                             |
| Construction Fund - Note 4                                      | 19,300,521                  | 18,832,951                  |
| Bond Service Fund - Note 4                                      | 90,976                      | (252,986)                   |
| Bond Reserve Fund - Note 4                                      | 441,984                     | 441,985                     |
| Renewal and Replacement Fund - Note 4                           | 49,876                      | 49,876                      |
| <b>Unrestricted:</b>  |                             |                             |
| Unfunded post-employment benefit plan - Note 9                  | (1,072,800)                 | (588,500)                   |
| Unrestricted Fund   | <u>12,816,353</u>           | <u>12,770,910</u>           |
| <b>Total Net Assets</b>   | <u><u>\$ 49,269,476</u></u> | <u><u>\$ 48,067,652</u></u> |

The accompanying notes are an integral  
part of these financial statements

**LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
YEARS ENDED OCTOBER 31, 2012 AND 2011**

|  | <u>2012</u>          | <u>2011</u>          |
|--|----------------------|----------------------|
| <b>Operating revenues:</b>   |                      |                      |
| Water and sewer service charges  | \$ 7,865,265         | \$ 7,594,985         |
| Connection fees  | 208,842              | 85,163               |
| Other income   | <u>312,986</u>       | <u>213,943</u>       |
| Total operating revenues   | <u>8,387,093</u>     | <u>7,894,091</u>     |
| <b>Operating expenses:</b>   |                      |                      |
| Personnel services   | 1,279,720            | 1,215,500            |
| Employee benefits  | 835,973              | 733,643              |
| Administrative   | 795,425              | 731,949              |
| Operations and maintenance   | 3,291,850            | 3,531,878            |
| Depreciation   | <u>1,438,400</u>     | <u>1,343,306</u>     |
| Total operating expenses   | <u>7,641,368</u>     | <u>7,556,276</u>     |
| Operating income   | 745,725              | 337,815              |
| <b>Other income (expense):</b>   |                      |                      |
| Investment income  | 104,961              | 128,690              |
| Bond interest expense  | (642,514)            | (117,463)            |
| Amortization of premium on revenue bonds   | 32,800               | 14,568               |
| Amortization of bond issue costs   | <u>(31,712)</u>      | <u>(29,478)</u>      |
| <b>Income (before transfer of depreciation on assets purchased with contributed capital)</b> | 209,260              | 334,132              |
| <b>Transfer of depreciation to contributed capital</b>                                       | <u>647,714</u>       | <u>627,943</u>       |
| Change in net assets   | 856,974              | 962,075              |
| Unfunded post-employment benefit plan - Note 9   | (484,300)            | 9,500                |
| <b>Restricted and unrestricted net assets - beginning of year</b>                            | <u>31,254,236</u>    | <u>30,282,661</u>    |
| <b>Restricted and unrestricted net assets - end of year</b>                                  | <u>31,626,910</u>    | <u>31,254,236</u>    |
| <b>Contributed capital - beginning of year</b>   | 16,813,416           | 17,336,530           |
| Developer expansion of system  | 1,476,864            | 104,829              |
| Transfer of depreciation from operations to contributed capital                              | <u>(647,714)</u>     | <u>(627,943)</u>     |
| <b>Contributed capital - end of year</b>   | <u>17,642,566</u>    | <u>16,813,416</u>    |
| <b>Total net assets - end of year</b>  | <u>\$ 49,269,476</u> | <u>\$ 48,067,652</u> |

The accompanying notes are an integral  
part of these financial statements

**LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**

**STATEMENT OF CASH FLOWS  
YEARS ENDED OCTOBER 31, 2012 AND 2011**

|   | <u>2012</u>                 | <u>2011</u>                 |
|---|-----------------------------|-----------------------------|
| <b>Cash flows from operating activities:</b>          |                             |                             |
| Cash received from customers                          | \$ 9,242,150                | \$ 8,063,903                |
| Cash paid to suppliers and employees                  | (6,461,590)                 | (6,162,504)                 |
| Investment income - received                          | 104,964                     | 128,737                     |
| Bond interest expense - paid                          | (655,514)                   | (121,338)                   |
| Increase (decrease) in advanced project funds         | 109,311                     | 246,003                     |
| Increase (decrease) in escrow funds                   | <u>(2,702)</u>              | <u>(141,753)</u>            |
| Net cash provided by operating activities             | <u>2,336,619</u>            | <u>2,013,048</u>            |
| <b>Cash flows from investing activities:</b>          |                             |                             |
| Capital expenditures                                  | (11,312,776)                | (5,471,100)                 |
| (Increase) decrease in investments                    | <u>5,231,717</u>            | <u>7,213,294</u>            |
| Net cash used in investing activities                 | <u>(6,081,059)</u>          | <u>1,742,194</u>            |
| <b>Cash flows from financing activities:</b>          |                             |                             |
| Developer expansion of system                         | 1,476,864                   | 104,829                     |
| Bond issue costs paid new series                      | (42,442)                    | -                           |
| Premium on revenue bonds payable                      | 334,855                     | -                           |
| Proceeds from issuance of long-term debt              | 5,201,211                   | 239,154                     |
| Principal redemption of long-term debt                | <u>(1,094,762)</u>          | <u>(316,693)</u>            |
| Net cash provided (used) by financing activities      | <u>5,875,726</u>            | <u>27,290</u>               |
| <b>Net increase in cash and cash equivalents</b>      | <u>2,131,286</u>            | <u>3,782,532</u>            |
| <b>Cash and cash equivalents at beginning of year</b> | <u>13,008,881</u>           | <u>9,226,349</u>            |
| <b>Cash and cash equivalents at end of year</b>       | <u><u>\$ 15,140,167</u></u> | <u><u>\$ 13,008,881</u></u> |

(Continued)



**LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**

**STATEMENT OF CASH FLOWS**  
**(Continued)**  
**YEARS ENDED OCTOBER 31, 2012 AND 2011**

|  | <u>2012</u>         | <u>2011</u>         |
|--|---------------------|---------------------|
| <b>Change in net assets</b>  | \$ 856,974          | \$ 962,075          |
| <b>Adjustments to reconcile change in net assets to net cash provided by operating activities:</b> |                     |                     |
| <b>Depreciation and amortization, net</b>  | 789,598             | 730,273             |
| <b>Changes in assets and liabilities:</b>  |                     |                     |
| <b>(Increase) decrease in:</b>   |                     |                     |
| Accounts receivable  | 114,937             | 153,158             |
| Accrued interest receivable  | 3                   | 47                  |
| Other receivable   | (348,681)           | -                   |
| Prepaid expenses   | (445)               | (478)               |
| <b>Increase (decrease) in:</b>   |                     |                     |
| Accounts payable   | (94,328)            | 41,486              |
| Accrued liabilities  | 23,532              | (73,642)            |
| Deferred revenue assignment of cell tower leases   | 721,979             | -                   |
| Accrued post-employment benefit plan   | 161,300             | 83,100              |
| Deferred billings  | 18,141              | 16,654              |
| Advanced project funds   | 109,311             | 246,003             |
| Escrow funds   | (2,702)             | (141,753)           |
| Accrued interest payable on revenue bonds  | (13,000)            | (3,875)             |
| <b>Total adjustments</b>   | <u>1,479,645</u>    | <u>1,050,973</u>    |
| <b>Net cash provided by operating activities</b>   | <u>\$ 2,336,619</u> | <u>\$ 2,013,048</u> |

The accompanying notes are an integral  
part of these financial statements

# LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

OCTOBER 31, 2012 AND 2011

### NOTE 1 - NATURE OF ORGANIZATION

The Lakewood Township Municipal Utilities Authority was created by ordinance of the Township of Lakewood dated July 22, 1971 and as amended on August 12, 1971.

The powers of the Authority are exercised by a governing body or Board composed of five members. Members of the Board are as follows:

|  | <u>Term Expires</u> |
|--|---------------------|
| Senator Robert W. Singer, Chairman                               | February 1, 2016    |
| Raymond Coles, Vice Chairman                                     | February 1, 2014    |
| Anne Fish, Treasurer   | February 1, 2018    |
| P.G. Waxman, Commissioner  | February 1, 2015    |
| Mike Sernotti, Commissioner                                      | February 1, 2017    |
| Sam Flancbaum, Assistant Secretary, Alternate Commissioner No. 1 | February 1, 2014    |
| Craig Theibault, Alternate Commissioner No. 2                    | February 1, 2015    |
| Justin Flancbaum, Executive Director                             |                     |

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Lakewood Township Municipal Utilities Authority have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

**Property, plant and equipment** - Property, plant and equipment is carried at cost. Depreciation is computed using the straight-line method. Depreciation on assets acquired with grants-in-aid is recorded as a reduction of contributed capital.

**Deferred financing costs** - Bond issue costs, and Premium on revenue bonds payable related to the revenue bonds are being amortized over the term of the related debt.

**Cash and Cash Equivalents** - For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks.

**Customer Deposits** - Monies required from customers to assure payment. Deposits are retained for a period of one year for owners of property. Tenant deposits are retained until termination of the lease.

**Escrow Funds** - Monies required from contractors to assure performance. Deposits are retained in the account until the contractor satisfies all outstanding debts to the Authority and/or at the end of one year the engineer recommends release of the monies and acceptance of the project.

**Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(Continued)



# LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

(Continued)

OCTOBER 31, 2012 AND 2011

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Bond Resolution** - As provided in the bond resolution, the accounts are maintained on the individual fund concept. The assets of each fund are subject to the use in liquidation of, or for the purpose of, the liabilities and reserve as shown herein, or, in case of excesses over liabilities and reserves (retained earnings) for specified of general use subject to the conditions and requirements stipulated in the bond resolution.

**Reclassifications** - Certain reclassifications have been made to the 2011 financial statements to conform with the 2012 presentation.

**Subsequent Events** - The Board has evaluated subsequent activity through the date of the auditor's report, which is the date the financial statements were available to be issued, and determined nothing additional is required to be recorded or disclosed.

### NOTE 3 - CONTRIBUTED CAPITAL

On September 22, 1987, the Lakewood Township Municipal Utilities Authority accepted a grant from the Economic Development Administration, U.S. Department of Commerce in an amount not to exceed \$521,000. The grant was used to provide assistance in the construction of a new water supply well and water treatment facility.

Construction grant in the amount of \$300,000 was provided by the Township of Lakewood, Lakewood Industrial Commission, to help defray cost of the expansion of the Authority's facilities in order to assure an adequate water supply and treatment facility for the Lakewood Industrial Campus.

A non-refundable contribution in the amount of \$835,000 was provided by Lakewood Cogeneration, L.P. The contribution will be used towards the construction of the relocated wells and/or other related future plant facilities.

A contribution in the amount of \$56,061 was received from New Jersey Spill Compensation Fund. These monies were used to provide assistance in the construction of the Locust Street and Vermont Avenue water main extensions.

Developer expansion of the Authority's water distribution and sewer sanitary collection systems.

|                                     | <u>2012</u>          | <u>2011</u>          |
|-------------------------------------|----------------------|----------------------|
| Economic Development Administration | \$ 521,000           | \$ 521,000           |
| Township of Lakewood                | 300,000              | 300,000              |
| Lakewood Cogeneration, L.P.         | 835,000              | 835,000              |
| New Jersey Spill Compensation Fund  | 56,061               | 56,061               |
| Developer expansion of system       | <u>24,912,617</u>    | <u>23,435,753</u>    |
|                                     | 26,624,678           | 25,147,814           |
| Less: accumulated depreciation      | <u>8,982,112</u>     | <u>8,334,398</u>     |
|                                     | <u>\$ 17,642,566</u> | <u>\$ 16,813,416</u> |

(Continued)



# LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS (Continued) OCTOBER 31, 2012 AND 2011

### NOTE 4 - RESTRICTED FUNDS

In accordance with the 1997 bond resolution and the 1986 and 1993 supplemental bond resolutions, the Authority has established the following cash and investment funds for the deposit of all revenues received by the Authority:

| <u>Funds</u>                           | <u>Amount</u>   | <u>Use For Which Restricted</u>   |
|--|---|---|
| Revenue                                | All revenues received by the Authority.   | Authorized operating expenses and, as of the first day of each month, transfers to the various funds described below.                                 |
| General                                | Any extent.   | Authorized expenditures and transfers to the various funds.   |
| Construction                           | Proceeds of debt issued and construction grants - in aid.   | Construction costs of the system.   |
| Bond Service<br>(Current Debt Service) | Amount needed to pay principal and interest due on or before the first day of May and November.                       | Principal and interest on the bonds.  |
| Bond Reserve<br>(Future Debt Service)  | Amount needed to equal the greatest amount of debt service due in any bond year.                                      | Transfers to meet minimum levels required in the bond service or sinking funds. Any excess may be transferred into the renewal and replacement fund.  |
| Renewal and Replacement                | Amount needed to increase the balance to equal the renewal and replacement requirements as defined by the resolution. | Transfers to meet minimum levels required in the bond service, sinking or bond reserve funds or major repairs, renewals and extensions of the system. |

(Continued)

**LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

(Continued)

**OCTOBER 31, 2012 AND 2011**

**NOTE 5 - REVENUE BONDS**

|                           | <u>2012</u>          | <u>2011</u>          |
|---------------------------|----------------------|----------------------|
| Revenue Bonds Series 2002 | \$ 3,759,875         | \$ 4,087,866         |
| Revenue Bonds Series 2008 | 15,602,809           | 16,369,580           |
| Revenue Bonds Series 2012 | <u>5,201,211</u>     | <u>-</u>             |
|                           | 24,563,895           | 20,457,446           |
| Less: current portion     | <u>1,307,817</u>     | <u>1,094,762</u>     |
|                           | <u>\$ 23,256,078</u> | <u>\$ 19,362,684</u> |

On November 7, 2002, the Lakewood Township Municipal Utilities Authority authorized the issuance of \$6,461,230 Series 2002 Revenue Bonds for the purpose of providing funds for the replacement of the existing Shorrock Street Treatment Plant with the construction of a new facility and the construction of a 3.0 MG ground level storage tank and pump station. The bonds interest payments are semiannual on May 1 and November 1 of each year.

On November 6, 2008, the Lakewood Township Municipal Utilities Authority authorized the issuance of Series 2008 Revenue Bonds of 16,369,580 for the purpose of providing funds for the replacement of the Airport Road water storage tank, upgrade and the expansion of the New Hampshire Avenue treatment plant, construction of well no. 17 with ASR capability, install well pump and motor in well no. 4, construction of Cedar Bridge raw water main and renovation of the Authority's administration building.

On May 3, 2012, the Lakewood Township Municipal Utilities Authority authorized the issuance of Series 2012 Revenue Bonds of \$1,995,430 for the purpose of providing supplemental additional funds for the replacement of the Airport Road water storage tank, upgrade and the expansion of the New Hampshire Avenue treatment plant, construction of well no. 17 with ASR capability, install well pump and motor in well no. 4, construction of Cedar Bridge raw water main and renovation of the Authority's administration building.

On May 3, 2012, the Lakewood Township Municipal Utilities Authority authorized the issuance of Series 2012 Revenue Bonds of \$3,205,781 for the purpose of providing funds for the replacement and upgrading the utility billing meters through out the Authorities service area.

Maturities of the debt for each of the succeeding five years are as follows:

| <u>Year ended October 31,</u> | <u>Series 2002</u>  | <u>Series 2008</u>  | <u>Series 2012</u>  | <u>Total</u>        |
|-------------------------------|---------------------|---------------------|---------------------|---------------------|
| 2013                          | \$ 339,001          | \$ 787,880          | \$ 180,936          | \$ 1,307,817        |
| 2014                          | 341,585             | 808,497             | 246,404             | 1,396,486           |
| 2015                          | 351,902             | 828,620             | 251,404             | 1,431,926           |
| 2016                          | 362,191             | 848,250             | 251,404             | 1,461,845           |
| 2017                          | <u>372,191</u>      | <u>867,387</u>      | <u>251,404</u>      | <u>1,490,982</u>    |
|                               | <u>\$ 1,766,870</u> | <u>\$ 4,140,634</u> | <u>\$ 1,181,552</u> | <u>\$ 7,089,056</u> |

(Continued)

**LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
(Continued)  
OCTOBER 31, 2012 AND 2011**

**NOTE 5 - REVENUE BONDS (Continued)**

Bond interest expense consists of the following:

|  | <u>2012</u>       | <u>2011</u>       |
|--|-------------------|-------------------|
| Revenue Bonds Series 2002                          | \$ 109,212        | \$ 117,463        |
| Revenue Bonds Series 2008                          | 471,138           | 480,012           |
| Revenue Bonds Series 2012                          | <u>62,164</u>     | <u>-</u>          |
| Total interest expense                             | 642,514           | 597,475           |
| Less interest capitalized in construction projects | <u>-</u>          | <u>(480,012)</u>  |
| Bond interest expense                              | <u>\$ 642,514</u> | <u>\$ 117,463</u> |

**NOTE 6 - PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consists of the following:

|                                | <u>2012</u>          | <u>2011</u>          | <u>Estimated<br/>Useful Lives<br/>Years</u> |
|--------------------------------|----------------------|----------------------|---|
| Land                           | \$ 76,445            | \$ 66,620            | --  |
| Water and sewer system         | 55,828,673           | 50,175,135           | 40-75                                       |
| Office building and garage     | 1,400,900            | 441,938              | 5-40  |
| Other equipment                | 383,903              | 383,903              | 5-7   |
| Transportation equipment       | 281,423              | 214,932              | 5   |
| Construction in progress       | <u>15,379,575</u>    | <u>11,370,172</u>    | --  |
|                                | 73,350,919           | 62,652,700           |   |
| Less: accumulated depreciation | <u>17,937,498</u>    | <u>16,499,098</u>    |   |
|                                | <u>\$ 55,413,421</u> | <u>\$ 46,153,602</u> |   |

**NOTE 7 - PENSION PLAN**

The Authority participates in the Public Employees' Retirement System of New Jersey which is a part of the Division of Pensions in the Department of the Treasury, State of New Jersey. The plan is funded annually based on the projected benefit method with aggregate level normal cost and frozen initial unfunded accrued liability. The plan, which covers public employees through-out the state, does not maintain separate records for each reporting unit and, accordingly, the actuarial data for the employees of the Authority who are members of the plan is not available.

(Continued)



**LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS  
(Continued)  
OCTOBER 31, 2012 AND 2011**

**NOTE 8 - INVESTMENTS**

Investments in securities are presented in the financial statements at fair value.

|   | <u>2012</u>         |                     | <u>2011</u>          |                      |
|---|---------------------|---------------------|----------------------|----------------------|
|   | <u>Cost</u>         | <u>Fair Value</u>   | <u>Cost</u>          | <u>Fair Value</u>    |
| <b>UNRESTRICTED FUNDS:</b>  |                     |                     |                      |                      |
| <b>REVENUE FUND</b>   |                     |                     |                      |                      |
| State of New Jersey<br>Cash Management Funds                                | \$ 67,112           | \$ 67,112           | \$ 67,080            | \$ 67,080            |
| The Bank of New York,<br>U.S. Treasury Obligation<br>Money Market Fund      | <u>308,028</u>      | <u>308,028</u>      | <u>376,468</u>       | <u>376,468</u>       |
|   | <u>375,140</u>      | <u>375,140</u>      | <u>443,548</u>       | <u>443,548</u>       |
| <b>GENERAL FUND</b>   |                     |                     |                      |                      |
| The Bank of New York,<br>U.S. Treasury Obligation,<br>Money Market Fund     | <u>89,814</u>       | <u>89,814</u>       | <u>1,336,417</u>     | <u>1,336,417</u>     |
|   | <u>464,954</u>      | <u>464,954</u>      | <u>1,779,965</u>     | <u>1,779,965</u>     |
| <b>RESTRICTED FUNDS:</b>  |                     |                     |                      |                      |
| <b>CONSTRUCTION FUND</b>  |                     |                     |                      |                      |
| The Bank of New York,<br>U.S. Treasury Obligation<br>Money Market Fund      | 701,211             | 701,211             | 1,108,566            | 1,108,566            |
| State of New Jersey<br>NJEIT Funds Held in Trust                            | <u>3,583,631</u>    | <u>3,583,631</u>    | <u>7,824,511</u>     | <u>7,656,998</u>     |
|   | <u>4,284,842</u>    | <u>4,284,842</u>    | <u>8,933,077</u>     | <u>8,765,564</u>     |
| <b>BOND SERVICE FUND</b>  |                     |                     |                      |                      |
| The Bank of New York,<br>U.S. Treasury Obligation,<br>Money Market Fund     | <u>1,684,530</u>    | <u>1,684,530</u>    | <u>1,120,513</u>     | <u>1,120,513</u>     |
| <b>BOND RESERVE FUND</b>  |                     |                     |                      |                      |
| The Bank of New York,<br>U.S. Treasury Bond Slug,<br>4.04547%, due 11/01/21 | <u>441,984</u>      | <u>441,984</u>      | <u>441,985</u>       | <u>441,985</u>       |
| <b>RENEWAL AND REPLACEMENT FUND</b>   |                     |                     |                      |                      |
| The Bank of New York,<br>U.S. Treasury Obligation,<br>Money Market Fund     | <u>49,876</u>       | <u>49,876</u>       | <u>49,876</u>        | <u>49,876</u>        |
|   | <u>\$ 6,926,186</u> | <u>\$ 6,926,186</u> | <u>\$ 12,325,416</u> | <u>\$ 12,157,903</u> |

(Continued)

# LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

(Continued)

OCTOBER 31, 2012 AND 2011

### NOTE 9 - OTHER POST EMPLOYMENT BENEFITS

**Plan Description** - The Lakewood Township Municipal Utilities Authority is a single-employer, defined healthcare plan established through the Lakewood Township Municipal Utilities Authority. The plan provides healthcare insurance for eligible retirees (retirees with at least 25 years of service with the Authority) through the Lakewood Township Municipal Utilities Authority group health insurance plan, which covers both active and retired members. At November 1, 2010, the date of the last plan valuation, the Lakewood Township Municipal Utilities Authority covered twenty-seven (twenty-five active plan members and two retirees receiving benefits).

**Contributions** - For fiscal year 2012, Lakewood Township Municipal Utilities Authority contributed \$161,300 to the plan. In the event that plan assets are not sufficient to pay for benefits under the plan, the Lakewood Township Municipal Utilities Authority is required to contribute the additional amounts necessary to provide the benefits. In fiscal year 2012, no additional contributions were required. Administrative costs of the plan are paid by the Authority.

**Funded Status** - As of November 1, 2010, the actuarial accrued liability (AAL) for benefits was \$1,072,800, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,072,800 funded ratio of 0 percent. The covered payroll (annual payroll of active employees covered by the plan) was \$1,089,400, and the ratio of the UAAL to the covered payroll was 98 percent.

**Methods and Assumptions** - The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer (ARC) are subject to continual revision as results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to the point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following assumptions were made:

**Demographic assumptions** - Are the same used to project the data as those used to value the SHBP and the PERS pension liabilities. There is no assumptions for future new hires.

**Mortality** - Life expectancies were based on mortality tables from the Society of Actuaries the RP-2000 mortality table.

(Continued)



# LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

## NOTES TO FINANCIAL STATEMENTS

(Continued)

OCTOBER 31, 2012 AND 2011

### NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (Continued)

The following assumptions were made: (Continued)

**Turnover** - The Authority's historical data on turnover by age were used as the basis for assigning active plan members a probability of remaining employed until the assumed retirement age and for developing an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

**Healthcare cost trend rate** - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 8.5 - 9.5 percent initially, reduced to an ultimate rate of 5 percent after seven to nine years, was used.

**Health insurance premiums** - 2010 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

The discount rate used, 4 percent, is a blended rate reflecting the expected long-term investment returns on plan assets and the city's investments. The calculation of the blended rate was based on the historical and expected levels of employer contributions in relation to the ARC. In addition, the projected unit actuarial cost method was used, and the actuarial value of plan assets is measured at fair value. The unfunded actuarial accrued liability is being amortized as a level dollar amount. The remaining amortization period at October 31, 2010, was thirty years.

#### Schedule of Funding Progress for the Lakewood Township Municipal Utilities Authority

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued Liability<br>(AAL)<br>Entry age<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b - a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage<br>of Covered<br>Payroll<br>([b - a] / c) |
|--------------------------------|--|---|--------------------------------------|--------------------------|---------------------------|---|
| 11/01/10                       | \$ 0                                   | \$ 1,072,800  | \$ 1,072,800                         | 0.00%                    | 1,089,400                 | 98.00%  |

#### Schedule of Employer Contributions

| Fiscal Year<br>Ended | Service Cost<br>at end of year | 30 year<br>Amortization<br>UAL | Annual<br>Required<br>Contribution |
|----------------------|--------------------------------|--------------------------------|------------------------------------|
| 10/31/12             | \$ 99,300                      | \$ 62,000                      | \$ 161,300                         |

(Continued)



**LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**

**NOTES TO FINANCIAL STATEMENTS**

**(Continued)**

**OCTOBER 31, 2012 AND 2011**

**NOTE 10 - DEFERRED REVENUE EASEMENT AND ASSIGNMENT OF CELL TOWER LEASES**

The Lakewood Township Municipal Utilities Authority has entered into a agreement with LD Holdings, LLC to purchase easement and the assinnment of rental lease aggreements with cellular carriers. Term of leases is forty (40) years commencing in 2012. The purchase price paid at closing was \$725,000. The purchase price is being amortized over four hundred eighty (480) months at \$1,510 per month.

**NOTE 11 - FAIR VALUE MEASUREMENTS**

The Authority uses fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosure.

Fair value measurements are defined as the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. There are three defined hierarchical levels based on the quality of inputs used that directly relate to the amount of subjectivity associated with the determination of fair value.

The fair value hierarchy defines the three levels as follows:

- Level 1:** Valuations based on quoted prices (unadjusted) in an active market that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2:** Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.
- Level 3:** Valuations based on unobservable inputs are used when little or no market is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

The carrying amount of cash, accounts receivable, accounts payable and accrued expenses approximates fair value due to the short-term maturities of these instruments.

## SUPPLEMENTAL INFORMATION

LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY

BUDGETARY COMPARISON SCHEDULE OF WATER OPERATIONS  
YEAR ENDED OCTOBER 31, 2012

|   | Budgeted Amounts       |                        | Actual                | Variance with       |
|---|------------------------|------------------------|-----------------------|---------------------|
|   | Original               | Final                  | Budgetary             | Final Budget        |
|   | (Unaudited)            | (Unaudited)            | Basis                 | Positive(Negative)  |
| <b>OPERATING REVENUES:</b>  |                        |                        |                       |                     |
| Water service charges   | \$ 4,120,515           | \$ 4,120,515           | \$ 4,188,872          | \$ 68,357           |
| Connection fees   | 65,500                 | 65,500                 | 124,068               | 58,568              |
| Other income  | 56,175                 | 56,175                 | 243,111               | 186,936             |
| Total operating revenues  | <u>4,242,190</u>       | <u>4,242,190</u>       | <u>4,556,051</u>      | <u>313,861</u>      |
| <b>COST OF OPERATIONS:</b>  |                        |                        |                       |                     |
| Personnel services  | 637,898                | 637,898                | 768,106               | (130,208)           |
| Employee benefits   | 439,157                | 439,157                | 496,437               | (57,280)            |
| Administrative  | 357,200                | 357,200                | 488,484               | (131,284)           |
| Operations and maintenance  | 1,015,125              | 1,015,125              | 916,566               | 98,559              |
| Depreciation, net   |                        |                        | 474,412               | (474,412)           |
| Total cost of operations  | <u>2,449,380</u>       | <u>2,449,380</u>       | <u>3,144,005</u>      | <u>(694,625)</u>    |
| Operating profit  | 1,792,810              | 1,792,810              | 1,412,046             | (380,764)           |
| <b>OTHER INCOME (EXPENSE):</b>  |                        |                        |                       |                     |
| Investment income   | 36,000                 | 36,000                 | 75,461                | 39,461              |
| Amortization  |                        |                        | (608)                 | (608)               |
| Net income available for debt service   | <u>1,828,810</u>       | <u>1,828,810</u>       | <u>1,486,899</u>      | <u>(341,911)</u>    |
| <b>DEBT SERVICE COSTS:</b>  |                        |                        |                       |                     |
| Bond interest expense   | 587,086                | 587,086                | 610,375               | 23,289              |
| Bond redemption   | 1,064,091              | 1,064,091              |                       | (1,064,091)         |
| Total debt service costs  | <u>1,651,177</u>       | <u>1,651,177</u>       | <u>610,375</u>        | <u>(1,040,802)</u>  |
| <b>CAPITAL OUTLAYS</b>  |                        |                        |                       |                     |
|   | 15,849,866             | 15,849,866             | 9,145,392             | 6,704,474           |
| Excess (deficiency) of revenues over expenditures, debt service and capital outlays | <u>\$ (15,672,233)</u> | <u>\$ (15,672,233)</u> | <u>\$ (8,268,868)</u> | <u>\$ 7,403,365</u> |

See auditors' report



LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY  
BUDGETARY COMPARISON SCHEDULE OF SEWER OPERATIONS  
YEAR ENDED OCTOBER 31, 2012

|  | Budgeted Amounts |                | Actual         | Variance with      |
|--|------------------|----------------|----------------|--------------------|
|  | Original         | Final          | Budgetary      | Final Budget       |
|  | (Unaudited)      | (Unaudited)    | Basis          | Positive(Negative) |
| <b>OPERATING REVENUES:</b>   |                  |                |                |                    |
| Sewer service charges  | \$ 3,770,212     | \$ 3,770,212   | \$ 3,676,393   | \$ (93,819)        |
| Connection fees  | 28,375           | 28,375         | 84,774         | 56,399             |
| Other income   | 44,825           | 44,825         | 69,875         | 25,050             |
| Total operating revenues   | 3,843,412        | 3,843,412      | 3,831,042      | (12,370)           |
| <b>COST OF OPERATIONS:</b>   |                  |                |                |                    |
| Personnel services   | 579,881          | 579,881        | 511,614        | 68,267             |
| Employee benefits  | 400,920          | 400,920        | 339,536        | 61,384             |
| Administrative   | 238,800          | 238,800        | 306,941        | (68,141)           |
| Operations and maintenance   | 2,554,575        | 2,554,575      | 2,375,284      | 179,291            |
| Depreciation net   |                  |                | 316,274        | (316,274)          |
| Total cost of operations   | 3,774,176        | 3,774,176      | 3,849,649      | (75,473)           |
| Operating profit   | 69,236           | 69,236         | (18,607)       | (87,843)           |
| <b>OTHER INCOME (EXPENSE):</b>   |                  |                |                |                    |
| Investment income  | 24,000           | 24,000         | 29,500         | 5,500              |
| Amortization   |                  |                | 1,696          | 1,696              |
| Net income available for debt service  | 93,236           | 93,236         | 12,589         | (80,647)           |
| <b>DEBT SERVICE COSTS:</b>   |                  |                |                |                    |
| Bond interest expense  | 23,860           | 23,860         | 32,139         | 8,279              |
| Bond redemption  | 30,671           | 30,671         | -              | (30,671)           |
| Total debt service costs   | 54,531           | 54,531         | 32,139         | (22,392)           |
| <b>CAPITAL OUTLAYS</b>   |                  |                |                |                    |
|  | 4,838,089        | 4,838,089      | 1,552,827      | 3,285,262          |
| Excess (deficiency) of revenues over expenditures,<br>debt service and capital outlays | \$ (4,799,384)   | \$ (4,799,384) | \$ (1,572,377) | \$ 3,182,223       |

See auditors' report

**LAKESIDE TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**  
**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS - UNRESTRICTED AND RESTRICTED**  
**YEAR ENDED OCTOBER 31, 2012 WITH COMPARATIVE TOTALS**  
**FOR YEAR ENDED OCTOBER 31, 2011**

|   | UNRESTRICTED         | RESTRICTED           |                  |                   |                         | TOTALS               |                      |
|---|----------------------|----------------------|------------------|-------------------|-------------------------|----------------------|----------------------|
|   |                      | CONSTRUCTION         | BOND SERVICE     | BOND RESERVE      | RENEWAL AND REPLACEMENT | 2012                 | 2011                 |
| <b>Operating revenues:</b>                                |                      |                      |                  |                   |                         |                      |                      |
| Water and sewer service charges                           | \$ 7,865,265         | \$                   | \$               | \$                | \$                      | \$ 7,865,265         | \$ 7,594,985         |
| Connection fees   | 208,842              |                      |                  |                   |                         | 208,842              | 85,163               |
| Other income  | 312,986              |                      |                  |                   |                         | 312,986              | 213,943              |
| <b>Total operating revenues</b>                           | <b>8,387,093</b>     | <b>-</b>             | <b>-</b>         | <b>-</b>          | <b>-</b>                | <b>8,387,093</b>     | <b>7,894,091</b>     |
| <b>Cost of operations:</b>                                |                      |                      |                  |                   |                         |                      |                      |
| Personnel services  | 1,279,720            |                      |                  |                   |                         | 1,279,720            | 1,215,500            |
| Employee benefits   | 835,973              |                      |                  |                   |                         | 835,973              | 733,643              |
| Administrative  | 795,425              |                      |                  |                   |                         | 795,425              | 731,949              |
| Operations & Maintenance                                  | 3,291,850            |                      |                  |                   |                         | 3,291,850            | 3,531,878            |
| Depreciation  | 1,438,400            |                      |                  |                   |                         | 1,438,400            | 1,343,306            |
| <b>Total cost of operations</b>                           | <b>7,641,368</b>     | <b>-</b>             | <b>-</b>         | <b>-</b>          | <b>-</b>                | <b>7,641,368</b>     | <b>7,556,276</b>     |
| <b>Operating profit</b>                                   | <b>745,725</b>       | <b>-</b>             | <b>-</b>         | <b>-</b>          | <b>-</b>                | <b>745,725</b>       | <b>337,815</b>       |
| <b>Other income (expense):</b>                            |                      |                      |                  |                   |                         |                      |                      |
| Investment income   | 83,081               | 1,177                | 2,823            | 17,880            |                         | 104,961              | 128,690              |
| Amortization  | 1,088                |                      | (642,514)        |                   |                         | 1,088                | (14,910)             |
| Bond interest expense                                     |                      |                      |                  |                   |                         | (642,514)            | (117,463)            |
| <b>Net income before transfers</b>                        | <b>829,894</b>       | <b>1,177</b>         | <b>(639,691)</b> | <b>17,880</b>     | <b>-</b>                | <b>209,260</b>       | <b>334,132</b>       |
| <b>Transfers:</b>   |                      |                      |                  |                   |                         |                      |                      |
| Investment income, net                                    | 21,880               | (1,177)              | (2,823)          | (17,880)          |                         | -                    | -                    |
| Bond interest expense                                     | (642,514)            |                      | 642,514          |                   |                         | -                    | -                    |
| Depreciation on assets purchased with contributed capital | 647,714              |                      |                  |                   |                         | 647,714              | 627,943              |
| To (from) restricted assets                               | (811,531)            | 467,570              | 343,962          | (1)               |                         | -                    | -                    |
| Increase (decrease) in retained earnings                  | 45,443               | 467,570              | 343,962          | (1)               | -                       | 856,974              | 962,075              |
| Retained earnings beginning of year                       | 12,770,910           | 18,832,951           | (252,986)        | 441,985           | 49,876                  | 31,842,736           | 30,880,661           |
| <b>Retained earnings - end of year</b>                    | <b>\$ 12,816,353</b> | <b>\$ 19,300,521</b> | <b>\$ 90,976</b> | <b>\$ 441,984</b> | <b>\$ 49,876</b>        | <b>\$ 32,699,710</b> | <b>\$ 31,842,736</b> |

See auditors' report

**LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**

**SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS  
AND CHANGES IN CASH AND INVESTMENTS  
UNRESTRICTED ACCOUNTS  
YEARS ENDED OCTOBER 31, 2012 AND 2011**

|  | <u>2012</u>          | <u>2011</u>          |
|--|----------------------|----------------------|
| <b>Cash and investments at beginning of year</b> | \$ 14,023,616        | \$ 14,050,782        |
| <b>Cash receipts:</b>                            |                      |                      |
| Operating revenues                               | 9,242,150            | 8,063,903            |
| Investment income                                | 83,084               | 109,488              |
| Increase in advanced project funds               | 109,311              | 246,003              |
| Transfers from restricted funds                  | <u>89,707</u>        | <u>17,880</u>        |
| Total cash and investments available             | <u>23,547,868</u>    | <u>22,488,056</u>    |
| <b>Cash disbursements:</b>                       |                      |                      |
| Operations                                       | 6,461,590            | 6,162,504            |
| Decrease in escrow funds                         | 2,702                | 141,753              |
| Transfers to restricted funds                    | <u>2,311,470</u>     | <u>2,160,183</u>     |
| Total cash disbursements                         | <u>8,775,762</u>     | <u>8,464,440</u>     |
| <b>Cash and investments at end of year</b>       | \$ <u>14,772,106</u> | \$ <u>14,023,616</u> |
| <b>Balance comprised of:</b>                     |                      |                      |
| Cash and interest bearing accounts               | \$ 14,307,152        | \$ 12,243,651        |
| Investments                                      | <u>464,954</u>       | <u>1,779,965</u>     |
|  | \$ <u>14,772,106</u> | \$ <u>14,023,616</u> |

See auditors' report



**LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**  
**SCHEDULE OF CASH RECEIPTS, CASH DISBURSEMENTS**  
**AND CHANGES IN CASH INVESTMENTS**  
**RESTRICTED ACCOUNTS**  
**YEARS ENDED OCTOBER 31, 2012 WITH COMPARATIVE TOTALS**  
**FOR THE YEAR ENDED OCTOBER 31, 2011**

|   |    | CONSTRUCTION | BOND<br>SERVICE | BOND<br>RESERVE | RENEWAL AND<br>REPLACEMENT | TOTALS        |               |
|---|----|--------------|-----------------|-----------------|----------------------------|---------------|---------------|
|   |    |              |                 |                 |                            | 2012          | 2011          |
| Cash and investments at beginning of year | \$ | 9,530,794    | \$ 1,120,513    | \$ 441,985      | \$ 49,876                  | \$ 11,143,168 | \$ 14,546,764 |
| Cash receipts:                            |    |              |                 |                 |                            |               |               |
| Interest                                  |    | 1,177        | 2,823           | 17,880          |                            | 21,880        | 19,249        |
| Proceeds from issuance of long-term debt  |    | 5,201,211    |                 |                 |                            | 5,201,211     | 239,154       |
| Premium on issuance of bonds              |    | 334,855      |                 |                 |                            | 334,855       | -             |
| Developer enhancements                    |    | 1,476,864    |                 |                 |                            | 1,476,864     | 104,829       |
| Transfers from unrestricted fund          |    |              | 2,311,470       |                 |                            | 2,311,470     | 2,160,183     |
| Total cash and investments available      |    | 16,544,901   | 3,434,806       | 459,865         | 49,876                     | 20,489,448    | 17,070,179    |
| Cash disbursements:                       |    |              |                 |                 |                            |               |               |
| Capital expenditures                      |    | 11,312,776   |                 |                 |                            | 11,312,776    | 5,471,100     |
| Bond issue costs paid new issue           |    | 42,442       |                 |                 |                            | 42,442        | -             |
| Principal reduction long term debt        |    |              | 1,094,762       |                 |                            | 1,094,762     | 316,693       |
| Bond interest expense                     |    |              | 655,514         |                 |                            | 655,514       | 121,338       |
| Transfer to unrestricted fund             |    | 71,826       |                 | 17,881          |                            | 89,707        | 17,880        |
| Total cash disbursements                  |    | 11,427,044   | 1,750,276       | 17,881          | -                          | 13,195,201    | 5,927,011     |
| Cash and investments at end of year       | \$ | 5,117,857    | \$ 1,684,530    | \$ 441,984      | \$ 49,876                  | \$ 7,294,247  | \$ 11,143,168 |
| Balance comprised of:                     |    |              |                 |                 |                            |               |               |
| Cash and interest bearing accounts        | \$ | 833,015      | \$              | \$              | \$                         | 833,015       | \$ 765,230    |
| Investments                               |    | 4,284,842    | 1,684,530       | 441,984         | 49,876                     | 6,461,232     | 10,377,938    |
|   | \$ | 5,117,857    | \$ 1,684,530    | \$ 441,984      | \$ 49,876                  | \$ 7,294,247  | \$ 11,143,168 |

See auditors' report

**LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**

**OPERATING EXPENSES  
YEARS ENDED OCTOBER 31, 2012 AND 2011**

|   |                     |                     | <b>Total</b>        |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | <b>Water</b>        | <b>Sewer</b>        | <b>2012</b>         | <b>2011</b>         |
| <b>PERSONNEL SERVICES</b>               |                     |                     |                     |                     |
| Plant                                   | \$ 437,995          | \$ 187,712          | \$ 625,707          | \$ 579,772          |
| Office                                  | 148,592             | 146,083             | 294,675             | 281,271             |
| Executive director                      | 51,047              | 49,636              | 100,683             | 96,535              |
| Engineering                             | 112,972             | 110,683             | 223,655             | 224,172             |
| Commissioners                           | 17,500              | 17,500              | 35,000              | 33,750              |
|   | <u>768,106</u>      | <u>511,614</u>      | <u>1,279,720</u>    | <u>1,215,500</u>    |
| <b>EMPLOYEE BENEFITS</b>                |                     |                     |                     |                     |
| Health insurance & pension contribution | 332,242             | 227,612             | 559,854             | 536,031             |
| Post employment benefit plan            | 96,780              | 64,520              | 161,300             | 83,100              |
| Payroll taxes                           | 56,459              | 40,100              | 96,559              | 93,321              |
| Workman's compensation insurance        | 10,956              | 7,304               | 18,260              | 21,191              |
|   | <u>496,437</u>      | <u>339,536</u>      | <u>835,973</u>      | <u>733,643</u>      |
| <b>ADMINISTRATIVE</b>                   |                     |                     |                     |                     |
| Office costs                            | 25,932              | 25,567              | 51,499              | 59,065              |
| Postage                                 | 9,176               | 9,235               | 18,411              | 16,270              |
| Licenses and taxes                      | 42,710              | 1,612               | 44,322              | 37,578              |
| Insurance                               | 19,978              | 13,319              | 33,297              | 27,659              |
| Legal                                   | 87,113              | 78,833              | 165,946             | 89,014              |
| Engineering                             | 80,342              | 26,500              | 106,842             | 182,435             |
| Accounting and actuary                  | 37,622              | 37,623              | 75,245              | 72,910              |
| Advertising and notices                 | 4,648               | 4,531               | 9,179               | 7,289               |
| Dues, publications and seminars         | 9,668               | 9,264               | 18,932              | 18,649              |
| Repairs and maintenances                | 13,441              | 11,853              | 25,294              | 19,955              |
| Board secretary                         | 330                 | 330                 | 660                 | 661                 |
| Telephone                               | 16,242              | 10,457              | 26,699              | 31,075              |
| Computer costs                          | 53,550              | 55,539              | 109,089             | 102,513             |
| Trustee and bank fees                   | 69,739              | 7,604               | 77,343              | 41,379              |
| Sundry                                  | 17,993              | 14,674              | 32,667              | 25,497              |
|   | <u>488,484</u>      | <u>306,941</u>      | <u>795,425</u>      | <u>731,949</u>      |
| <b>OPERATIONS AND MAINTENANCE</b>       |                     |                     |                     |                     |
| Ocean County Utilities Authority        | -                   | 2,152,772           | 2,152,772           | 2,243,416           |
| Purchased water                         | 328,391             | -                   | 328,391             | 355,831             |
| Utilities                               | 262,043             | 64,597              | 326,640             | 377,006             |
| Chemicals and supplies                  | 135,426             | 24,879              | 160,305             | 217,874             |
| Lab fees and tests                      | 28,861              | -                   | 28,861              | 42,871              |
| Repairs and maintenance                 | 97,473              | 88,334              | 185,807             | 209,345             |
| Vehicle costs                           | 9,550               | 6,043               | 15,593              | 56,505              |
| Meter costs                             | 37,665              | 34,049              | 71,714              | 10,600              |
| Equipment rental                        | 11,842              | -                   | 11,842              | 10,233              |
| Uniforms                                | 5,315               | 4,610               | 9,925               | 8,197               |
|   | <u>916,566</u>      | <u>2,375,284</u>    | <u>3,291,850</u>    | <u>3,531,878</u>    |
| <b>DEPRECIATION</b>                     | <u>863,040</u>      | <u>575,360</u>      | <u>1,438,400</u>    | <u>1,343,306</u>    |
|   | <u>\$ 3,532,633</u> | <u>\$ 4,108,735</u> | <u>\$ 7,641,368</u> | <u>\$ 7,556,276</u> |

See auditors' report



**Chairman and Commissioners  
Lakewood Township Municipal Utilities Authority**

**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**

We have audited the financial statements of Lakewood Township Municipal Utilities Authority as of and for the year ended October 31, 2012, and have issued our report thereon dated March 5, 2013. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Lakewood Township Municipal Utilities Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lakewood Township Municipal Utilities Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



**Chairman and Commissioners  
Lakewood Township Municipal Utilities Authority**

**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  
(Continued)**

**Compliance and Other Matters**

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

This report is intended for the information and use of management of the Lakewood Township Municipal Utilities Authority and the Division of Local Government Services. However, this report is a matter of public record and its distribution is not limited.

*Mohe Elliott Bauer & Gass*

**March 5, 2013**

**Chairman and Commissioners  
Lakewood Township Municipal Utilities Authority**

**Report On Compliance With Requirements That Could Have a Direct  
and Material Effect on Each Major Program and on Internal Control Over Compliance  
in Accordance With OMB Circular A-133**

**Compliance**

We have audited Lakewood Township Municipal Utilities Authority's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Lakewood Township Municipal Utilities Authority's major federal programs for the year ended October 31, 2012. Lakewood Township Municipal Utilities Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Lakewood Township Municipal Utilities Authority's management. Our responsibility is to express an opinion on Lakewood Township Municipal Utilities Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lakewood Township Municipal Utilities Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of on Lakewood Township Municipal Utilities Authority's compliance with those requirements.

In our opinion, Lakewood Township Municipal Utilities Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended October 31, 2012.



Chairman and Commissioners  
Lakewood Township Municipal Utilities Authority  
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### Internal Control Over Compliance

Management of Lakewood Township Municipal Utilities Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lakewood Township Municipal Utilities Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing our opinion on compliance and to test and report on internal control, over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lakewood Township Municipal Utilities Authority's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management of the Lakewood Township Municipal Utilities Authority and the Division of Local Government Services. However, this report is a matter of public record and its distribution is not limited.

*Mohe Elliott Bauer & Gass*

March 5, 2013



**LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS**  
**FOR THE YEAR ENDING OCTOBER 31, 2012**

| <u>Federal/State Grantors/Pass-<br/>Through Grantor/Program Title</u>                         | <u>Loan Period</u> | <u>Loan Amount</u>   | <u>Loan<br/>Requisitions</u> | <u>Capitalized<br/>Expenditures</u> |
|---|--------------------|----------------------|------------------------------|-------------------------------------|
| <b>State of New Jersey Funds:</b>   |                    |                      |                              |                                     |
| <b>NJ State Dept. of Environmental Protection/<br/>NJ Environmental Infrastructure Trust/</b> |                    |                      |                              |                                     |
| Trust loan 2008 financing program   | 11/6/08-11/1/27    | \$ 9,345,000         | \$ 4,026,307                 | \$ 4,029,307                        |
| Fund loan 2008 financing program  | 11/6/08-11/1/27    | 7,024,580            | 3,468,489                    | 3,468,489                           |
| Trust loan 2012 financing program -<br>Supplemental loan                                      | 5/3/12 - 11/1/30   | 1,040,000            | -                            | -                                   |
| Fund loan 2012 financing program -<br>Supplemental loan                                       | 5/3/12 - 11/1/30   | 955,430              | -                            | -                                   |
| Trust loan 2012 financing program -<br>Meter loan   | 5/3/12 - 11/1/30   | 775,000              | 512,369                      | 512,369                             |
| Fund loan 2012 financing program -<br>Meter loan  | 5/3/12 - 11/1/30   | 2,430,781            | 1,537,107                    | 1,537,107                           |
| <b>Total</b>  |                    | <u>\$ 21,570,791</u> | <u>\$ 9,544,272</u>          | <u>\$ 9,547,272</u>                 |

**LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**

**NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS  
FOR THE YEAR ENDED OCTOBER 31, 2012**

**NOTE 1 - BASIS OF PRESENTATION**

The accompany schedule of expenditures of federal and state awards includes the federal and state grant activity of Lakewood Township Municipal Utilities Authority and is presented on the accrual basis of accounting. The this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

**See auditors' report**

**LAKEWOOD TOWNSHIP MUNICIPAL UTILITIES AUTHORITY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED OCTOBER 31, 2012**

**A. Summary of Audit Results**

1. The auditors' report expresses an unqualified opinion on the financial statements of Lakewood Township Municipal Utilities Authority
2. No significant deficiencies relating to the audit of the financial statements are reported in Part B of this schedule.
3. No instances of noncompliance material to the financial statements of Lakewood Township Municipal Utilities Authority were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major awards programs are reported.
5. The auditors' report on compliance for the major awards programs expresses an unqualified opinion.
6. The programs tested as major programs included:

| <u>Program</u>  | <u>CFDA<br/>Number</u> |
|---|------------------------|
| New Jersey Environmental<br>Infrastructure Trust Loan | N/A                    |

7. The threshold used for distinguishing between type A and B programs was \$300,000.
8. Lakewood Township Municipal Utilities Authority qualified as a low-risk auditee.

**B. Findings and Questioned Costs - Financial Audit**

None

**C. Findings and Questioned Costs - Major Federal and State Awards Programs Audit**

None

**D. Status of Prior Year Findings**

None

See auditors' report